

# BUSINESS & FINANCIAL REPORT

# 2021





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# 2021 FINANCIAL HIGHLIGHTS

	2021	2020
<b>OPERATIONAL HIGHLIGHTS</b>		
in USDm		
<b>Commitments and cash flows</b>		
Total commitments made to date	1,217.3	1,146.7
Total active commitments	894.5	883.6
Uncalled commitments	258.4	247.4
Cumulative paid-in capital to date	971.8	887.9
Cumulative reflows received to date	772.7	648.0
Cumulative net cash flow to date	-199.1	-239.9
New investment commitments	83.9	85.6
Reflows from investments	124.7	51.7
<b>Investment portfolio valuation</b>		
Residual value	432.2	420.0
Internal rate of return (%)	5.8	5.2
Total value over paid-in (%)	124.0	120
<b>Private finance mobilised</b>		
Total private investor commitments advised by Obviam	173.6	173.6
New co-investments from private investors	9.7	17.0

**USD**  
**83.9 m**  
NEW INVESTMENT  
COMMITMENTS

## FINANCIAL STATEMENT HIGHLIGHTS

in CHFm

### Annual results

Investment profit/-loss	51.7	-17.2
Operating result	40.3	-28.6
Total comprehensive income	58.1	-84.3

### Balance sheet

Balance sheet total	700.2	616.9
Cash and cash equivalents	272.9	209.9
Uncommitted capital	37.5	-8.7
Financial assets	410.4	386.9
Shareholder's equity	671.9	584.1
Equity ratio (%)	96.0	94.7

**CHF**  
**410.4 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 2021.

# ANNUAL REVIEW

# FOREWORD BY JÖRG FRIEDEN



Dear reader,

The second year of the COVID-19 pandemic defied most scenarios. On the one hand, vaccination – especially in industrialised countries – has fuelled resilience and has contributed to the resumption of economic growth. On the other hand, the recovery of demand in the context of new pandemic waves, value chain disruptions and fiscal stimuli led to the resurgence of inflation and to new challenges.

In 2021, the recovery of emerging markets and developing countries was only partial and uneven across regions. The impact on employment continues to be a concern in all regions, although imperfectly reflected in national statistics. While the formal sector of the economy has proved rather resilient, the main adjustments have taken place in the informal sector, with long-term structural consequences that are still difficult to predict. SMEs have struggled to survive, notably in the sectors most affected by the restrictions imposed by local governments, such as tourism and catering, as well as certain industrial sectors linked to globalised value chains. Other sectors, instead, have benefited from the recovery and the opportunities arising from the new economic conditions, resulting in extremely contrasting realities.

SIFEM's financial results for the year 2021 reflect this complex reality and are marked by a sizable recovery compared to 2020. Indeed, following a loss of CHF 28.6 million in 2020, SIFEM's operating result rebounded in 2021 to reach CHF 40.3 million. This positive result is due to the rebound of market valuations and also reflects a number of successful exits from investments that took place in 2021 instead of 2020.

These results do not denote the end of the crisis in emerging markets and developing countries, however. In most of the markets in which SIFEM is active, employment has not returned to pre-pandemic levels, and economic conditions remain fragile. Sharp increases in prices have forced many central banks to tighten their monetary policies, which poses

some challenges for the sustainability of large debts accumulated by both the public and the private sectors. Financial conditions in developing countries are likely to become more difficult and this will affect the ability of local businesses to access financial resources in the near future. All this means that the positive yet uneven recovery observed in 2021 will be put to test in the years to come.

In this context, the counter-cyclical role of SIFEM as Switzerland's development finance institution has been significant. In 2021, SIFEM committed USD 84 million in new investments. One of the new commitments is SIFEM's first transaction in Nepal and is aimed at supporting local SMEs. This investment is also a pilot project for a new type of cooperation between SIFEM and the Swiss Agency for Development and Cooperation (SDC), whereby the latter is able to cover up to a maximum of 50% of potentially incurred losses resulting from impactful but particularly risky transactions. The guarantee provided by SDC will enable SIFEM to invest more in Least Developed Countries (LDCs) such as Nepal, in line with the new strategic objectives defined by the Federal Council for the period 2021–24.

The SIFEM Board is grateful to the Swiss Parliament and to the Federal Council, represented by SECO, for their constant support, and looks forward to continuing these constructive relationships in the context of this new strategic cycle. It also is thankful to Obviam, SIFEM's Manager, for the efficient and successful implementation of SIFEM's strategy and investment projects.

Yours faithfully,

A handwritten signature in blue ink, consisting of stylized initials 'JF' followed by a surname.

Jörg Frieden  
Chairman of the Board of SIFEM

# FOREWORD BY CLAUDE BARRAS



Dear reader,

It is impressive to see that the different fund managers and financial institutions supported by SIFEM in developing countries and emerging markets have shown remarkable strength in 2021. They have been able to support their investees and clients during this period of crisis, and although some individual investments have been hit hard by the decline in economic activities in 2020, underlying companies have performed better than originally expected.

This recovery is reflected in SIFEM's positive operating result in 2021 of CHF 40.3 million. This positive result is closely linked to the composition of the portfolio. Indeed, the majority of SIFEM's underlying investee companies are in economic sectors which have been less exposed to the crisis, such as financial services, health, energy and water services. In these sectors, company valuations rebounded in 2021, which accounts for a sizable portion of the recovery. Another important factor comes from the successful exits from portfolio companies. Lastly, the full exit from one historical SIFEM investment in China was accounted for in 2021, which also contributed to the positive operating profit. These last two factors are also reflected in the high level of investment reflows recorded in 2021, i.e. USD 125 million which compares to USD 51.7 million in 2020. Given the level of current uncertainties at the global level and the vulnerability of some developing countries to the tightening of financial conditions, SIFEM's financial performance may remain volatile in the future, however.

In terms of new investments approved in 2021, SIFEM committed a total of USD 84 million in seven new investments. The new commitments include three investments in private equity funds, one investment in a mezzanine fund, one investment in a debt fund, and two loans to financial institutions. In terms of geography, the private equity funds will undertake investments in India, Africa, and Southeast Asia, the mezzanine fund will invest in Africa, and the debt fund around fifty-fifty across Africa and Asia. A loan was extended to a microfinance institution in Tajikistan and another loan to a commercial bank in Nepal.

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 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 'CB', with a long, sweeping horizontal line extending to the right.

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 2021–24:

- SIFEM takes measures to limit the negative impact of the COVID-19 crisis on the financial ratios and impact results or to strive to preserve the value of the portfolio;
- SIFEM contributes to growth in developing countries and emerging markets by encouraging the flourishing of the local private sector, in addition to other economic development cooperation measures;
- SIFEM focuses on the preservation and creation of decent jobs, the observance of proper working conditions and the strengthening of professional competence. In this way, SIFEM helps combat the causes of irregular migration and contributes to Parliament's mandate to strategically link international cooperation with the issue of migration;
- SIFEM supports the establishment of sustainable and responsible companies in developing and emerging countries, on the basis of internationally recognised environmental, social and governance criteria;
- SIFEM strengthens the resilience of these countries and companies with regard to global risks such as pandemics and the effects of climate change;
- SIFEM contributes to the achievement of international environmental goals and in particular to the mitigation of climate change and its associated negative consequences;
- SIFEM promotes gender equality through the economic empowerment of women.

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 as well as responsible corporate governance.
- **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:** In addition to investments, SIFEM provides or mobilises non-financial support to financial intermediaries and enterprises, which is intended to strengthen development effects and is provided on a subsidiary basis to the private sector, e.g. in the form of know-how transfer, the promotion of social and environmental standards, the improvement of corporate governance or professional skills. In this way, it should contribute its expertise, address sustainability risks and opportunities, as well as contributing to the achievements of Switzerland's development cooperation priorities.

- **Leverage effect:** SIFEM aims to mobilise additional funds directly from private and institutional investors who would otherwise not invest. In this way, it contributes additional resources to sustainable development. These co-investment resources complement the investment capital of the Swiss Confederation.

## 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 economic and social inclusion and/or actively contribute to climate change adaptation and mitigation.

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>1</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 analysis focuses on the social cost of the economic crisis induced by the COVID-19 pandemic, building on research and data collected in 2020-21. It appears that job losses have been more limited than originally expected in 2020 in the companies of the SIFEM portfolio. This is mainly due to the fact that SIFEM's exposure to those economic sectors most affected by lockdowns and business closures was relatively limited.

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. At the end of 2021, more than 150 investors and other stakeholders had become signatories of these Principles covering more than USD 428 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>2</sup>

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<sup>1</sup> <http://sifem.ch/impact/case-studies/>

<sup>2</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)

### 1.3 PERFORMANCE AGAINST OPERATIONALISED OBJECTIVES 2021–24

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

The year 2021 marks the first year of implementation of the new strategic objectives assigned to SIFEM for the period 2021–24. These objectives were set by the Swiss Government in the spirit of continuity – given the long-term nature of SIFEM's investments – but they also highlight new challenges and priorities such as gender equality, the need to contribute to economic recovery in the midst of the COVID-19 pandemic, and the need to actively contribute to the objectives of the Paris Agreement on Climate, in line with the expected contribution of SIFEM to the 2030 Agenda for Sustainable development and its associated SDGs.

After one year of implementation, SIFEM appears to be “on track” to deliver on its ambitious strategic framework by 2024. To date, apart from the different requirements assigned to SIFEM, 18 of the 27 targets and measures defined in the strategic objectives are on track to be met for the entire strategic period, while it is still too early to tell on the status of the other targets, noting that the measurement of some of these targets will only start in 2022.

It is encouraging to see that on the development effects side, the number of jobs supported and created has continued to grow at the level of the portfolio in spite of the negative economic impact of the COVID-19 crisis. On the financial side, the positive results recorded in 2021 constitute a good start for meeting the expectations of the Federal Council at the end of the strategic period, although caution is needed, given the current macroeconomic and geopolitical context.

The performance results against the operationalised objectives for the 2021-24 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 2021, 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 represented in the EDFI Board until May 2021. It took an active role in the different 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 standards for fund investments. In 2021, the harmonisation efforts focused on the implementation of the EDFI Climate & Energy Statement endorsed by all members in November 2020, in particular with respect to the assessment of the "Paris alignment" at the project level, the measurement of greenhouse gases and the development of a benchmark for climate related financial disclosures.<sup>3</sup> Other important harmonisation workstreams included job quality assessments, the review of the general exclusion list, and the development of a practical guidance on addressing human rights risks in the context of investments.

The harmonisation of standards and practices among member institutions is central to EDFI's work. By aligning the ways in which EDFI members measure the development impact of their operations and setting standards for responsible financing, they can operate more efficiently, clients are better served, and institutions are able to achieve their development missions more effectively. Harmonisation enables all EDFI member institutions to deliver high-quality development impact reporting to their stakeholders and facilitates EDFI consolidated reporting on impact. Improved reporting makes EDFI members more accountable to their shareholders, to providers of blending capital, and to private co-investors. In addition, because EDFI members engage in significant co-financing, harmonisation relieves many EDFI clients of multiple reporting obligations.

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<sup>3</sup> <https://www.edfi.eu/news/edfi-adopts-harmonised-paris-alignment-approach/>

## 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>4</sup>
- Ordinance on co-operation with Eastern European countries of 6 May 1992.<sup>5</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.

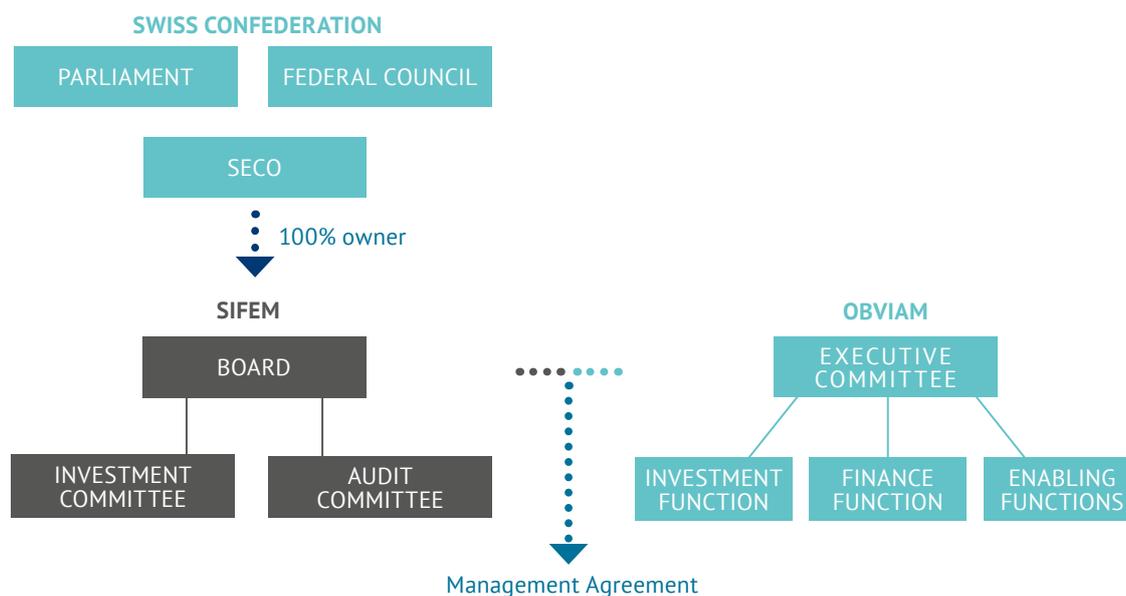
The corporate structure of SIFEM ensures consistency with the principles of the corporate governance report of the Federal Administration and constitutes a suitable vehicle for safeguarding, complementing, and capitalising on the know-how and quality networks acquired over the past years in the area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

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<sup>4</sup> Verordnung vom 12. Dezember 1977 über die internationale Entwicklungszusammenarbeit und humanitäre Hilfe, SR 974.01

<sup>5</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 2021, SIFEM's Board of Directors focused its attention on the implementation of the new set of strategic objectives assigned to SIFEM by the Federal Council for the period 2021–24. In particular, the Board discussed the operationalisation of the climate target assigned to SIFEM, including how to ensure the alignment of investments with the objectives of the Paris Agreement, as well as the operationalisation of SIFEM's strategic objectives related to social and economic inclusion. It also elaborated a list of operational definitions for the measurement of strategic objectives, with a view to facilitate the monitoring and the verification of SIFEM's achievements against these objectives. The Board also reviewed and endorsed the new "Theory of Change" framework applying to the 2021-24, which underpins all of SIFEM's investments with the logic that financial intermediation plays a pivotal role for private sector growth in developing countries and emerging markets.

