

Impact investing in Emerging Markets

risk management and value creation

in private markets

Tim Crijns, Fund manager Triodos Microfinance Fund

November 21, Financial Investigator

For professional investors only

Navigating through today's investments markets

Current markets

- Volatility dominates
- Fear Of Missing Out
- Investment risks seem to increase while risk appetite decreases



What are you looking for in your portfolio?

- Stability
- Low correlation
- Risk mitigation



**Perceived risks may appear
different at a closer look!**



Private Investments in Emerging Markets – a risky business?



Private Investments in Emerging Markets can reduce portfolio risk if done well

1

Geographic diversification...

... reduces markets concentration in any portfolio

2

Low market correlation...

... as behavior is more independent from economic cycles in developed economies

3

Risk mitigation...

... assuming rigorous due diligence and leveraging deep, long-term expertise

4

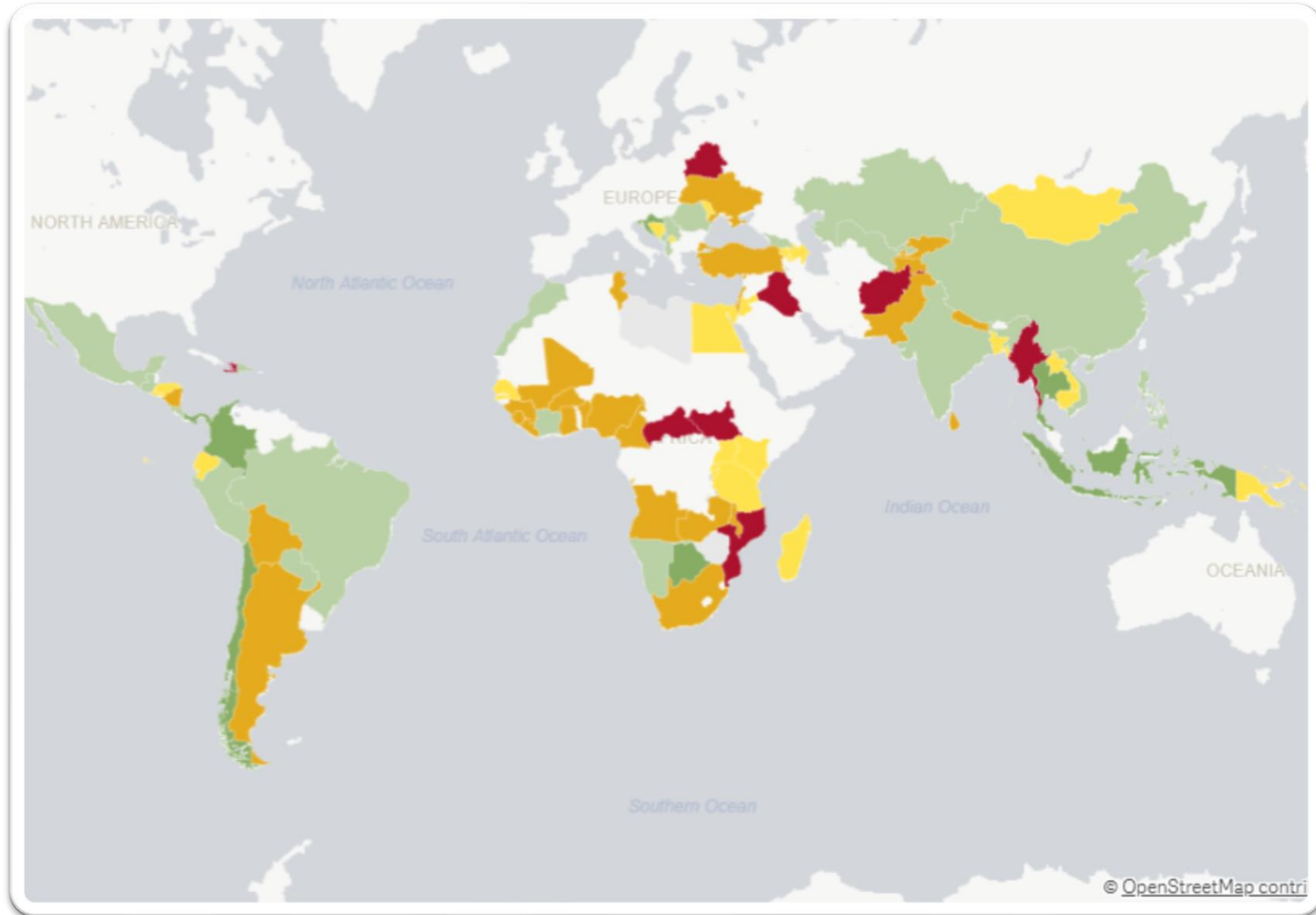
Local resilience...

