Envest Microfinance Cooperative
March 2017 Newsletter

Envest Highlights

- Two new microfinance partners added in Honduras
- New loans disbursed to Salym in Kyrgyzstan and Pana Pana in Nicaragua
- New team member added, Anna Schaefer

Inside This Issue

"Impact Investing–Coming of Age": A Call to Action

By Jon Bishop & Laura Dreese

The January 7th-13th 2017 edition of *The Economist* had an article entitled "Impact Investing–Coming of Age" (p 54). The article defined impact investing and described its current status.

The Economist introduced impact investing as investments in assets that provide social and financial returns to investors. Large investment banks and brokerage firms are now involved in the impact investment sector, which has seen significant growth from the early 2000s. This growth is driven by investor demand.

No single definition There is still no unanimous agreement on the definition of impact investing. Some argue that simply screening out companies with unsustainable practices constitutes impact investing. Others

Impact Investing continued on Page 3

Two New Microfinance Partners in Honduras

By Mackenzie Schnell

In December of 2016, Envest established lending relationships with two new partners in Honduras, a new country for Envest. Now Envest lends in eight countries around the globe. Envest's position in Honduras started with a $200,000 loan to PRISMA, followed by a $100,000 loan to AHSETFIN. These partners entered Envest's radar when Jon Bishop, Laura Dreese, and Francis Soza Huete met with directors of these organizations at the Latin American Microfinance Network's Conference in Nicaragua in August, 2016.

Country Background: Honduras is a Central American country about two-thirds the size of Wisconsin. It shares borders with Nicaragua, El Salvador, and Guatemala.

Prior to Spanish conquest, the western part of Honduras was home to the Maya and other smaller ethnic groups. The Spanish arrived in 1502 when Christopher Columbus reached the Bay Islands on his fourth visit to the New World. Following conquest, Honduras was exploited for silver mining until 1821, when Honduras gained independence. It became a democratic republic in 1838. Since then, it has endured two military coups, including one in 2009 that unseated and exiled democratically elected President Manuel Zelaya.

Honduran Partners continued on Page 2

Honduran Partners *continued from Page 1*

Economy: The GDP per capita (PPP) as of 2015 was approximately $4,900, which places Honduras as the poorest country in Latin America, with a poverty rate of 63% (2015). The main economic drivers are coffee and banana exports, production of apparel, and assembly of goods for export. Reliance on exports and inexpensive labor makes the Honduran economy vulnerable to market shifts.

PRISMA: PRISMA was started originally by the American company Prisma Microfinance, Inc., with the objective of lending to Honduran agricultural cooperatives. In 2006 PRISMA Honduras became an independent, for-profit microfinance institution, now run almost entirely by Hondurans.

PRISMA's loan portfolio contains mainly commercial loans (48%) and agricultural loans (36%). PRISMA also lends for renewable energy. As part of PRISMA's mission to improve living conditions for rural borrowers, it has partnered with the Rural Infrastructure Project to lend for the purchase and installation of solar panels. Loans for solar panels, which comprise 6% of PRISMA's portfolio, exert incredible impact on the lives of borrowers whose communities have never before had electricity.

AHSETFIN: AHSETFIN (Honduran Association for the Development of Technical and Financial Services) was founded in 2006 by local Hondurans with the mission to lend to single mothers and Hondurans without access to credit from traditional banks.

Group lending comprises the majority (95%) of AHSETFIN's portfolio. Most groups consist of 5-20 small business owners who self-administer funds and cosign each other's loans. In addition to lending for microenterprises, AHSETFIN issues loans to purchase water tanks through its Credi-Agua program. This program seeks to improve access to quality drinking water for AHSETFIN borrowers. Borrowers purchase a large plastic water tank, which is then installed on the roof of the borrower's home. The tank collects rainwater which passes through a filtration system as it is drawn out for use. A reliable source of clean water is especially important for borrowers who are restaurant owners or food vendors.

Security: Despite falling crime rates in recent years, Honduras remains a country plagued by violence, with 57 homicides per 100,000 people in 2015. Both PRISMA and AHSETFIN have developed business practices that maximize security for employees and borrowers.

Opportunity: PRISMA and AHSETFIN operate in one of the most impoverished countries in the Western Hemisphere where financial inclusion is inadequate. By lending to MFIs serving borrowers at the lower end of the economic spectrum, Envest carries out its social mission to provide underserved people with access to credit. Additionally, both new partners lend for sustainable technology (i.e. solar panels and water filtration), an initiative the Envest team is thrilled to support. We at Envest look forward to long and beneficial relationships with both PRISMA and AHSETFIN.