Following up on the fruitful discussions held in 2020, SIFEM also signed a formal framework agreement with the Swiss Development Cooperation (SDC) of the Ministry of Foreign Affairs regarding the creation of 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 "blended finance" instrument was first used in 2021 in the context of a SIFEM loan to NMB Bank, a leading commercial bank in Nepal which provides financing to local small and medium sized enterprises (SMEs).

The SIFEM Board also reviewed its different internal policies and procedures in 2021, including its specific conflict of interest policy. The latter was carefully reviewed by the Board in June 2021, including the scope of conflict of interests, disclosure requirements and related procedures. The Board of Directors takes the potential for conflicts of interest very seriously. Before launching the public procurement process for the management of SIFEM, all members signed a declaration indicating their rights and duties. Subsequently, two members declared conflicts of interest and were not involved in the decision process. Regarding the latter procurement process, the deadline for interested parties to submit tenders was set at 29 December 2021. The award decision will be made in the first quarter of 2022, opening up a new chapter in the governance structure of SIFEM.

### Investment Committee

In 2021, SIFEM's Investment Committee held ten formal meetings to review investment proposals presented by Obviam. Concept approval was granted for ten new proposals, allowing Obviam to conduct due diligence on these deals and submit most of them to the Investment Committee for final approval. One new proposal was not granted concept approval. Eight proposals were submitted following due diligence and all of them received final approval from the Investment Committee. Compared to 2020, no specific "COVID-19 response" transaction was submitted to the Investment Committee, reflecting the resilience of most existing partners in the face of the economic shock following the COVID-19 related restrictions. However, as part of the proposals formally approved by the Investment Committee, one of them came from a long-standing and trusted partner which was raising a new fund. Seven transactions closed before year-end for a total of USD 84 million. For further details on the transactions closed during the year, see Section 3.1.

### Audit Committee

The Audit Committee held five meetings in 2021 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 2021 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, the Audit Committee paid particular attention to the impact of the crisis and of the recovery on the valuations.

## 2.4 SHORT BIOGRAPHIC PROFILES OF SIFEM BOARD MEMBERS

### Dr 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. He has also recently been appointed to serve in an expert panel to assess the internal evaluation function of the World Bank.

### 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 investment committee of Dreilinden GmbH in Hamburg, a company supporting social acceptance of gender and sexual diversity.

### Dr Julia Balandina Jaquier

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

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 Balandina Jaquier 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. She is also a member of the Sustainability and Impact Steering Committee of Kieger Asset Management in Zürich. Julia Balandina Jaquier started her career at McKinsey and subsequently held senior positions at ABB Financial Services and AIG Global Investment Group, where she managed the AIG's European direct private equity business.

### **Geoff Burns**

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

Geoff Burns has over 30 years of experience in private equity. He has his own private equity advisory business to address specifically the challenges facing DFIs in this sector. He has provided advice on all aspects of investing to a number of bi- and multilateral DFIs, including the Asian Development Bank, FMO, CDC and Norfund. He is a board member of the Ascent Rift Valley private equity fund in Mauritius, 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.

### **Angela de Wolff**

*Member of the Investment Committee, since 2017*

Angela de Wolff has been active in the financial sector for more than 20 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 also sits on the Board of Directors of Société Générale Private Banking (Suisse) SA, and of the Audemars-Watkins Foundation in 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.

### **Dr Dominique Biedermann\***

*Member of the Board, since 2021*

Since 2012, Dr Dominique Biedermann has been a member of the Board of Directors of the Federation of Migros Cooperatives and its Audit Committee, as well as Chairman of the Committee of Ethics and Deontology of the University of Geneva. Also, he is member of the Board of Directors of the investment fund "Phitrust Active Investors France" and of the Board of the relief and social organisation Caritas-Genève. He is a lecturer at the University of Neuchâtel and provides consulting mandates for different institutions. After receiving his PhD in economics from the University of Geneva in 1989, he joined the Pension Fund of the Canton of Geneva (CPEG) as deputy director and from 1994 to 1998 as CEO. In that function, he was co-founder of the Ethos Foundation in 1997 and of the company Ethos Services in 2000, two institutions fully dedicated to the promotion of sustainable investments. CEO of both organisations until 2015, he was subsequently Chairman of their Boards of Directors from 2015 until June 2018.

\* Regine Aepli, who was a Member of the Board since 2017, stepped down at the SIFEM Annual General Meeting on 11 May 2021. Dr Dominique Biedermann replaced Regine Aepli.

## 2.5 COMPENSATION REPORT

### Board Compensation

In 2021, the annual compensation for the entire SIFEM Board amounted to CHF 328,859, excluding social security contributions.

The Chairman of the Board received a total gross compensation of CHF 54,000 in 2021. 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 six SIFEM Board Members received on average CHF 45,809 gross compensation, including compensation for work in Board sub-committees.

### Compensation of Obviam

The compensation of Obviam is determined by the terms of the Management Agreement.<sup>6</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>7</sup>

The Board of SIFEM agreed to the annual budget proposed by Obviam for 2021 under the aforementioned Management Agreement. For the year 2021, the budget for Obviam was CHF 8.4 million, excluding VAT and accruals for variable compensation. The costs incurred under this budget amounted to CHF 8.3 million, corresponding to 1.02 per cent of total active commitments. This is smaller than the previous year's ratio (1.07 per cent) since the Swiss franc value of the total active commitments has actually increased in 2021.

.....  
<sup>6</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>7</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>8</sup> The Board fixed the annual, short-term component of the incentive scheme for 2021 at 5.5 per cent of the overall fixed salary cost.<sup>9</sup> As regards the long-term component of the incentive scheme covering the period 2018–20, which is tied to performance against the SIFEM strategic objectives, it was disbursed in April 2021 following an external verification of the achievements against the strategic objectives. The total management costs, including VAT, bonus payments and accruals for the financial year 2021 amounted to CHF 9.7 million (2020: CHF 9.9 million)

SIFEM's administrative and management-related operating costs include the compensation of the Board, the compensation of Obviam, and the expenses for administration, custodian, and other administrative expenses. In 2021, these costs amounted to CHF 11.0 million (2020: CHF 11.2 million). This corresponds to 1.35 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 2020 figure was 1.44 per cent. When other operative costs – not related to the management of SIFEM – are added<sup>10</sup>, SIFEM's total operative costs reached CHF 11.4 million in 2021, or 1.40% of total active commitments (2020: CHF 11.4 million).

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<sup>8</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>9</sup> This corresponds to the achievement of 90% of the annual targets set by the SIFEM Board.

<sup>10</sup> As can be seen from the presentation of SIFEM's financial statements, another item ("other operating result") is added to the operating costs. This specific item includes costs which are not administrative or management-related per se, but are linked to SIFEM's investment operations: they cover fees and interest costs charged to SIFEM when joining funds at subsequent closings. Since such fees are charged outside the commitment contribution, they are treated as other operating expenses in SIFEM's accounting system.

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

### 3.1 NEW INVESTMENTS

In 2021, SIFEM made seven new investments totalling USD 84 million. The new commitments include three investments in private equity funds, one investment in a mezzanine fund, one investment in a debt fund, and two loans to financial institutions. In terms of geography, the private equity funds will undertake investments in India, Africa, and Southeast Asia, the mezzanine fund will invest in Africa, and the debt fund around fifty-fifty across Africa and Asia. A loan was extended to a microfinance institution in Tajikistan and another loan to a commercial bank in Nepal. The latter marks the beginning of a new type of cooperation between SIFEM and the Swiss Agency for Development and Cooperation (SDC). The two partners have jointly elaborated a cooperation framework which allows for a first loss guarantee that would be borne by the SDC. The second year in a row, SIFEM has been able to fully play its counter-cyclical role in the face of the global COVID-19 crisis and has continued to invest with a long-term view despite the short-term uncertainties associated with crisis.

The new portfolio positions are as follows:

#### **Aavishkaar India Fund (AIF) VI (USD 15 million committed)**

The Aavishkaar India Fund (AIF) VI is a private equity fund that invests in small to mid-cap companies across India, primarily in the financial inclusion, sustainable agriculture, and essential services sectors. The Fund will largely follow a similar strategy as its five predecessor funds by investing in around ten to twelve companies, with the objective to provide growth capital to support businesses that target low- and middle-income consumers and households. The Fund is managed by Aavishkaar Capital, a leading fund manager with a strong track record of investments targeting the poorest populations in India. SIFEM's investment is expected to contribute to long-term private sector growth but also to provide much needed risk capital to help businesses weather the difficult economic environment resulting from the COVID-19 pandemic.

#### **IMON International (USD 7 million committed in local currency)**

IMON International is Tajikistan's largest deposit-taking microfinance institution (MFI) and the country's fourth largest financial institution in terms of borrowers, total assets, and gross loan portfolio. This transaction is an opportunity for SIFEM to support access to credit for micro and small businesses in Tajikistan, a SIFEM priority country. Also, this is SIFEM's third direct debt investment in local currency. As such, SIFEM's loan will protect IMON International as well as end-borrowers from foreign exchange exposures. In addition, the loan will provide IMON with more flexibility to offer longer-term loans to its customers.

#### **Lendable MSME Fintech Credit Fund (LMFCF) (USD 10 million committed)**

LMFCF is a closed-ended debt fund, dedicated to providing debt facilities to early and mid-stage fintech companies across Africa (50%) and Asia (50%). LMFCF will focus on fintech companies that supply credit, working capital, remittances, and payment solutions to MSMEs and, to a lesser extent, to consumers, filling a market gap left by traditional debt providers. It is expected that 95% of the Fund will be allocated to SIFEM eligible countries. The COVID-19 pandemic and its ensuing economic uncertainty has negatively affected investments in the fintech sector. Access to funding has become more difficult for early to mid-stage fintech companies in frontier and emerging markets. SIFEM's investment in LMFCF addresses this financing gap and can help drive financial innovation in this sector as well as promote access to finance for MSMEs as well as for unbanked and underbanked populations.

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

#### **Metier Sustainable Capital Fund II (MSCF II) (USD 10 million committed)**

Metier Sustainable Capital Fund II (MSCF II) is focused on climate mitigation through investments in grid-tied and distributed renewable energy generation and resource efficiency. The Fund's geographic focus is on Africa and at least 60% of commitments are expected in SIFEM priority countries. The Fund will report on renewable energy output, Green House Gas (GHG) emissions reductions, and other environmental and social metrics. The Fund has already made three investments, including a rooftop solar energy company in Southern Africa, a grid-tied river hydroelectric project development in Kenya, and a resource efficiency company focused on hybrid power systems, servicing telecom towers in Gabon and Nigeria.

#### **Navis VIII Cambodia Laos Myanmar Vietnam (CLMV) Sub-Fund (USD 15 million committed)**

The Navis VIII Cambodia Laos Myanmar Vietnam (CLMV) Sub-Fund will co-invest in well-established, mid-market companies across its designated target countries. Whilst the larger Parent Fund (Navis Fund VIII) primarily focuses on geographies across Southeast Asia and Oceania, the Sub-Fund will primarily invest in the SIFEM priority countries Cambodia, Laos and Vietnam. Over 50% of the capital is expected to be invested in Vietnam, and the remaining capital allocated to Cambodia and Laos (investments in Myanmar are on hold due to the current political context). The investments will focus on generalist yet competitive sectors, including education, healthcare, consumer goods and retail, as well as financial services.

#### **NMB Bank Limited (USD 12 million committed)**

NMB Bank Limited is one of the leading commercial banks in Nepal. The bank operates in all of the country's provinces through 163 branches and serves around 30,000 borrowers and one million depositors. NMB offers a wide range of financial services, including corporate banking, retail banking, cash management, remittances, trade finance and wealth management. Over the past years, NMB Bank Limited has had steady portfolio growth and shown resilience amid a challenging operating environment. SIFEM's loan to NMB Bank Limited will give the Bank greater flexibility to provide long-term financing to micro, small and medium-sized enterprises (MSMEs). This investment is also a pilot project for a new type of cooperation between SIFEM and the Swiss Agency for Development and Cooperation (SDC). The two partners have jointly elaborated a cooperation framework which allows for a first loss guarantee of up to 30% provided to SIFEM by SDC.