... if invested in essential local sectors and goods

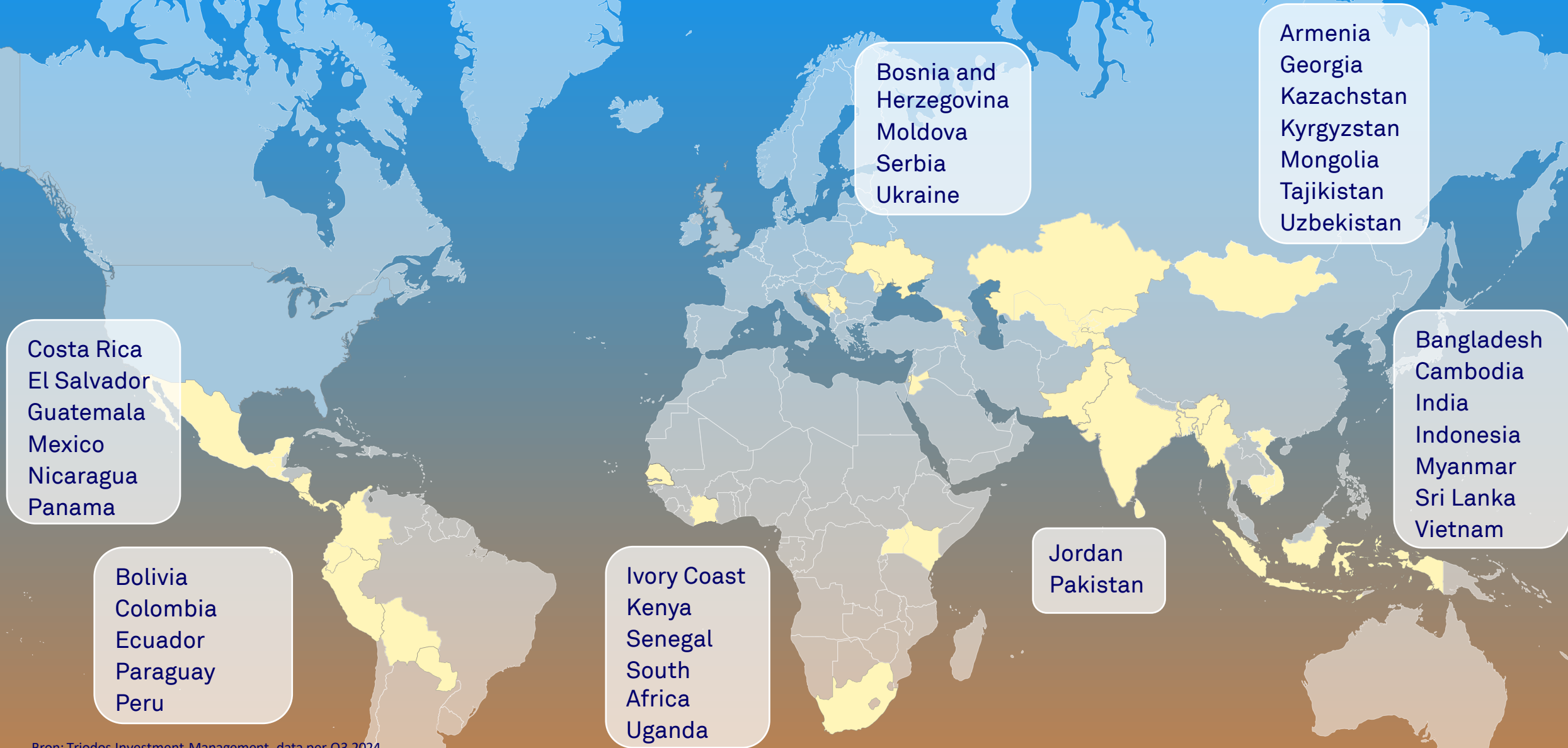
Country Risk assessment

Country & Currency Risk Tool

- ✓ Proprietary tool
- ✓ Quantitative & qualitative macro-economic data
- ✓ Results in country & currency risk score 1-5
- ✓ Country risk score determines maximum single country exposure