PRISMA

- Number of borrowers: **5,144**
- Percent female borrowers: **46%**
- Percent rural borrowers: **94%**
- Average loan size: **$805**
- Total loan portfolio: **$4.14 M**

Borrower Reyna Mejia uses loans from PRISMA to purchase merchandise for her book and school supply store in the Barrio El Centro market.

AHSETFIN

- Number of borrowers: **7,010**
- Percent female borrowers: **72%**
- Percent rural borrowers: **26%**
- Average loan size: **$427**
- Total loan portfolio: **$2.99 M**

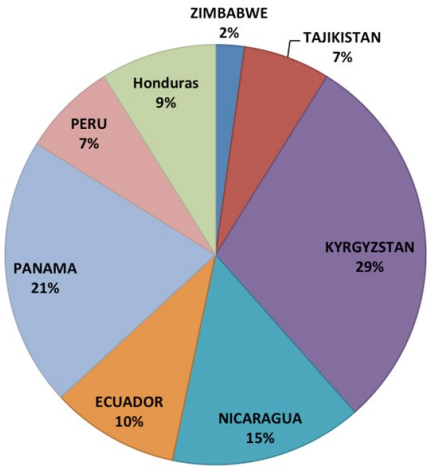
Edwin Ramos and his wife, Martha Poza, own and operate the pulperia Santa Martha and lawn service provider El Catrachito. Both are AHSETFIN borrowers who have used loans to purchase equipment and merchandise to expand their respective businesses.

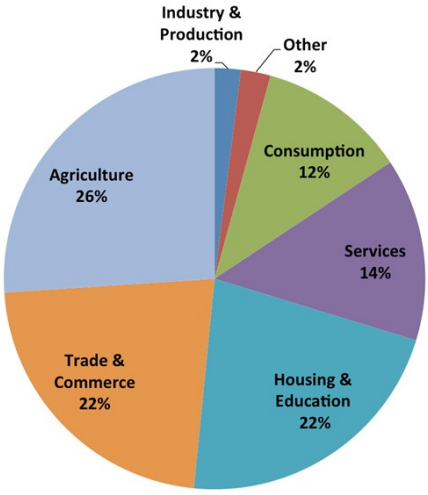
Envest Portfolio Report

By Anna Schaefer

Envest currently partners with 13 microfinance institutions in eight countries: Honduras, Nicaragua, Panama, Ecuador, Peru, Tajikistan, Kyrgyzstan, and Zimbabwe.

Latin America has long been a prominent part of Envest's portfolio since our first loan in Nicaragua in 2007. Since 2014, however, a strong U.S. dollar has made it more difficult for our Latin American partners to continue borrowing from Envest in dollars. While we continue to lend in Latin America, which has included the addition of two new partners in Honduras in December, we have shifted a large part of our global portfolio to Central Asia, particularly Kyrgyzstan. Central Asia now forms 36% of our portfolio, increasing from 15% in August of 2016.





The sectors represented in our portfolio are determined by the client demand at each of our partnering MFIs. Currently, almost half of the individual loans across Envest's portfolio are provided to small business owners, entrepreneurs, and farmers to help sustain and expand their businesses. Loans provided for education and housing improvements increased throughout 2016 and now form 22% of our portfolio.

While the average size of our partners is US$6,335,688, more than 60% of our partners have total assets under US$5 million. Envest's consistent portfolio of small, Tier 3 MFIs reflects our mission to provide credit that reaches all communities on a global scale.

Impact Investing *continued from Page 1*

assert that an impact portfolio must include companies that actively increase the sustainability of the economy. There is also a debate over the rate of return necessary to qualify as an impact investment. Does a company that delivers strong social impact but below-market financial returns qualify as an impact investment, or must the return be market rate as well? These disagreements on the definition of impact investing make a consensus figure for the assets under management in the sector nearly impossible to generate. This disagreement notwithstanding, the sector has grown dramatically in size and sophistication since the early 2000s.

Small deal size, few opportunities The article described how the impact investing sector is still severely limited by the modest number of investment opportunities available. Some investment firms have trouble fulfilling the pledge to invest even a modest portion of assets in impact investments because the average size of a transaction in the sector is only $12M. The tiny portion of the investment industry represented by the impact investment sector causes some to dismiss it as too trivial to matter. *The Economist* further argues that the entry of mainstream investment companies is contingent upon impact investments being financially competitive with traditional investments. Failure to attract these mainstream investment companies will result in insignificant growth, leaving the sector perennially at the fringe of the investment industry.

Our take The comments on lack of scale in the impact investing sector resonate with us. We offer the experience of Envest as an example why growth has been difficult and how it could be facilitated.

Regulatory impediments Securities regulations make it difficult for small companies to grow and gain economies of scale. A company selling securities (offering investments) must either register its offering with the Securities and Exchange Commission (SEC) or rely on exemptions from registration. The cost of registration is prohibitive for a small

Impact Investing continued on Page 4

Impact Investing *continued from Page 3*

company such as Envest. Exemptions from registration often involve severe limitations on the manner in which a company may solicit investments. For Envest, these limitations restrict solicitations to only high net-worth investors and, until recently, prohibited public advertising.