#### **Vantage Mezzanine Fund IV (USD 10.5 and ZAR 70 million committed)**

Vantage Mezzanine Fund IV is a Pan-African generalist mezzanine fund targeting USD 350 million in commitments. Managed by Vantage Capital, the Fund aims to provide tailored financing solutions to companies via its mezzanine instrument, a product combining characteristics of both debt and equity. A mezzanine financing solution is attractive to entrepreneurs that are facing liquidity issues or are looking for patient capital to finance their growth. The Fund will have potential exposure to healthcare, manufacturing, and telecommunications. SIFEM committed ZAR 70 million to be invested in Southern Africa and USD 10.5 million to be invested in the rest of Africa. Vantage Capital is a repeat SIFEM partner as SIFEM committed in the past to Vantage Mezzanine Fund I and Vantage Mezzanine Fund III.

### 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 1,217.3 million to 155 projects across Africa, Asia, Eastern Europe and Latin America.

During 2021, capital commitments to Africa and Global projects have increased compared to 2020, while the relative share of projects in Asia and Latin America have decreased.

#### SIFEM CAPITAL COMMITMENTS BY GEOGRAPHY AND FOCUS AS OF 31 DECEMBER 2021<sup>13</sup>

##### GEOGRAPHY

Figure 2



##### INSTRUMENTS

Figure 3



The portfolio consists primarily of private equity funds investing in growth companies and SMEs (60 per cent), infrastructure (3 per cent) and current income funds (16 per cent). Investments in microfinance comprise 8 per cent and other financial intermediaries 13 per cent of the portfolio, which represents a slight increase compared to the previous year.

Across these different instruments, 36.7 per cent of the total portfolio consists of current income earning assets, while the remaining 63.3 per cent consists of equity and quasi-equity instruments.

As of 30 June 2021, SIFEM had invested directly and indirectly in over 550 companies in over 80 countries. The ten countries with the largest financial exposures account for 53 per cent of the total invested capital.

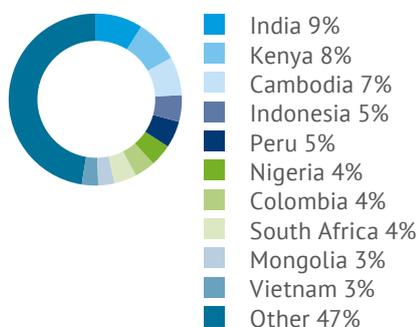
<sup>12</sup> Investments made between 1997 and 2005 were transferred to SIFEM.

<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 2021

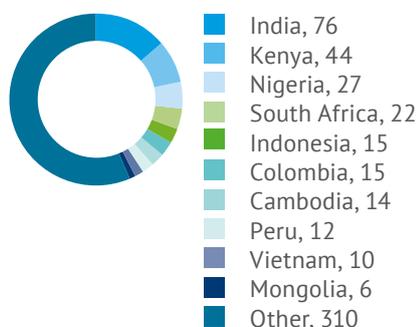
### LARGEST COUNTRY EXPOSURES BY INVESTED CAPITAL

Figure 4



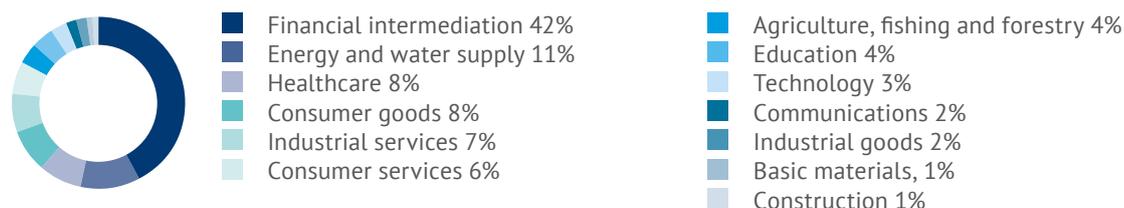
### LARGEST COUNTRY EXPOSURES BY NUMBER OF COMPANIES

Figure 5



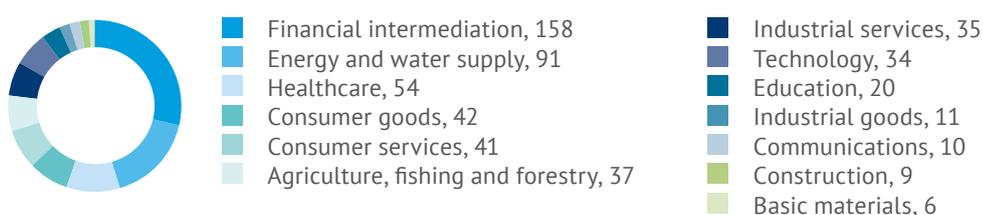
### LARGEST INVESTED CAPITAL EXPOSURE PER SECTOR

Figure 6



### LARGEST EXPOSURE PER SECTOR BY NUMBER OF COMPANIES

Figure 7



SIFEM had invested directly and indirectly in 158 entities in the financial sector as of 30 June 2021; approximately 80 of these companies are active in the microfinance sector.

### 3.3 VALUATION

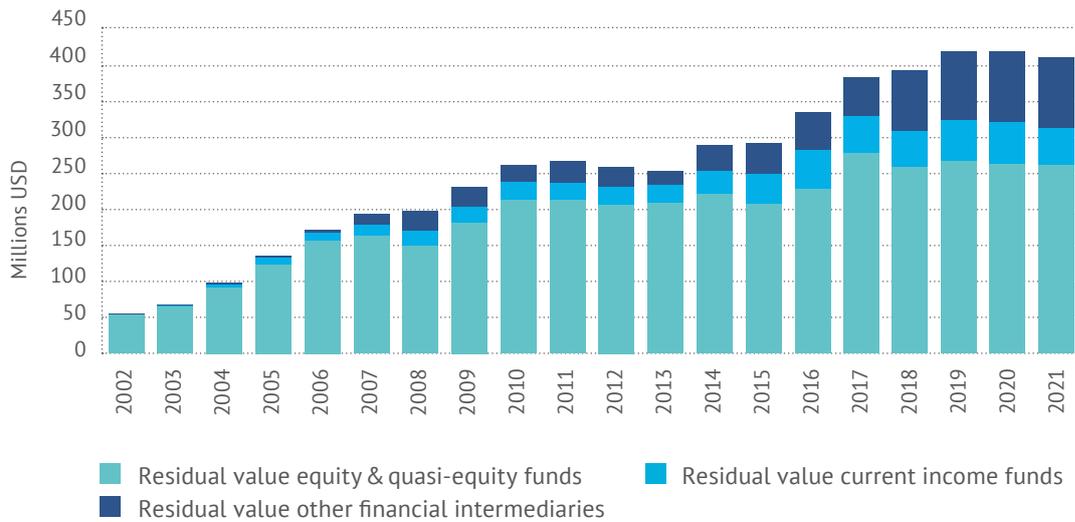
SIFEM's 2021 financial statements were independently audited by early March 2022, in accordance with the requirements of the shareholder, so that they could be consolidated in the Swiss Confederation's accounts. However, this timeline did not allow sufficient time to obtain and integrate the audited accounts of all portfolio companies. Hence, SIFEM has used the latest available valuations (as of September 2021) 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 2021, SIFEM's total active commitments amounted to USD 894.5 million. The residual value of SIFEM's investment portfolio amounted to USD 432.2 million, a net increase of USD 12.2 million or 2.9 per cent compared to 31 December 2020. Changes in the portfolio value are driven by (i) fluctuations in the value of the underlying investments, which continued to be impacted by the COVID-19 pandemic in 2021, (ii) the inflows and outflows of cash generated by new investments, and (iii) realisations of investments.

**FIGURE 8: SIFEM PORTFOLIO RESIDUAL VALUE SINCE INCEPTION<sup>14</sup>**

#### RESIDUAL VALUE



Since inception, USD 971.8 million has been paid into the SIFEM investment portfolio, and the portfolio has generated reflows totalling USD 772.7 million. During the same period, the cumulative net cash outflow amounts to USD 199.1 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

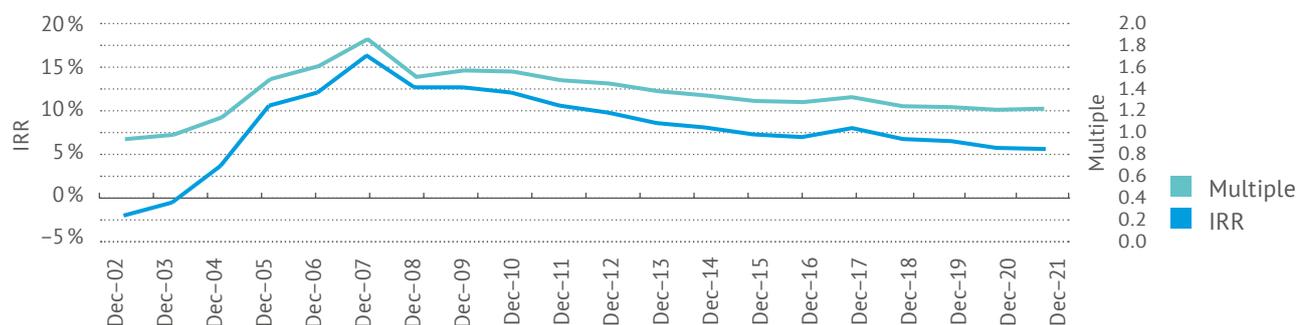


<sup>14</sup> Historical performance values are reported as of the period end date and do not represent a year-over-year view due to the valuation policy.

As of 31 December 2021, the Internal Rate of Return (IRR) of the SIFEM portfolio was 5.77 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 increase observed in 2021 compared to 2020, however, can be largely explained to some degree by a reversal of the consequence of the COVID-19 pandemic, which impacted the value of the investment portfolio significantly in 2020.

**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 2021, 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	2020		2021	
Very low risk	16	16%	21	21%
Low risk	10	10%	11	11%
Moderate risk	35	35%	29	28%
High risk	10	10%	17	17%
Very high risk	29	29%	24	24%

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

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

For the most part, projects in the high or very high risk categories either do not meet the expected performance or their risk score is affected by a higher macroeconomic and market risk, 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 high risk as well as the very low risk projects has increased. The number of projects with low risk has remained relatively stable, while the concentration of very high and moderate risk projects decreased.

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 2021

The global economic downturn triggered by the COVID-19 pandemic in 2020 reversed in most countries during 2021, supported by massive stimulus measures by central banks and fiscal measures by governments. SIFEM's results were again affected by these global economic fluctuations, but this time in the positive sense. Due to a broad-based increase in asset prices, the value of SIFEM's residual investment portfolio could be written up by CHF 13.7 million. At the same time, the loss allowances for distressed debt investments was reduced by CHF 0.5 million, reflecting a slight improvement of the credit quality of SIFEM's debt portfolio. Overall, SIFEM booked a net gain from investment activities of CHF 51.7 million (see figure 12 below), or a return on total assets of 12.6 per cent for the year 2021. This compares to a loss from investment activities of CHF 17.2 million in the previous year.

Interest income from SIFEM's debt investments slightly increased (from CHF 7.6 million in 2020 to CHF 7.8 million in 2021), but did not yet reach its pre-pandemic level since various forbearance measures applied by Obviam were still in place during 2020 which allowed SIFEM's creditors to defer interest payments for a certain time until economic recovery takes hold.

With CHF 27.9 million, income from realised equity investments is significantly higher compared to the previous years (up from CHF 8.5 million in 2020 and CHF 14.5 million in 2019).

Total operating costs and other operating expenses<sup>15</sup> amounted to CHF 11.4 million, the same amount as in the previous year despite a growing portfolio. This results in a net operating gain of CHF 40.3 million compared to a net operating loss of CHF 28.6 million in 2020, all translated from SIFEM's operating currency USD to CHF.

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 gain of the year is only marginally different from the operating gain of CHF 40.3 million, once translated from USD to CHF.

When factoring in these translation effects from SIFEM's functional currency USD to the presentation currency CHF (CHF 17.9 million), the total comprehensive gain in 2021 amounts to CHF 58.1 million. It should be noted, however, that this is a pure translation effect, which does neither reflect the actual operational nor the actual financial performance of SIFEM.