Portfolio diversification



Unlocking the growth potential of Emerging Markets by investing in Microfinance

- Invests in institutions that provide **loans, savings accounts and payment facilities** to underserved individuals and small businesses especially in Emerging Markets.
- Globally, **1.4 billion people** have no access to financial services

(Social) impact of Financial Inclusion/Microfinance:

- Economic Growth
- Financial Stability
- Basic Needs
- Digital Inclusion
- Climate Resilience

The S in ESG



Credit Risk management

Microfinance loans to low-income entrepreneurs risky?

- Risk mitigation by the microfinance institution:
 - ✓ Selection borrowers
 - ✓ Repayment incentives
 - ✓ Loans for essential goods
- Microfinance institutions are our “broker buffer”
- Our selection of microfinance institutions:
 - Onsite due diligence, leveraging deep, long-term expertise
 - Assessment of financial health, management, operations and impact

Investment examples

Centenary Bank

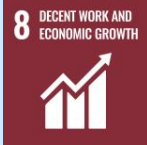
Uganda



The leading microfinance bank in Uganda.

Centenary Bank supports individuals and small businesses with loans, savings and financial literacy training.

Strong footprint in small-scale agriculture, which represents 20% of its portfolio.



Garantia

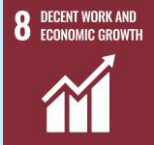
Mexico



A fintech company in Mexico

Garantia provides healthcare equipment leasing to doctors and small private clinics that primarily serve low and middle-income people.

The company promotes access to high-quality healthcare services at an affordable rate.



Investment dilemmas



The background of the slide features a close-up photograph of several orange flowers, likely dahlias, with soft, layered petals and a bright yellow center. The lighting is natural and soft, creating a warm and inviting atmosphere. The flowers are slightly out of focus, with the sharpest focus on the central flower's center.

Impact investing in private markets

can be an effective way to mitigate risks

→ Excellent quality with low historical defaults: 0.10% (ann. avg.)