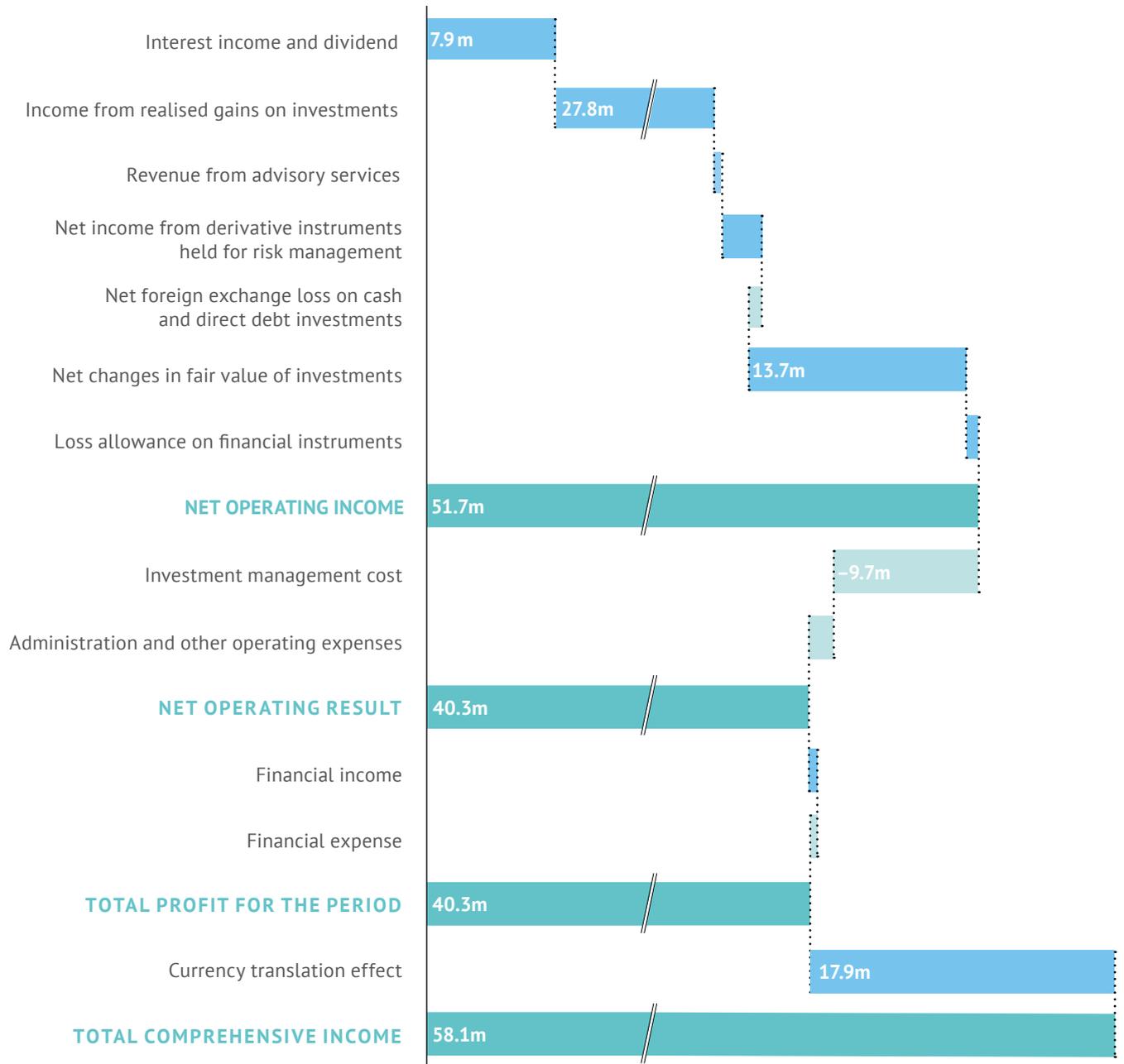
SIFEM still holds substantial amounts of cash for covering its unfunded commitments of CHF 235.5 million. These unfunded commitments do not exceed cash holdings of CHF 272.9 million, however. Hence, SIFEM is not over-committed at year-end (currently, the allowed maximum over-commitment ratio is at 6 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>15</sup> Predominantly composed of fees and interest costs linked to investments (subsequent closings) and stamp duties.

**FIGURE 12: BREAKDOWN OF TOTAL COMPREHENSIVE PROFIT AND LOSS 2021**



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 profit before translation of CHF 24.5 million in 2021.

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**

The economies around the world have strongly rebounded over 2021 but at an uneven pace. In countries, where vaccination rates are still low, the return to pre-pandemic business operations may be delayed. Also, when the various monetary and fiscal stimulus measures are rolled back in 2022, the markets may experience some downward adjustments to valuations, which are currently being considered as exuberant. Such adjustments may also negatively affect SIFEM's portfolio valuations in 2022 since many of those valuations are based on market comparables. Whether the rebound of the global real economy can off-set such potential losses remains to be seen.



# FINANCIAL REPORT

2021 –  
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 2021 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 2021 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, 4 March 2022

BDO Ltd

Franco A. Straub

Licensed Audit Expert

Noël Brändle

Auditor in Charge  
Licensed Audit Expert

# STATEMENT OF FINANCIAL POSITION

NOTE 31.12.2021 31.12.2020

in '000 CHF

## ASSETS

Cash and cash equivalents	6	272,939	209,921
Derivative financial assets held for risk management	7	12,405	13,550
Other receivables, prepayments and accrued income	8	4,484	6,518
<b>Total current assets</b>		<b>289,828</b>	<b>229,989</b>
Equity instruments	9	289,430	266,442
Debt instruments	9	104,391	104,592
Derivative financial assets held for risk management	7	16,532	15,911
<b>Total non-current assets</b>		<b>410,353</b>	<b>386,945</b>
<b>Total assets</b>		<b>700,181</b>	<b>616,934</b>

## LIABILITIES AND EQUITY

Derivative financial liabilities held for risk management	7	12,672	13,499
Other liabilities and accrued expenses		1,324	2,686
<b>Total current liabilities</b>		<b>13,996</b>	<b>16,185</b>
Derivative financial liabilities held for risk management	7	14,251	16,666
<b>Total non-current liabilities</b>		<b>14,251</b>	<b>16,666</b>
<b>Total liabilities</b>		<b>28,247</b>	<b>32,851</b>
Share capital		654,444	624,444
Capital reserve (additionally paid in capital)		84,701	84,701
Legal reserve		1,096	1,096
Translation reserve	3	-29,942	-47,820
Retained earnings / accumulated losses		-38,365	-78,338
<b>Total equity</b>	<b>10</b>	<b>671,934</b>	<b>584,083</b>
<b>Total liabilities and equity</b>		<b>700,181</b>	<b>616,934</b>

# STATEMENT OF PROFIT OR LOSS

	NOTE	2021	2020
in '000 CHF			
Interest income	11	7,774	7,608
Dividend income		162	394
Income from realised gains on investments	19	27,858	8,454
Revenue from advisory services		12	21
Net income from derivative financial instruments held for risk management	14	2,342	-2,371
Net foreign exchange gain/-loss on cash and cash equivalents and direct debt investments	15	-664	878
Net changes in fair value of investments at fair value through profit or loss	16	13,695	-27,958
Loss allowance on financial instruments	18	539	-4,272
<b>Net operating income/-loss</b>		<b>51,718</b>	<b>-17,246</b>
Investment management costs	12	-9,720	-9,928
Administration and custodian fees	13	-380	-429
Personnel expenses		-420	-399
Administration expenses		-403	-393
Advertising expenses		-88	-91
Other operating result		-434	-133
<b>Operating result</b>		<b>40,273</b>	<b>-28,619</b>
Financial income	17	1	5
Financial expense	17	-1	-2
<b>Profit/-loss for the period</b>		<b>40,273</b>	<b>-28,616</b>
<b>Other comprehensive income:</b>			
<i>Currency translation effect from translation to presentation currency</i>	3	17,878	-55,682
<i>Total comprehensive income</i>		58,151	-84,298

# 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 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>-84,297</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
<b>Total comprehensive income for the period</b>						
Profit for the year					40,273	40,273
Currency translation effect from translation to presentation currency				17,878		17,878
<b>Total comprehensive income for the period</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>17,878</b>	<b>40,273</b>	<b>58,151</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 2021	654,444	84,701	1,096	-29,942	-38,365	671,934

# STATEMENT OF CASH FLOWS

	NOTE	2021	2020
in '000 CHF			
<b>CASH FLOW FROM OPERATING ACTIVITIES</b>			
Profit/-loss for the period		40,273	-28,616
<b>Adjustments for:</b>			
Interest income	11	-7,774	-7,608
Dividend		-162	-394
Income from realised gains on investments		-27,858	-8,454
Net foreign exchange gain/-loss		664	-881
Net income from derivative financial instruments held for risk management		426	1,608
Changes in fair value of investments at fair value through profit or loss		-14,234	32,230
<b>Changes in:</b>			
Derivative financial instruments held for risk management		-2,768	825
Other receivables, prepayments and accrued income		3,764	-1,248
Other liabilities and accrued expenses		-1,459	1,347
Purchase of investments		-70,617	-65,048
Proceeds from sale of investments		72,566	34,323
Interest received		4,700	7,121
Dividend / other investment income received		162	394
Income from realised gains on Investments received		27,858	8,454
Proceeds from sale of derivative financial instruments		1,142	-1,121
<b>Net cash flow from operating activities</b>		<b>26,683</b>	<b>-27,068</b>
<b>Net cash flow from investing activities</b>		<b>0</b>	<b>0</b>
Proceeds from issue of share capital		29,700	39,600
<b>Net cash from financing activities</b>		<b>29,700</b>	<b>39,600</b>
<b>Net increase /-decrease in cash and cash equivalents</b>		<b>56,383</b>	<b>12,532</b>
Cash and cash equivalents at 1 January	6	209,921	217,211
Effect of movements in exchange rates on cash and cash equivalents		6,635	-19,822
<b>Cash and cash equivalents at 31 December</b>	<b>6</b>	<b>272,939</b>	<b>209,921</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 2021 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 2022.

### 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 presentation currency at the historical exchange rate. Income, expenses and cash flows are translated using the average

exchange rate of the respective reporting period. The exchange differences on translating balance sheets and income statements are recognised 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:

	2021		2020	
	Balance sheet rate	Average rate	Balance sheet rate	Average rate
USD/CHF	1.097514	1.086575	1.131286	1.044576
USD/EUR	1.137200		1.223550	
USD/ZAR	0.062657		0.068079	
USD/CNY	0.156903	0.154612	0.152910	0.143968
CHF/USD	0.911150	0.920323	0.883950	0.957326

Note: The rise of the USD, as the functional currency of the Company, against the CHF, as the presentation currency of the Company, has resulted in the positive 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.

#### Changes in significant accounting policies

SIFEM has initially adopted Interest Rate Benchmark Reform – Phase 2 (Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16) from 1 January 2021. The Phase 2 amendments have been applied retrospectively for the financial year 2021. However, in accordance with the exceptions permitted in the Phase 2 amendments, SIFEM has elected not to restate comparatives for the prior periods to reflect the application of these amendments. The reform has no significant impact on the financial statements of SIFEM therefore no further disclosures are made in this regard.

### 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 2021 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>			
IAS 16 Amendment: Deduction of cost of property,	*	1 January 2022	2022
IAS 37 Amendment: Specify which costs a company includes when assessing whether a	*	1 January 2022	2022
Annual Improvements to IFRS Standards 2018–2020 -various standards	*	1 January 2022	2022
Reference to the Conceptual Framework (Amendments to IFRS 3)	*	1 January 2022	2022
IFRS 17 Insurance contracts including Amendments to IFRS 17	*	1 January 2023	2023
Classification of Liabilities as Current or Non-current (Amendments to IAS 1)	*	1 January 2023	2023
Disclosure of Accounting Policies (Amendments to IAS 1 and IFRS Practice Statement 2)	*	1 January 2023	2023
Definition of Accounting Estimates (Amendments to IAS 8)	*	1 January 2023	2023
Deferred Tax related to Assets and Liabilities arising from a Single Transaction (Amendments to IAS 12)	*	1 January 2023	2023

\* 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(d) 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 2021</b>				
Cash and cash equivalents			272'939	272'939
Derivative financial assets held for risk management	12,405	16,532		28,937
Other receivables, prepayments and accrued income			4,382	4,382
Debt investments				104,391
– Banks and other financial intermediaries		12,515	69,409	
– Funds and other pooled investment vehicles		11,267	11,200	
Equity investments				289,430
– Banks and other financial intermediaries	8,169			
– Funds and other pooled investment vehicles	281,261			
<b>Total</b>	<b>301,835</b>	<b>40,314</b>	<b>357,930</b>	<b>700,079</b>
Derivative financial liabilities held for risk management	-26,923			-26,923
Other liabilities and accrued expenses			-1,307	-1,307
<b>Total</b>	<b>-26,923</b>	<b>0</b>	<b>-1,307</b>	<b>-28,230</b>

## 31 December 2020

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>0</b>	<b>-2,663</b>	<b>-32,828</b>

The tables above only include financial instruments. Other receivables, prepayments and accrued income do therefore not include tax receivables and prepaid costs TCHF 102 (2020: TCHF 521). The position other liabilities and accrued expenses do not include tax payables and advances received TCHF 17 (2020: TCHF 23).

### 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 recognised for a financial asset:

- i. Arrears in interest or principle payments larger than 90 days
- ii. Material covenant breaches
- iii. Distressed restructuring with material NPV loss
- iv. Principal or interest write-off 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 410,751 as of 31 December 2021 (31 December 2020: TCHF 350,492).

#### *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	2021 Total	2020 Total
in '000 CHF					
<b>Balance at 1 January</b>	<b>64'281</b>	<b>6'449</b>	<b>8'821</b>	<b>79'551</b>	<b>98'386</b>
Transfer to Stage 1	6,163	-6,163			
Transfer to Stage 2					
Transfer to Stage 3					
Net remeasurement of loss allowance	1,067	427	-960	534	-3,702
New financial assets recognised (acquired)	16,970			16,970	9,614
Financial assets derecognised	-17,224	-911	-760	-18,895	-16,172
Write-offs					
Effects of movements in exchange rates	2,715	198	346	3,259	-8,575
<b>Balance at 31 December</b>	<b>73,972</b>	<b>0</b>	<b>7,447</b>	<b>81,419</b>	<b>79,551</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.