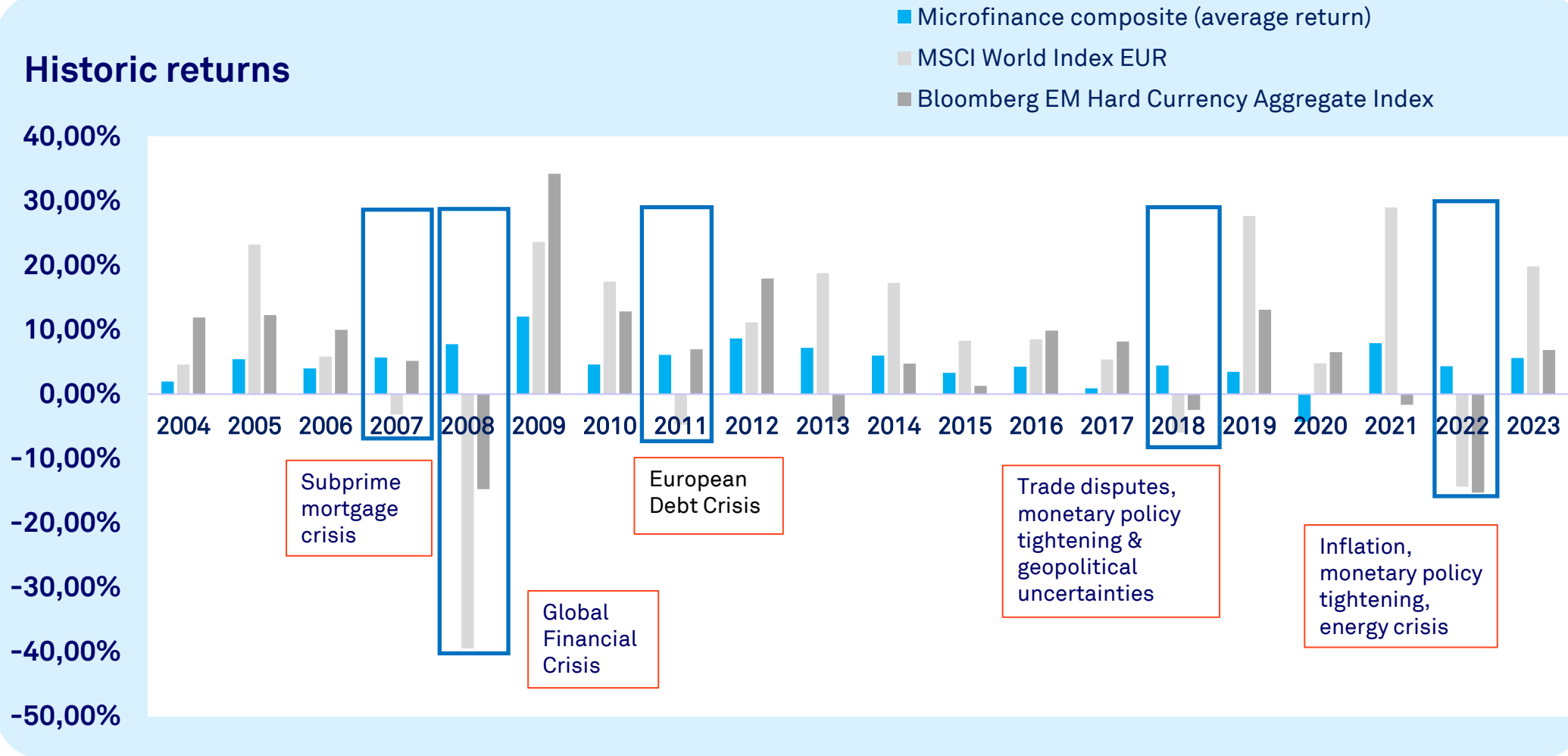
20 Years Microfinance track record

Resilience in the Face of Adversity



Triodos@Investment Management

Historic returns



Source: Triodos Investment Management, 31/12/2023. All returns stated have been calculated based on net asset values, including reinvestment of dividends where applicable. Past performance is not a reliable indicator of future performance. The performance shown reflects the composite strategy, encompassing the Triodos Fair Share Fund from 2004-2008 and the Triodos Microfinance Fund from 2009-2024. Although separate vehicles, both funds share a similar investment strategy.

Key take-aways



**Microfinance in emerging markets:
a mature asset class**



Investing with social impact



**Enhancing portfolio diversification
– risk mitigation**

Low volatility, low correlation: 0.26 with MSCI World Index EUR
and Bloomberg EMHard Currency Aggregate Index (-0.011)*.



Proven track record and expertise

4.3% average annual net return since inception (I-cap share class)



Compelling investment opportunity

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How you invest defines the world you want to live in

Today's global challenges need impact investing

Appendix



Fund Insights: Articles and Video

Article published in Financial Investigator magazine

32 EMERGING MARKETS

Microfinanciering: hoge impact en lage correlatie

alle opkomende landen over één kam te scheren en om als belegger heel goed je huiswerk te doen.

Hoe risicovol zijn investeringen in microkredieten zelf? Het is alweer een hele tijd geleden dat beleggers microfinanciering afzochten met lokaalheidsgevoel. Inmiddels hebben institutionele beleggers wel door dat we een professioneel en commercieel fonds zijn dat een goed financieel rendement moet halen. In de afgelopen 25 jaar heeft microfinanciering zich ontwikkeld tot een volwassen beleggingscategorie. Bij Triodos Investment Management hebben we een sterk track-record opgebouwd en je ziet nu dat steeds meer partijen actief worden op deze markt.

Voor de duidelijkheid: Triodos Microfinance Fund verstrekt zelf niet rechtstreeks micro-leningen. In plaats daarvan investeren we in lokale microfinancieringsinstellingen en mkb-banken, die vervolgens leningen verstrekken aan kleinschalige bedrijven, zoals winkels, productiebedrijven en lokale boeren. Wij lichten deze financiële instellingen zowel financieel als operationeel helemaal door. Het is belangrijk dat deze instellingen hun financiële cijfers goed op orde hebben, maar ook dat de interne governance en operationele capaciteit goed op orde is. De kwaliteit van het management is cruciaal.

Het terugbetaalpercentage van de eindklanten van de microfinancieringsinstellingen die wij selecteren, ligt heel hoog, vaak tussen 95% en 99%. En als er toch enkele tegenslagen zijn, hebben de instellingen waarna we beleggen bijna altijd voldoende buffers om die op te vangen.

Welke rol kan juistie fonds spelen in een bredere portefeuille? We zien dat meer en meer investeerders vanuit diversificatie-overwegingen ons fonds toevoegen aan een portefeuille. Het fonds kent een stabiel langjarig rendement met een extreem lage correlatie met andere beleggingscategorieën. Het resultaat wordt vooral heel sterk bepaald door de lokale, reële economie, in plaats van de ontwikkelingen en het sentiment op internationale financiële markten. Tijdens de financiële crisis van 2008 presteerde microfinanciering bijvoorbeeld goed. En tijdens de coronapandemie werd microfinanciering weliswaar geraakt door lokale lockdowns, maar werd het weer direct op toem de lockdowns werden opgeheven. Je ziet dan ook steeds vaker dat grote vermogensbeheerders op basis van de

Het fonds van Crijs is een van de oplossingen die bijdragen aan het leerzaam imago van Triodos Investment Management. Hij vertelt hoe microfinanciering zich als beleggingscategorie heeft ontwikkeld tot een volwaardige toevoeging voor elke beleggingsportefeuille.

In de beleggerswereld hebben opkomende markten de naam relatief risicovol te zijn, in hoeverre klopt dat beeld en hoe ga je als belegger slim om met dat risico? De risico's zijn genuanceerder dan je zou denken wanneer je de kranten opent. De oorlog van Rusland in Oekraïne en de oplopende spanning in het Midden-Oosten trekken de aandacht. Maar de opkomende wereld bestaat uit een grote, gevarieerde groep economieën met allemaal hun eigen, unieke kenmerken.

Uiteraard is India de talk-of-the-town, maar ook een economie als die van Mexico is heel robuust geworden en draait goed. In de Kaukasus en Centraal-Azië profiteren de economieën van respectievelijk Georgië en Kazachstan juist van een kapitaalvlucht uit het grote buurland en van gestegen energieprijzen. Het is dus van groot belang om niet

'We investeren in lokale microfinancieringsinstellingen en mkb-banken, die vervolgens leningen verstrekken aan kleinschalige bedrijven.'

FI NOVEMBER 2024

[Link to the article \(in Dutch\).](#)

Article on Triodos-IM website

Interview with Fund Manager Tim Crijs

'We prove that investing in emerging markets is much less risky than you think'

Interview by Triodos Investment Management

3 June 2024

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Microfinance stands out as an investment category because it has a large positive impact and a low correlation with traditional forms of investment. Tim Crijs, Fund Manager of Triodos Microfinance Fund and Triodos Emerging Markets Renewable Energy Fund, explains what lies behind the favourable risk-return profile and how creating positive impact works.

Microfinance has evolved enormously in recent decades. Do professional investors see this as a mature investment segment, like stocks and bonds for example?

Crijs: "We are not quite there yet, but it's clear that the market is starting to look at the investment segment very differently. Triodos Investment Management has been investing in microfinance for over 25 years. Until about 15 years ago, the main reason professional investors invested in the strategy was the positive impact we generated. But since then, I've noticed that the risk-return profile has become an increasingly decisive factor. We have now built up a long track record of stable returns combined with a low correlation to traditional investment categories. We have shown for a long time that our method of investing in emerging markets is much less risky than you might think."

[Link to the article](#)

Video on Impact, Risk & Return

TIM CRIJS
Fund Manager,
Triodos Investment Management

by traditional financial banks.