<b>IMPACT INCREASE / DECREASE</b>	Stage 1	Stage 2	Stage 3	2021 Total	2020 Total
in '000 CHF					
Cash and cash equivalents					0
Debt Instruments	-254	-911	-760	-1,925	-6,558
Other receivables					0
Increase /(-) decrease in loss allowance	13	416	-608	-179	-894

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

in '000 CHF

### 31 December 2021

Derivative financial assets held for risk management (current)	12,405	0	12,405	12,405	4,565	4,565
Derivative financial assets held for risk management (non-current)	16,532	0	16,532	16,532	-2,278	-2,278
<b>Total</b>	<b>28,937</b>	<b>0</b>	<b>28,937</b>	<b>28,937</b>	<b>2,287</b>	<b>2,287</b>

### 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>29,460</b>	<b>0</b>	<b>29,460</b>	<b>29,460</b>	<b>5,047</b>	<b>5,047</b>

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

in '000 CHF

### 31 December 2021

Derivative financial liabilities held for risk management (current)	-12,672	0	-12,672	-12,405	0	-267
Derivative financial liabilities held for risk management (non-current)	-14,251	0	-14,251	-16,532	0	2,281
<b>Total</b>	<b>-26,923</b>	<b>0</b>	<b>-26,923</b>	<b>-28,937</b>	<b>0</b>	<b>2,014</b>

### 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>

### 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 2021.

## DEBT INSTRUMENTS

31.12.2021 31.12.2020

in '000 CHF

### CARRYING AMOUNT

#### Concentration by sector

Banks and other financial intermediaries	81,924	84,774
Mezzanine funds	3,552	3,910
Debt funds	18,915	16,147
<b>Total</b>	<b>104,391</b>	<b>104,831</b>

#### Concentration by location

Latin America	28,379	36,039
Asia	38,851	37,155
Central Eastern Europe (CEE) / Commonwealth of Independent States (CIS)	17,618	17,616
Africa	6,025	2,252
Global / supranational	13,518	11,767
<b>Total</b>	<b>104,391</b>	<b>104,831</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 31 December 2021, SIFEM reached an over-commitment ratio of -4.60% (31 December 2020: 1.12%).

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 2021

Derivative financial liabilities held for risk management	26,923	-26,923	12,672	14,251	
Other liabilities and accrued expenses	1,307	-1,307	-1,307		
<b>Total</b>	<b>28,230</b>	<b>-28,230</b>	<b>11,365</b>	<b>14,251</b>	<b>0</b>

### 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>

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):

	31.12.2021	31.12.2020
in '000 CHF		
Debt instruments	42,643	54,559
Derivative financial assets held for risk management	9,112	8,839
<b>Fixed-rate instruments (assets)</b>	<b>51,755</b>	<b>63,398</b>
Cash and cash equivalents	272,939	209,921
Debt instruments	61,748	50,033
Derivative financial assets held for risk management	7,289	7,072
<b>Variable rate instruments (assets)</b>	<b>341,976</b>	<b>267,026</b>
Derivative financial liabilities held for risk management	-14,251	-15,911
<b>Fixed-rate instruments (liabilities)</b>	<b>-14,251</b>	<b>-15,911</b>

A change of 100 basis points in interest rates at the reporting date would have increased (decreased) profit or loss by TCHF 3,420 (31 December 2020: TCHF 2,600). 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:

	31.12.2021	31.12.2020
in '000 CHF		
EUR	-670	-1,642
CHF	-592	-1,906
CNY	17,188	0
<b>Total net exposure</b>	<b>15,926</b>	<b>-3,548</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 2021 and 31 December 2020, with all other variables held constant:

<b>INCOME IMPACT ON BALANCE SHEET ITEMS</b>	<b>31.12.2021</b>	<b>31.12.2020</b>
in '000 CHF		
EUR (sensitivity to USD changes)	+/- 34	+/- 82
CHF (sensitivity to USD changes)	+/- 30	+/- 95
CNY (sensitivity to USD changes)	+/- 859	+/- 0

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:

	31.12.2021	31.12.2020
in '000 CHF		
Equity instruments to banks and other financial intermediaries	8,169	6,429
Equity instruments to funds and other pooled investments	281,261	260,013
<b>Total exposure in Equity Instruments</b>	<b>289,430</b>	<b>266,442</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

	31.12.2021	31.12.2020
in '000 CHF		
Cash at Bank	272,939	209,921
<b>Total cash and cash equivalent</b>	<b>272,939</b>	<b>209,921</b>

Cash and cash equivalents are denominated in CHF (0.2%), in USD (93.2%), in EUR (0.3%), and in CNY (6.3%) as of 31 December 2021. (31 December 2020: CHF (0.1%), in USD (98.8%), in EUR (1.1%), and in CNY (0.0%)). TCHF 191,175 (31 December 2020: TCHF 155,384) 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

31.12.2021

31.12.2020

in '000 CHF				
	Assets	Liabilities	Assets	Liabilities
Foreign exchange contracts	12,405	-12,672	13,550	-13,499
Cross-currency interest rate swap	16,401	-14,251	15,911	-16,666
Guarantee by SDC	131	0		
<b>Total derivative financial instruments</b>	<b>28,937</b>	<b>-26,923</b>	<b>29,461</b>	<b>-30,165</b>

SIFEM uses forward foreign exchange contracts to hedge the foreign currency risk on future foreign exchange currency cash flows. In addition, as part of the cooperation between SIFEM and the Federal Department of Foreign Affairs (FDFA), represented by the Swiss Agency for Development and Cooperation (SDC), a framework agreement has been in place since August 2021, under which SIFEM is guaranteed against the risk of default of investments made by SIFEM, upon joint agreement with SDC, up to a defined coverage ratio. This guarantee covers the first loss.

## 8 OTHER RECEIVABLES, PREPAYMENTS AND ACCRUED INCOME

At 31 December 2021, other receivables, prepayments and accrued income mainly include collaterals (TCHF 2,287), management costs reimbursement (TCHF 77), proceeds from investment sales (TCHF 1,491) and accrued interest receivables (TCHF 604). At 31 December 2020, other receivables, prepayments and accrued income mainly included collaterals (TCHF 5,047), management costs reimbursement (TCHF 477) and accrued interest receivables (TCHF 951).

## 9 FINANCIAL INVESTMENTS

31.12.2021

31.12.2020

in '000 CHF		
Equity instruments to banks and other financial intermediaries	8,169	6,429
Equity instruments to funds and other pooled investment vehicles	281,261	260,013
<b>Total Equity investments</b>	<b>289,430</b>	<b>266,442</b>
Debt instruments to banks and other financial intermediaries	81,924	81,032
Debt instruments to funds and other pooled investment vehicles	22,467	23,560
<b>Total Debt investments</b>	<b>104,391</b>	<b>104,592</b>
<b>Total Financial investments</b>	<b>393,821</b>	<b>371,034</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(d).

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

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

	Level 1	Level 2	Level 3	Total
in '000 CHF				
<b>31 December 2021</b>				
Derivative financial assets for risk management		28,937		28,937
Derivative financial liabilities for risk management		-26,923		-26,923
Debt instruments to banks & other financial intermediaries		12,515		12,515
Debt instruments to funds & other pooled investment vehicles		11,267		11,267
Equity instruments to banks & other financial intermediaries			8,169	8,169
Equity instruments to funds & other pooled investment vehicles			281,261	281,261
<b>Total</b>	<b>0</b>	<b>25,796</b>	<b>289,430</b>	<b>315,226</b>
<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
Debt instruments to banks & other financial intermediaries		15,462		15,462
Debt instruments to funds & other pooled investment vehicles		9,577		9,577
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>Total</b>	<b>0</b>	<b>51,031</b>	<b>239,746</b>	<b>290,777</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, which is applied for equity investments only:

	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 2021</b>	<b>6,429</b>	<b>233,317</b>	<b>239,746</b>
Total gains/losses recognised in profit or loss	-185	24,010	23,825
Purchases	3,720	44,773	48,493
Sales	-1,993	-28,018	-30,011
Foreign currency exchange differences	198	7,179	7,377
<b>Balance as at 31 December 2021</b>	<b>8,169</b>	<b>281,261</b>	<b>289,430</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	-185	24,010	23,825
<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

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 for equity investments

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 2021, the number of outstanding shares amounted to 65,444,401 with a nominal value of CHF 10 each (31 December 2020: 62,444,401 with a nominal value of CHF 10 each). As per 31 December 2021 SIFEM did not hold any treasury shares (31 December 2020: 0). All shares issued by the Company were fully paid in.

During 2021 SIFEM has again received capital contributions from its shareholder, as it has frequently in the past few financial years. In 2020, the share capital has been raised twice by TCHF 30,000 in May and TCHF 10,000 in October bringing the total share capital to TCHF 624,444. During the year 2021, the share capital has been raised by TCHF 30,000 in May to a total share capital of TCHF 654,444.

### **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 2021 neither in 2020 and it is not expected that SIFEM will do so in the near future.

### **Capital reserve**

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

### **Retained Earnings**

1% emission tax in the amount of CHF 300,000 (2020: 400,000) 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

	2021	2020
in '000 CHF		
Interest income from cash and cash equivalents	40	506
Interest income from investments	7,734	7,102
<b>Total interest income</b>	<b>7,774</b>	<b>7,608</b>

At 31 December 2021, an amount of TCHF 604 (2020: TCHF 951) 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 2021 amounted to TCHF 238 (2020: TCHF 250) and the custodian fee for the financial year 2021 amounted to TCHF 142 (2020: TCHF 179).

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

	2021	2020
in '000 CHF		
Net interest income from derivative financial instruments	-1,568	-487
Realized gain from derivative financial instruments	1,179	220
Realized loss from derivative financial instruments	-37	-1,341
Increase/-decrease in fair value from derivative financial instruments	2,768	-763
<b>Net income from derivative financial instruments</b>	<b>2,342</b>	<b>-2,371</b>

## 15 NET FOREIGN EXCHANGE GAINS / LOSSES

	2021	2020
in '000 CHF		
Net foreign exchange gain/-loss from cash and cash equivalents	136	114
Net foreign exchange gain/-loss from debt instruments	-800	764
<b>Total net foreign exchange gains/-losses</b>	<b>-664</b>	<b>878</b>

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

	2021	2020
in '000 CHF		
Increase in fair value of equity instruments	29,881	5,147
Increase in fair value of debt instruments	1,082	1
Decrease in fair value of equity instruments	-14,101	-32,070
Decrease in fair value of debt instruments	-3,167	-1,036
<b>Net changes in fair value of financial assets at fair value through profit or loss</b>	<b>13,695</b>	<b>-27,958</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 and 2021.

## 17 FINANCIAL INCOME / EXPENSE

	2021	2020
in '000 CHF		
Foreign exchange gain	1	5
<b>Financial income</b>	<b>1</b>	<b>5</b>
Foreign exchange loss	-1	-2
<b>Financial expense</b>	<b>-1</b>	<b>-2</b>

Foreign exchange gain and losses in 2021 and 2020 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 2021 the provision decreased by TCHF 539 whereas in 2020 there was an increase of TCHF 4,272.

## 19 INCOME FROM REALISED GAINS ON INVESTMENTS

	2021	2020
in '000 CHF		
Income from realised gains on equity instruments	27,690	8,136
Income from realised gains on debt instruments	168	318
<b>Total income from realised gains on investments</b>	<b>27,858</b>	<b>8,454</b>

## 20 RELATED PARTY TRANSACTIONS

### Shareholder

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

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

As part of the cooperation between SIFEM and the Federal Department of Foreign Affairs (FDFA), represented by the Swiss Agency for Development and Cooperation (SDC), a framework agreement has been in place since August 2021, under which SIFEM is guaranteed against the risk of default of investments made by SIFEM (refer to note 7).

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 2021 amounted to TCHF 8,306 (2020: TCHF 8,337). This corresponds to 1.02% of total active commitments (2020: 1.07%). The investment management costs (incl. VAT, bonuses and accruals) paid for the financial year 2021 amounted to TCHF 9,720 (2020: TCHF 9,928). 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 2021 amounts to 1.35% (2020: 1.44%) 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 2021 (2020: CHF 54,000). This consists of a base compensation of CHF 30,000 (2020: 30,000) for his role as Chairman of the Board and CHF 24,000 (2020: 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 (2020: CHF 22,100). Members of the Investment Committee received an additional compensation of CHF 20,400 (2020: CHF 20,400) and Members of the Audit Committee received an additional compensation of CHF 13,600 (2020: CHF 13,600).

## **20 CAPITAL COMMITMENTS**

As of 31 December 2021 the Company had capital commitments with debt- and equity instruments which were not yet called by the relevant fund managers for TCHF 235,477 (31 December 2020: TCHF 205,342).

## **21 SUBSEQUENT EVENTS**

On 24 February 2022, Russia launched a military invasion of Ukraine after months of escalating tensions. Ukraine declared martial law and the national economy has come to a standstill. In addition, sanctions against Russia were imposed worldwide. At the time of writing, the exact impact of the war on the assets and economic growth of SIFEM cannot be estimated.