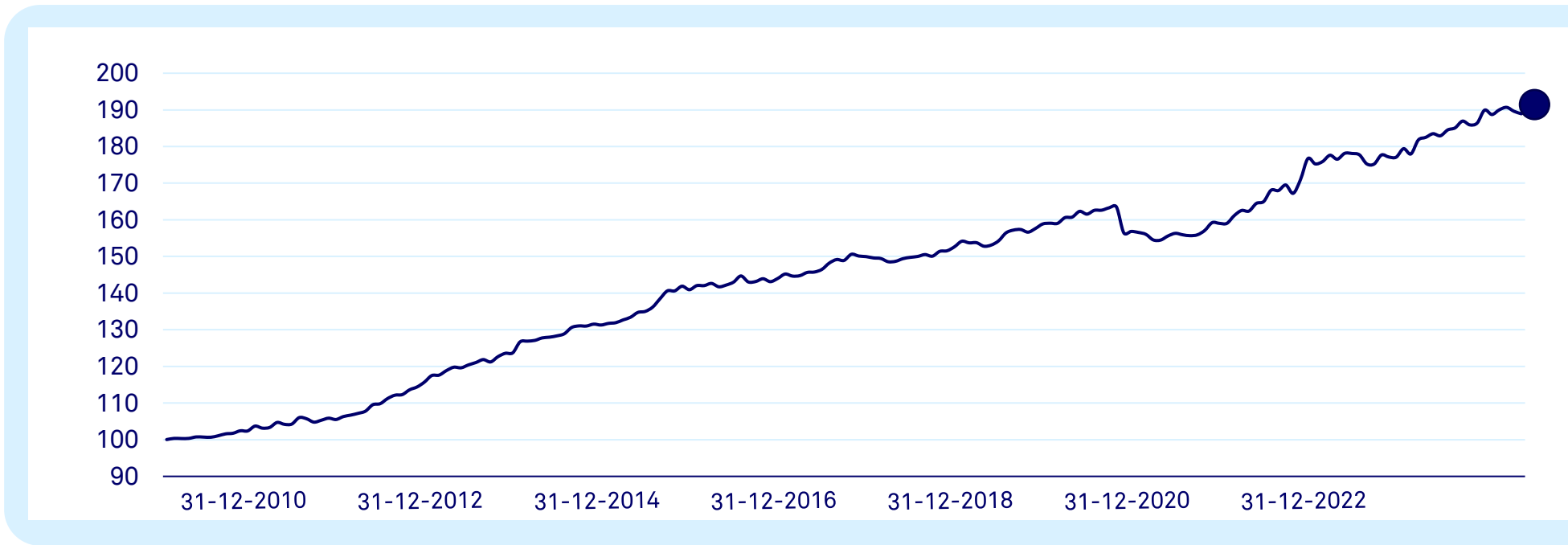
What, how, and who we invest in defines the world around us

[Link to the video](#)

Financial Return

Net Cumulative Performance, indexed since inception (I-cap)

09 -2024
Triodos
Microfinance
Fund: 188,9



Calendar year net return %	2023	2022	2021	2020	2019	2018
Triodos Microfinance Fund I-cap	5.61	4.33	7.91	-4.28	3.46	4.43

Net return in %	1M	3M	YTD	1Y	3Y avg	5Y avg	ALL avg
Triodos Microfinance Fund I-cap	-0.36	-0.57	2.07	2.96	4.73	3.08	4.19

Data as per end of September 2024

Diversification benefits Triodos Microfinance Fund

Low correlation with Equity and EMD indices

Correlation matrix Triodos Microfinance Fund with MSCI World and Bloomberg EM Hard Currency Aggregate Index

	MSCI World	Bloomberg EM Hard Currency Aggregate Index	Triodos Microfinance Fund (I-Cap)
MSCI World	1.00		
Bloomberg EM Hard Currency Aggregate Index	0.613	1.00	
Triodos Microfinance Fund (I-Cap)	0.263	-0.014	1.00

Source: Triodos Investment Management: Data from September 2019 – September 2024 based on net returns of Triodos Microfinance Fund (I-Cap) .

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