# 2021 – 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 2021.

#### **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 2021 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, 4 March 2022

BDO Ltd

Franco A. Straub

Licensed Audit Expert

Noël Brändle

Auditor in Charge  
Licensed Audit Expert

# BALANCE SHEET

	NOTE	31.12.2021		31.12.2020	
in CHF					
<b>ASSETS</b>					
<b>Current assets</b>					
Cash and cash equivalents	1	272,938,551	44.2 %	209,921,336	38.4 %
Other current receivables	2	3,779,189	0.6 %	5,055,941	0.9 %
Accrued income and prepaid expenses	3	704,698	0.1 %	1,462,386	0.3 %
<b>Total current assets</b>		<b>277,422,438</b>	<b>44.9 %</b>	<b>216,439,663</b>	<b>39.5 %</b>
<b>Non-current assets</b>					
Financial assets	4	332,327,011	53.8 %	310,532,590	56.6 %
Shareholdings	5	7,540,905	1.2 %	21,350,987	3.9 %
<b>Total non-current assets</b>		<b>339,867,916</b>	<b>55.1 %</b>	<b>331,883,577</b>	<b>60.5 %</b>
<b>TOTAL ASSETS</b>		<b>617,290,354</b>	<b>100.0 %</b>	<b>548,323,240</b>	<b>100.0 %</b>
<b>LIABILITIES AND SHAREHOLDER'S EQUITY</b>					
<b>Short-term liabilities</b>					
Other current liabilities	6	521,893	0.1 %	729,076	0.1 %
Deferred income and accrued expenses	7	633,196	0.1 %	2,649,864	0.5 %
<b>Total short-term liabilities</b>		<b>1,155,089</b>	<b>0.2 %</b>	<b>3,378,940</b>	<b>0.6 %</b>
<b>Long-term liabilities</b>					
Provisions and similar items required by law	8	660,778	0.1 %	754,527	0.1 %
<b>Total long-term liabilities</b>		<b>660,778</b>	<b>0.1 %</b>	<b>754,527</b>	<b>0.1 %</b>
<b>Total Liabilities</b>		<b>1,815,867</b>	<b>0.3 %</b>	<b>4,133,467</b>	<b>0.7 %</b>
<b>Shareholders' Equity</b>					
Share capital	9	654,444,010	106.0 %	624,444,010	113.9 %
General legal retained earnings		1,096,430	0.2 %	1,096,430	0.2 %
Voluntary retained earnings' – Results carried forward		-40,065,953	-6.6 %	-81,350,667	-14.8 %
<b>Total shareholders' equity</b>		<b>615,474,487</b>	<b>99.7 %</b>	<b>544,189,773</b>	<b>99.3 %</b>
<b>Total liabilities and Shareholders' Equity</b>		<b>617,290,354</b>	<b>100.0 %</b>	<b>548,323,240</b>	<b>100.0 %</b>

# INCOME STATEMENT

	NOTE	2021	2020
in CHF			
<b>Net proceeds from sales of services</b>	<b>10</b>	<b>11,946</b>	<b>21,665</b>
Costs for third party services		-9,720,106	-9,928,179
Staff costs	11	-420,101	-399,094
Other operational costs	12	-851,535	-943,072
<b>Earnings before interests and taxes</b>		<b>-10,979,796</b>	<b>-11,248,680</b>
Financial result general	13	-211,238	186,581
Financial result from financial assets and shareholdings	14	35,585,749	-8,972,504
Financial result from derivative financial instruments	15	90,980	-2,362,979
<b>Earnings before currency translation and taxes</b>		<b>24,485,695</b>	<b>-22,397,582</b>
Result from currency translation from functional currency (USD) to reporting currency		16,799,019	-51,801,095
<b>Gain / Loss for the year</b>		<b>41,284,714</b>	<b>-74,198,677</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

	31.12.2021	31.12.2020
in CHF		
<b>1 – Cash and cash equivalents</b>		
Cash at banks	272,938,551	209,921,336
<b>Total</b>	<b>272,938,551</b>	<b>209,921,336</b>
<b>2 – Other current receivables</b>		
Receivables from investment transactions	1,491,047	-
Collaterals	2,286,661	5,047,038
Withholding tax receivables	1,327	8,520
Other current receivables	154	383
<b>Total</b>	<b>3,779,189</b>	<b>5,055,941</b>
<b>3 – Accrued income and prepaid expenses</b>		
Prepaid expenses	100,353	511,745
Accrued income	604,345	950,641
<b>Total</b>	<b>704,698</b>	<b>1,462,386</b>
<b>4 – Financial assets</b>		
Equity instruments	229,217,965	206,383,643
Debt instruments	103,109,047	104,148,947
<b>Total</b>	<b>332,327,011</b>	<b>310,532,590</b>

As of balance sheet date equity instruments considering a foreign exchange gain of CHF 156,142 (2020: CHF 499,880; see note 6 other current liabilities).

## 5 – Shareholdings

	31.12.2021	31.12.2020	31.12.2021	31.12.2020	31.12.2021	31.12.2020		
Company/ Domicile	Share capital in local currency		Holding of capital and votings in %		Book value in CHF			
Sino Swiss Partnership Fund	CNY	–	CNY	197,302,502	0.00%	–	–	12,549,356
SEAF CEE Growth Fund	USD	2,653,951	USD	2,653,951	20.81%	–	–	–
SEAF South Balkan Fund	EUR	6,211,135	EUR	6,211,135	30.52%	1,708,569	1,783,476	1,783,476
Colony Latin America Fund	USD	37,327,095	USD	36,795,441	28.29%	682,354	1,150,549	1,150,549
Altra Private Equity Fund I	USD	1,000	USD	1,000	43.11%	39,281	38,108	38,108
SEAF LATAM Growth Fund	USD	10,712,523	USD	10,712,523	41.18%	1,708,134	1,666,145	1,666,145
Kaizen Private Equity	USD	19,678,273	USD	30,039,512	22.81%	3,289,252	4,163,403	4,163,403
Central American Small Enterprise Inv. Fund IV	USD	1,445,833	USD	–	20.73%	113,315	–	–
<b>TOTAL</b>						<b>7,540,905</b>	<b>21,350,987</b>	<b>21,350,987</b>

The investment SEAF South Balkan Fund considers a foreign exchange gain of CHF 69,130 (2020: CHF 192,929; s. note 6 other current liabilities).

31.12.2021 | 31.12.2020

in CHF

**6 – Other current liabilities**

Other current liabilities	17,694	18,789
Social insurances liabilities	5,369	9,715
Liabilities due to pension scheme	997	1,441
Liabilities due to authorities	6,323	6,322
Provision for foreign exchange forward contracts	266,238	–
Provision for unrealised foreign exchange gain	225,272	692,809
<b>Total</b>	<b>521,893</b>	<b>729,076</b>

**7 – Deferred income and accrued expenses**

Accrued expenses	633,196	2,649,864
<b>Total</b>	<b>633,196</b>	<b>2,649,864</b>

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

Provision for foreign exchange forward contracts	–	754,527
Other provision	660,778	–
<b>Total</b>	<b>660,778</b>	<b>754,527</b>

**9 – Share capital**

The share capital consists of 65,444,401 shares with a nominal value of CHF 10 each (31.12.2020 62,444,401 shares with a nominal value of CHF 10 each).

2021 | 2020

in CHF

**10 – Net proceeds from sales services**

Income from fund retrocessions	11,946	21,665
<b>Total</b>	<b>11,946</b>	<b>21,665</b>

**11 – Staff costs**

Salaries and wages	–43,904	–30,934
Board compensation	–329,632	–317,789
Social security and pension costs	–37,649	–29,563
Other personnel costs	–8,916	–20,808
<b>Total</b>	<b>–420,101</b>	<b>–399,094</b>

2021

2020

in CHF

**12 – Other operational costs**

Insurance premiums	-18,392	-14,535
Accounting and payroll expenses	-177,106	-184,948
Audit expenses	-58,503	-66,138
Other administration expenses	-444,133	-532,259
Stamp duty	-64,949	-55,083
Sponsorship and membership contributions	-88,452	-90,109
<b>Total</b>	<b>-851,535</b>	<b>-943,072</b>

Other administration expenses include the emission duty of CHF 300,000 on the capital increase of 11 May 2021 (2020: CHF 400,000).

**13 – Financial result general**

Interest income	55,131	526,612
Interest expenses	-15,392	-20,095
Bank charges	-387,694	-436,442
Foreign exchange gains	339,596	266,069
Foreign exchange losses	-202,879	-149,563
<b>Total</b>	<b>-211,238</b>	<b>186,582</b>

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

Interest income from financial assets	7,734,239	7,101,676
Distributions and dividends	28,020,457	8,847,629
Expenses	-360,643	-62,394
Capital gains	7,130,242	426,369
Capital losses	-4,101,977	-29,018,656
Foreign exchange gains	428,114	2,790,751
Foreign exchange losses	-3,264,683	942,121
<b>Total</b>	<b>35,585,749</b>	<b>-8,972,504</b>

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

Interest income	-	111,287
Interest expenses	-1,567,693	-598,412
Capital gains	1,695,601	282,029
Capital losses	-36,928	-2,157,883
<b>Total</b>	<b>90,980</b>	<b>-2,362,979</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

	2021	2020
in CHF		
Foreign exchange forward contracts (long)	12,405,491	13,549,293
Foreign exchange forward contracts (short)	-12,671,729	-13,549,293
Cross-currency interest rate SWAPS (long)	16,400,702	15,911,096
Cross-currency interest rate SWAPS (short)	-16,400,702	-16,665,623
<b>Total (included in other current liabilities – s. Note 6 &amp; provision and similar items – s. Note 8)</b>	<b>-266,238</b>	<b>-754,527</b>

### 18 – Collateral

CS, Margin Account Derivative Instruments	4,564,537	4,428,273
TCX, Margin Account Derivative Instruments	-2,277,876	618,765
<b>Total assets pledged to secure own losses on derivative financial instruments</b>	<b>2,286,661</b>	<b>5,047,038</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

	31.12.2021		31.12.2020	
<b>Debt investments</b>				
Amret / Loan	USD	1	USD	1
European Financing Partners / Loan (EFP II)				
European Financing Partners / Loan (EFP III)	EUR	-2,095,808	EUR	84,574
European Financing Partners / Loan (EFP IV)				
European Financing Partners SA Phase VI	EUR	7,997,246	EUR	8,000,000
IMON International – Senior Unsecured Loan	USD	7,000,000	USD	–
Interact Climate Change Facility / Loan	EUR	20,009,753	EUR	20,806,117
Lendable Fintech Credit Fund I (Loan)	USD	6,000,000	USD	–
Locfund Next, L.P. (Loan)	USD	–	USD	1,000,000
Social Investment Fund 6.0	USD	2,500,000	USD	2,500,000
Victoria Comercial Bank LDT / Loan	USD	–	USD	7,000,000

### Equity investments

7L Capital Partners Emerging Europe	EUR	25,059	EUR	25,059
Aavishkaar India Fund (Mauritius) VI	USD	15,000,000	USD	–
Abraaj Global Credit Fund	USD	7,755,433	USD	7,753,884
Abraaj North Africa II	USD	158,254	USD	201,044
Adenia Capital IV	EUR	2,317,345	EUR	5,385,347
Africa Forestry Fund II	USD	5,308,502	USD	5,564,520
African Development Partners III Mauritius L.P.	USD	10,801,405	USD	11,631,204
AfricInvest Fund II	EUR	194,000	EUR	197,000

## Equity investments continued

AfricInvest Fund III	EUR	646,875	EUR	761,663
Agrif Feeder B.V. / Shares	USD	262,517	USD	583,839
Amethis Maghreb Fund I	EUR	1,337,619	EUR	1,424,019
Apis Growth Fund I	USD	3,163,223	USD	118,728
Armstrong South East Asia Clean Energy Fund	USD	266,736	USD	289,932
Ashmore Andean Fund II	USD	536,198	USD	594,585
Aureos East Africa Fund	USD	62,751	USD	62,751
BioVeda China Fund III	USD	148,704	USD	148,704
BioVeda Realization Fund	USD	375,017	USD	375,017
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	73,837	USD	109,597
Cambodia-Laos-Myanmar Development Fund II	USD	578,114	USD	493,446
CAMIF II / Equity	USD	492	USD	492
Capital North Africa Venture Fund	EUR	767,545	EUR	767,545
Capsquare Asia Partners Fund II	USD	2,008,946	USD	5,797,303
Catalyst Fund I	USD	83	USD	83
Catalyst Fund II	USD	3,644,717	USD	3,830,526
Cathay Africinvest Innovation Fund LLC	EUR	3,554,864	EUR	4,483,840
Central American Small Enterprise Investment Fund II	USD	529,495	USD	529,495
Central American Small Enterprise Investment Fund III	USD	465,196	USD	693,196
Central American Small Enterprise Investment Fund IV	USD	-	USD	8,000,000
CoreCo Central America Fund I	USD	254,269	USD	280,456
Darby Latin American Private Debt Fund III	USD	4,668,431	USD	7,058,025
Ethos Mezzanine Partners 3	USD	5,405,139	USD	6,902,881
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	3,360,697	USD	4,267,999
Evolution One	USD	71,024	USD	77,176
Excelsior Capital Vietnam Partners L.P.	USD	8,591,223	USD	11,598,707
Falcon House Partners Indonesia Fund I	USD	1	USD	1
Fidelity Equity Fund II	USD	883,820	USD	883,820
Frontier Energy II Alpha K/S	USD	3,856,827	USD	5,178,817
GEF Africa Sustainable Forestry Fund	USD	150,650	USD	183
Growth Capital Partners (Lok III)	USD	420,774	USD	3,760,772
Growth Catalyst Partners (class B)	USD	1,488,559	USD	-
IFHA-II CO PERATIEF U.A	USD	2,508,251	USD	2,668,787
JS Private Equity Fund I	USD	5,306,641	USD	5,300,227
Kaizen Private Equity Fund II	USD	2,099,104	USD	3,184,995
Kendall Court Mezzanine Fund	USD	-	USD	178,683
Latin Renewables Infrastructure Fund	USD	581,083	USD	695,987
Lendable Fintech Credit Fund I (Equity)	USD	4,000,000	USD	-
Locfund Next, L.P. (Equity)	USD	-	USD	1,600,000
Maghreb Private Equity Fund II	EUR	15,709	EUR	15,709
Maghreb Private Equity Fund III	EUR	437,739	EUR	343,474
Maghreb Private Equity Fund IV	EUR	3,908,968	EUR	6,333,602
Medu III Interenational Partnership L.P.	USD	658,256	USD	891,030
Metier Sustainable Capital Fund II	USD	7,820,805	USD	-

31.12.2021 | 31.12.2020

#### Equity investments continued

Mongolia Opportunities Fund I	USD	-	USD	879,210
Navegar II L.P.	USD	10,952,199	USD	13,189,996
Navis CLMV Co-Investment Fund, L.P.	USD	11,055,000	USD	-
Novastar Ventrures Africa Fund II LP	USD	3,871,994	USD	6,573,264
Omnivore Fund II	USD	2,608,039	USD	4,038,620
Progression Eastern African Microfinance Equity Fund	USD	996,590	USD	1,039,310
rABOP	USD	510,917	USD	510,917
Renewable Energy Asia Fund II	USD	17,684	USD	852,767
South Asia Growth Fund II	USD	3,409,752	USD	3,556,897
SPE AIF I, LP	USD	7,485,203	USD	10,000,000
Synergy Private Equity Fund	USD	205,044	USD	320,817
Synergy Private Equity Fund II	USD	7,219,018	USD	7,270,484
Uhuru Growth Fund I-A, SCSp	USD	7,886,574	USD	-
Vantage IV Pan African Fund	USD	10,383,882	USD	-
Vantage IV Southern African Fund	ZAR	65,209,943	ZAR	-
Vantage Mezzanine Fund III (Pan African Sub-Fund)	USD	459,988	USD	101,512
Vantage Mezzanine Fund III (Southern African Sub-Fund)	ZAR	42,094,646	ZAR	43,139,829
VenturEast Proactive Fund	USD	-7,309	USD	-7,309
VenturEast Proactive Fund II	USD	2,829,297	USD	3,605,917
VI (Vietnam Investments) Fund I	USD	1	USD	1
VI (Vietnam Investments) Fund II	USD	257,355	USD	257,355

#### Shareholdings

Altra Private Equity Fund I	USD	1	USD	1
Central American Small Enterprise Investment Fund IV	USD	7,700,216		-
Colony Latin America Fund	USD	9,500	USD	9,500
SEAF LATAM Growth Fund	USD	1,081,421	USD	1,096,008
SEAF South Balkan Fund	EUR	480,111	EUR	480,111

## PROPOSED APPROPRIATION OF AVAILABLE EARNINGS

2021 | 2020

in CHF			
Retained earnings / -loss brought forward	-81,350,667		-7,151,990
Net gain/-loss for the year	41,284,714		-74,198,677
<b>Accumulated losses</b>	<b>-40,065,953</b>		<b>-81,350,667</b>
The Board of Directors proposes to the General Meeting of Shareholders the following appropriation of available earnings:			
To be carried forward	-40,065,953		-81,350,667
<b>Total</b>	<b>-40,065,953</b>		<b>-81,350,667</b>

# ANNEX

# ANNEX 1: PERFORMANCE RESULTS AGAINST THE OPERATIONALISED OBJECTIVES FOR THE 2021–2024 STRATEGIC PERIOD

## PART 1: PROGRAMMATIC PRIORITIES

TARGET FIELD	OBJECTIVE	PERFORMANCE
SUSTAINABILITY	<ul style="list-style-type: none"> <li>SIFEM commits all financial intermediaries to observe its Responsible Investment Policy and requires those intermediaries to ensure compliance with that policy at the level of their respective investees and clients.</li> <li>Portfolio companies adhere to national regulations and work towards the adoption of the relevant international standards defined in the Responsible Investment Policy.</li> <li>All investments must be in line with the Paris Climate Agreement on climate protection.</li> </ul>	<p><b>On track:</b></p> <ul style="list-style-type: none"> <li>All investments made in 2021 have complied with this formal requirement. A waiver to comply with SIFEM's Approach to Responsible Investments was granted in the context of one investment.</li> <li>All new SIFEM transactions made in 2021 were assessed as aligned with the objectives of the Paris Agreement and are not in contradiction with the National Climate Goals (NDCs) of the countries concerned.</li> </ul>
FINANCIAL ADDITIONALITY	At least 50% of the number of fund investment of SIFEM serve to reach the 1 <sup>st</sup> closing of the target funds.	<b>Too early to tell:</b> 40% of SIFEM's fund investments closed in 2021 served to reach the 1 <sup>st</sup> closing of the target funds.
	<p><b>2021 only:</b> At least 50% of the number of SIFEM's investments serve to maintain the economic activity of existing and proven SIFEM partners.</p>	Only 1 investment was made with an existing SIFEM partner, in the context of a new fund launched in 2021. This reflected first and foremost the fact that SIFEM's partners were less affected than originally feared by the economic implications of the COVID-19 crisis. This allowed SIFEM to invest with new partners and to further diversify its portfolio, which is positive. Therefore, it appears counterintuitive to qualify SIFEM's performance against this objective as negative, since this objective was only meant to support existing partners in case of effective need for support.
VALUE ADDITIONALITY	SIFEM is an active fund investor and, whenever possible, takes a seat on the funds' supervisory bodies.	<b>Descriptive reporting (no target level):</b> SIFEM has secured a seat on the supervisory bodies of all the funds in which it invested in 2021.

	<p>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>• Promote responsible management of the economic and social impact of the COVID-19 crisis and resilience measures.</li> <li>• Improve strategic and management capacities at the level of financial intermediaries in areas such as environmental and social standards and good governance (ESG), gender equality and working conditions.</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 2021.</p> <p>Direct support has been provided to several fund managers and financial institutions on environmental and social management matters. A special training module developed in 2020 in the context of the COVID-19 crisis to deal with remote monitoring of environmental and social risks was also rolled-over in 2021.</p>
	<ul style="list-style-type: none"> <li>• Improvement of the management of the portfolio companies, especially with regard to ESG, climate protection, gender equality, and the digitisation of business processes.</li> </ul>	<p><b>On track:</b> 20 technical assistance interventions were approved in 2021, financed by the SIFEM Technical Assistance Facility and facilitated by the SIFEM Manager. All interventions were directed at one Fund covering Central and Latin America. 18 investee companies benefitted from these interventions, mainly located in El Salvador, Guatemala and Bolivia, and in the field of business management and ESG issues.</p>
<p><b>LEVERAGE / MOBILISATION</b></p>	<p>SIFEM directly leverages at least CHF 60 million from private and/or institutional investors.</p>	<p><b>Too early to tell:</b> in 2021, SIFEM's Manager held various exploratory talks with various private and institutional investors. Some of these potential investors have expressed interest in resuming the conversation once the outcome of the SIFEM tender process is made public.</p>
<p><b>GEOGRAPHIC CONCENTRATION</b></p>	<p>At least 60% of SIFEM's investments are made in priority countries or regions for Swiss development cooperation.</p>	<p><b>On track:</b> 86% of SIFEM's investments closed in 2021 were made in SIFEM priority countries.</p>

**PART 2: TASKS AND COMPANY-RELATED OBJECTIVES**

TARGET FIELD	OBJECTIVE	PERFORMANCE
<p><b>COPING WITH THE COVID-19 CRISIS</b></p>	<p>At the portfolio level, the total net number of jobs at the companies that survive the crisis remains at least the same as in the previous year.</p>	<p><b>Too early to tell:</b> despite the severity of the economic crisis triggered by lockdowns and the disruption of supply chains in several regions in 2020 (e.g. Latin America, South Asia), the aggregated number of jobs in the SIFEM portfolio reported in 2021 has remained stable compared to the data reported in 2020. This will have to be confirmed by the job data to be reported in 2022 before being able to make a final assessment of the situation.</p>
<p><b>DEVELOPMENT EFFECTS</b></p>	<p>Impact on employment</p> <p><b>More jobs</b></p> <ul style="list-style-type: none"> <li>• SIFEM creates or maintains at least 10,000 jobs on average during the 2022–24 period (pro rata<sup>16</sup>)</li> <li>• The number of jobs in the SIFEM portfolio companies increases by at least 6% on average during the 2022–24 period.</li> </ul>	<p><b>Too early to tell:</b> this indicator will be reported on for the first time in 2022.</p> <p><b>Too early to tell:</b> this indicator will be reported on for the first time in 2022.</p>
	<p><b>Better jobs</b></p> <ul style="list-style-type: none"> <li>• 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.</li> <li>• Portfolio companies document their progress in achieving work safety targets beyond and above minimum legal requirements and in ensuring working conditions that allow women and men to live and develop with dignity.</li> </ul>	<p><b>On track:</b> All portfolio funds added in 2021 and companies having received investments from SIFEM during that period have committed to comply with SIFEM’s Approach to Responsible Investment (which refers to the ILO core labour standards and to other applicable E&amp;S standards including occupational health &amp; safety) and ensure in turn that their respective investees and clients comply with that policy.</p> <p><b>On track:</b> the SIFEM manager has required the new fund managers with which it started working in 2021 to submit action plans with respect to compliance with international standards related to IFC Performance Standard 2 – Labour &amp; Working Conditions. This standard covers human resources policy, working conditions &amp; terms of employment, labour protection (including occupational health &amp; safety), organisation rights, non-discrimination and equality of opportunities, retrenchment rules, and grievance mechanisms.</p>

<sup>16</sup> 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.

	<p><b>Climate: mitigation and adaptation</b> SIFEM actively contributes to the implementation of the goals of the Paris Climate Convention. All investments are compatible with these goals as well as the national climate goals of the countries.</p> <ul style="list-style-type: none"> <li>• At least 25% of new investments are fully dedicated to climate protection.</li> </ul>	<p><b>Too early to tell:</b></p> <ul style="list-style-type: none"> <li>• All new SIFEM transactions made in 2021 were assessed in terms of whether they are aligned with the objectives of the Paris Agreement and not in contradiction with the National Climate Goals (NDCs) of the countries concerned.</li> <li>• In 2021, SIFEM invested in one new climate investment in Sub-Saharan Africa, focusing on investments in grid-tied and distributed renewable energy generation and resource efficiency. Although the climate investment volume represented only 12% of the total investment commitments for 2021, several other transactions contributing to climate change mitigation are in the pipeline for the coming years.</li> </ul>
	<p><b>Basic goods &amp; services, innovation</b> At least 30 % of the investment commitments target the subsidiary provision and closing of gaps in the area of essential goods (health, education, supply infrastructure) as well as financial inclusion and innovative business models (e.g. Fintech).</p>	<p><b>On track:</b> 43% of SIFEM's investments made in 2021 contributed to the provision of essential goods and services or to financial inclusion for underserved population segments. Several additional transactions contributing to this objective are in the pipeline for the coming years.</p>
	<p><b>Gender equality</b> At least 20% of the investment commitments qualify for the "2x Challenge" initiative to strengthen the role of women in the establishment and management of companies and as employees or consumers of products and services that improve their economic participation.</p>	<p><b>On track:</b> &gt;80% of SIFEM's investments closed in 2021 were either qualified or are in their qualification process with respect to the "2X Challenge" initiative, therefore contributing to enhancing the role and participation of women in the markets concerned.</p>
<p><b>INVESTMENT SCOPE</b></p>	<p><b>Least Developed Countries (LDCs)</b> The LDC exposure in the SIFEM portfolio should be at least 12%.</p>	<p><b>On track:</b> The LDC exposure in the SIFEM portfolio was slightly above 12% of total at the end of December 2021.</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>On track:</b> 87% 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 2021. This is line -even slightly higher- than the corresponding figure in the previous strategic period.</p>

MESSAGE ON  
DEVELOPMENT  
COOPERATION  
2021–24

**Reporting requirements**

SIFEM's contribution to the following goals and objectives of the Message:

**A. Economic development**

Subgoal 1: Local tax revenue in US Dollars

Subgoal 2: Number of jobs created or maintained; Mobilised private funds in US Dollars according to OECD DAC reporting requirements.

**B. Environment**

Subgoal 3: Saved or avoided CO<sub>2</sub> emissions; Additional KWh from renewable energy.

**C. Gender equality**

Subgoal 9: % of female employees in the SIFEM portfolio companies.

Synergies with the economic and private sector activities of SECO and SDC in their priority countries, which increase the impact of SIFEM investments

**Descriptive reporting (no target level):**

- Amount of total local taxes paid by portfolio companies: USD 1,440 million
- Total number of jobs supported in the active portfolio at the end of the reporting year: 465'119
- Capital mobilised at the level of portfolio funds coming from private investors, following OECD-DAC methodology: USD 68.4 million
- Saved or avoided CO<sub>2</sub> emissions: 7.6 million tons
- Additional KWh from renewable energy: 6,479 GWh
- Share of female employees in the SIFEM portfolio companies: 36%

**Descriptive reporting (no target level):**

Regular interactions have taken place with SECO and local field offices in the context of due diligence and monitoring missions. In particular, close cooperation has been developed with the development cooperation office in Nepal in the context of SIFEM's loan investment to NMB Bank, which benefitted from an SDC guarantee. Close cooperation was also developed with SECO's economic development cooperation team in Colombia for the preparation of a new investment, which builds on SECO's regulatory technical assistance programs in the field of "green building" technical standards.

## SPECIFIC SDGs

### Reporting requirements to the SDGs

#### **SDG 5: Gender equality**

- %-Number of female employees in the SIFEM portfolio company.

#### **SDG 7: Affordable and clean energy**

- Saved or avoided CO<sub>2</sub> emissions
- Additional KWh from renewable energy

#### **SDG 8: Decent jobs & economic growth**

- Number of jobs created or maintained
- Local tax revenue in US Dollars

#### **SDG 13: Measures for climate protection**

- Private climate investments in USD mobilised by SIFEM for climate protection in accordance with the reporting requirements of the OECD DAC

#### **SDG 17: Partnerships**

- Ratio of SIFEM investments to mobilised private co-investments at the target fund level

### Descriptive reporting (no target level):

- Share of female employees in the SIFEM portfolio companies: 36%
- Greenhouse gas emissions avoided: 7.6 million tons
- Additional megawatt hours produced from renewable energy: 6'479 GWh
- Total number of jobs supported in the active portfolio at the end of the reporting year: 465'119
- Amount of total local taxes paid by portfolio companies: USD 1,440 million
- Value of private investments directly mobilised by SIFEM through the SIFEM Manager for climate protection: none in 2021.
- Ratio of non-DFI/IFI investment to SIFEM fund investment commitments: 6.3

## GENERAL OBJECTIVE

- SIFEM conducts systematic risk management that is appropriate as regards the type of business and the size of the company (balance sheet total, personnel). The system contributes to sustainable business s and supports the management bodies in achieving the strategic goals.
- SIFEM is based on ISO 31000:2018 and ISO 19600
- The risk and compliance management guidelines apply to SIFEM and its manager.

**On track:** SIFEM plans to commission an external audit of the risk management system upon final implementation of the ISO 31000:2018 by 2023.

## RISK TOLERANCE

- The proportion of the investments which are classified as high and very high risk projects is
- less than 45% for funds
  - less than 20% for debt instruments

### **On track:**

- Funds: 42.7%
- Debt instruments: 12.3%

**PART 3: FINANCIAL OBJECTIVES**

OBJECTIVE	TARGET	PERFORMANCE
OPERATING EFFICIENCY	Operating cost ceiling of 1.5% of active commitments.	<b>On track:</b> Total operating costs linked reached 1.35% in 2021 i.e. below the ceiling of 1.5%.
FINANCING	<ul style="list-style-type: none"> <li>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).</li> </ul>	<b>On track:</b> The sum of operating costs (CHF 11.4 million) and new commitments made during the year (USD 84 million) was less than the overcommitment headroom (USD 38.3 million) and the reflows received in 2021 (USD 124.7 million).
	<ul style="list-style-type: none"> <li>The average annual reflows recorded after 2021 increase by at least 10% compared the average annual reflows between 2018–2020.</li> </ul>	<b>On track:</b> Investment reflows have totalled USD 124.7 million in 2021, which was above expectations. They are more than twice the average reflows of the preceding strategic period (USD 54.9 million).
FINANCIAL RESULT	Positive operating result in accordance with IFRS	<b>On track:</b> The operating result was of CHF 40.3 million in 2021.
INVESTMENTS	<ul style="list-style-type: none"> <li>Internal Rate of Return exceeding 3%</li> <li>Value multiplier (Total Value over Paid-in) exceeding 1,15</li> </ul>	<b>On track:</b> <ul style="list-style-type: none"> <li>IRR: 5.77%</li> <li>TVPI: 1.24</li> </ul>
NETWORKS	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 and key indicators related to the Decent Work Agenda.	<b>On track:</b> SIFEM actively contributed to the different working groups in 2021. See section 1.4 for details.
	SIFEM shares the experience gained from operational cooperation with multilateral actors – in particular the International Finance Corporation (IFC) – with the Swiss Government.	<b>Too early to tell:</b> Nothing to report during this period.

# 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 to SIFEM for two main reasons: (a) due to its public ownership, SIFEM is under close scrutiny by its shareholder as well as stakeholders and is held to the highest standards; and (b) SIFEM operates in an emerging market and developing economy environment, where corporate governance tends to be weak and the risk of adverse events is comparatively high.

SIFEM relies on a comprehensive Board-approved Manual of Procedures, which contains all the relevant policies, procedures, and guidelines for operations. The Manual details the ways in which Obviam implements the Management Agreement, and in particular how risks are identified, mitigated, monitored, and managed.

Obviam applies a comprehensive portfolio-wide internal risk-rating system for all SIFEM investments, which is a useful tool for detecting, monitoring, and managing the numerous risks inherent in SIFEM's investment activities. The potential risks for SIFEM can be divided in two main areas: operational risk and investment or portfolio risk.

**FIGURE A:** SIFEM MAIN RISK COMPONENTS



The monitoring of risk at each level follows specific procedures and processes applied throughout SIFEM's operations, which ensure that risk is mitigated to the highest degree and that the regulatory requirements are fulfilled. At each stage, the objective is to reduce the risks for SIFEM to the minimum possible under the given investment guidelines. The risks addressed are monitored on a continuous basis. Any significant risk events are duly reported to the Board, together with proposals on how the risks can be mitigated.

## 2. OPERATIONAL RISK MANAGEMENT AND INTERNAL CONTROL SYSTEM

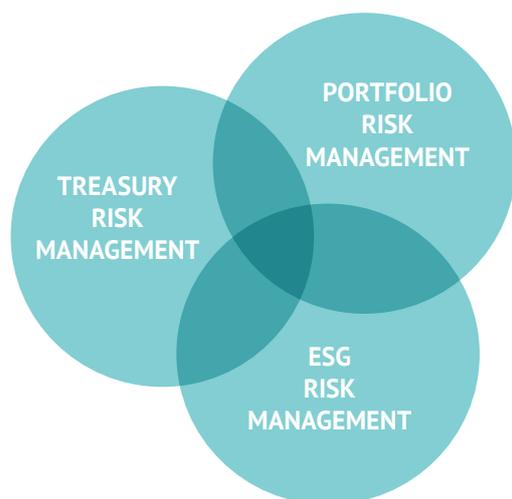
SIFEM is subject to a full audit conducted annually in accordance with the Swiss Code of Obligations. Since the 2008 revision of the Swiss Code of Obligations, companies undergoing a full audit are required to demonstrate the existence and quality of an Internal Control System (ICS). The Board of Directors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

The Procedure Manual provides the basis for SIFEM's Internal Control System. It covers all of the operational processes and controls in depth. The accounting and financial reporting processes have been outsourced to the bank, acting as custodian and administrator, and to an external book-keeping agent.

### 3. INVESTMENT RISK MANAGEMENT

SIFEM's portfolio clearly reflects the institution's developmental mandate, as it consists primarily of investments in countries and projects with a structurally high risk. Therefore, it is essential to have an adequate risk management system that takes account of risk-management capacity, in order to control these risks and, by doing so, ensure that the financial performance safeguards SIFEM's ability to maintain and expand its investment capabilities.

**FIGURE B:** INVESTMENT RISK MANAGEMENT BASED ON THREE ELEMENTS



#### Portfolio Risk Management

Obviam is responsible for the identification, evaluation, and selection of investment opportunities for SIFEM, as well as the monitoring of SIFEM's investments. At each stage of the investment process, Obviam applies specific tools and follows pre-defined procedures.

Obviam actively monitors the portfolio, focusing in particular on the change in risk ratings, valuations, reporting, performance of the investees, and compliance with the various applicable policies and guidelines. Any violation of applicable policies or guidelines is reported to the Board, together with proposed actions to rectify the situation.

Obviam uses its in-house risk rating tool, which has been validated by SIFEM's auditor at implementation. 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.

#### Currency Risk Management

Obviam is actively managing SIFEM's foreign exchange risk exposure related to the main fund denomination currencies other than USD (i.e. Euro, Rand, Yuan). In the case of the Euro, SIFEM's total exposure is estimated (by measuring the amount of debt investments denominated in Euro, treasury cash holdings, and estimated cash holdings in the underlying Euro-denominated private equity funds), and then hedged by using 3-month currency forward contracts on a rolling basis. As regards currencies which are more difficult or less efficient to hedge such as the Chinese Yuan or the South African Rand, the cash holdings are kept at a minimum.

#### 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 at implementation. 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.

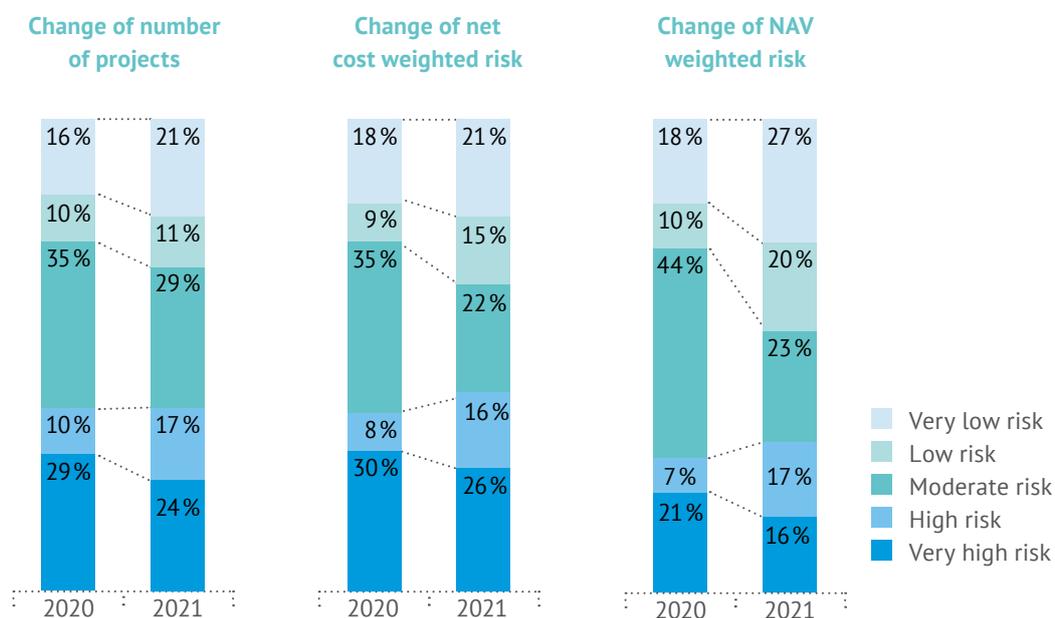
The individual rating of each investment is rescaled into a risk score ranging from 1 (very high risk) to 5 (very low risk). Risk scores of 4 or 5 classify an investment as low risk or even very low risk, respectively, while a risk score of 3 indicates a moderate risk. A risk score of 2, puts an investment 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 2021

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 2021, however, the risk of the weighted portfolio has diversified. The largest concentration of portfolio value identifies as low to very low risk. This is partly explained by the post-pandemic reverse effect and the associated appreciation of the more mature portfolio. At the same time, however, the size of the high risk portfolio has also increased, indicating that recovery has not yet been achieved across the board.

**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 2021**



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 2021**

Projects per risk category	Private Equity Funds		Pooled Debt Vehicles		Direct Debt Investments	
<b>Very low risk</b>	13	19%	8	47%		
<b>Low risk</b>	4	6%	3	18%	4	25%
<b>Moderate risk</b>	16	23%	5	29%	8	50%
<b>High risk</b>	13	19%	1	6%	3	19%
<b>Very high risk</b>	23	33%			1	6%

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 2021**

Private Equity Funds	PROJECTS	COST	RESIDUAL VALUE
<b>Very low risk</b>	19%	20%	26%
<b>Low risk</b>	6%	8%	12%
<b>Moderate risk</b>	23%	19%	20%
<b>High risk</b>	19%	17%	19.4%
<b>Very high risk</b>	33%	36%	23.3%
<b>Pooled Debt Vehicles</b>			
<b>Very low risk</b>	47%	69%	71%
<b>Low risk</b>	18%	18%	20%
<b>Moderate risk</b>	29%	4%	4%
<b>High risk</b>	6%	8%	6%
<b>Very high risk</b>			
<b>Direct Debt</b>			
<b>Very low risk</b>			
<b>Low risk</b>	25%	34%	41%
<b>Moderate risk</b>	50%	39%	43%
<b>High risk</b>	19%	18%	13%
<b>Very high risk</b>	6%	9%	3%

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 is 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 24 projects that changed their risk category during the year 2021, out of which 11 displayed a deterioration and 13 an improvement.

During the year, three projects moved from the high-risk to the very high-risk category, while five projects that were previously classified as moderate risk are now in the high-risk. Two projects moved from low risk and five from the moderate risk to the high-risk category and one from the low risk to the moderate category.

On the other side, one project moved from very high-risk to the moderate category, two projects previously rated at very high risk was moving to the high-risk category. Moreover, one project has shifted from the high risk, four from the moderate risk category and two from the low risk category to the lowest risk category. Three projects previously staged at moderate are now considered as low risk.

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

		2020							
		1	2	3	4	5	Total	Total %	
Number of Projects		New Projects	Very high risk	High risk	Moderate risk	Low risk	Very low risk		
2021	1 Very high risk	0	21	<b>3</b>	0	0	0	24	24%
	2 High risk	0	<b>2</b>	8	<b>5</b>	<b>2</b>	0	17	17%
	3 Moderate risk	7	<b>1</b>	0	20	<b>1</b>	0	29	28%
	4 Low risk	1	0	0	<b>3</b>	7	0	11	11%
	5 Very low risk	0	0	<b>1</b>	<b>4</b>	<b>2</b>	14	21	21%

# 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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