Traditional investment advisory firms and wealth managers have shown no interest in recommending Envest to their clients or including it in their portfolios. This is not surprising as it would require significant due diligence and administrative time commitment for--what would be to them--a very small transaction. This is the classic chicken and egg problem: unless an impact investment firm was created with deep pockets, it is unlikely to be large enough to justify the time and attention of traditional investment firms. Without these mainstream entrants, impact investing firms struggle to grow.

Opportunity for the sustainable and responsible (SRI) sector An obvious source of financing for small impact companies such as Envest is the sustainable and responsible investing (SRI) sector. This sector comprises financial service providers who invest their clients' money in a way that has high social impact as well as a financial return. Envest participates in two national conferences dedicated to SRI.

Unfortunately, the SRI sector seems to approach impact investing with little more enthusiasm than that shown by mainstream investment management firms. Although nominally embraced by the SRI community, our experience is that SRI investment managers often have investment practices that preclude working with small companies. We had a recent conversation with an organization whose website described its practice of investing in "small, innovative, high-impact companies that other investors will not touch." The conversation ended abruptly when the organization revealed its practice of not investing in companies with assets under $50 million (Envest had assets of $3.5M at the time). Other firms insist on working only with impact investments that are custodied on major platforms such as Charles Schwab. This ensures that they will never work with small, innovative, impact companies, as Schwab's requirements preclude such small companies from being on their platform.

To date, Envest has received modest support from the SRI sector. Six financial advisors have directed clients into Envest, and one mutual fund has invested in Envest. The efforts of these six individuals and one mutual fund have been crucial for our survival and growth. However, support beyond six individuals and one mutual fund is necessary to provide financial resources sufficient for an impact company to develop and flourish.

Regulatory effect of the JOBS Act The JOBS Act, passed in 2012, has the specific aim of removing barriers that prevent small businesses from raising capital through the issuance of securities (offering investments). The rules were finally completed in mid-2016. The JOBS act has and will continue to provide enhanced opportunities for small impact investing companies, which we see as very positive. A tangible benefit of the JOBS Act for Envest is that now we can engage in public advertising. As this article references our investment opportunity, it is considered public advertising and would not have been allowed in this newsletter six months ago.

Unfortunately, not all of the opportunities of the JOBS Act extend to Envest. As Envest uses investors' money to make loans to other entities, Envest is considered an "investment company," which places us in a category with greater restrictions. Investment companies are explicitly excluded from certain provisions under the JOBS Act that offer promising possibilities to raise new capital.

Call to action The challenges faced by Envest suggest a positive role for the SRI sector in developing a sustainable economy. The inclusion of a small number (say three to five) of small, high-impact companies in any given portfolio for which it is appropriate would make precious resources available to companies trying to grow. This growth would allow some of these companies to gain the economies of scale necessary to create more traditional investment products that SRI professionals seek. This model can be likened to minor league baseball, from which an occasional star might emerge and achieve mainstream success. The increased social impact and financial returns of such a partnership have the potential to positively impact many local and global issues. A concerted effort between the SRI sector and impact companies could result in a far different impact investing landscape, and a more positive outlook in future issues of *The Economist*.

Goodbye, Mackenzie

By Jon Bishop

At the end of 2016, we said goodbye to Mackenzie Schnell as she left Envest to become a full time member of a start-up company in Madison, Wisconsin. Mackenzie worked with us for almost a year in various capacities. We are grateful for her contributions to Envest during her tenure, and for her continued friendship and support going forward.

Mackenzie interned with Envest from January to May of 2016 during her final semester at the University of Wisconsin-Madison. After graduating from UW with a BBA in Business in May, she joined Envest part time for a summer job. It worked out for everyone for Mackenzie to stay until the end of the year.

From Left: Laura Dreese, Jennifer Lazarus, and Mackenzie Schnell at the US SIF Conference in Washington, DC

Immediately after joining the Envest team, Mackenzie represented Envest along with Laura Dreese at the Forum for Sustainable and Responsible Investment's Annual Conference in Washington, DC. Mackenzie won a student scholarship to the conference and worked with Laura to pursue possible financing opportunities for Envest. The conference was very successful for Envest, and Mackenzie gained valuable knowledge in the sustainable and responsible investing sector.

Envest's marketing strategy and web presence evolved substantially during Mackenzie's time with us. She led the effort to improve the website, and she participated in evaluating new loan possibilities during a particularly busy period in the fall. She overlapped with her successor, Anna Schaefer (see next article), and facilitated a seamless transition. During Mackenzie's last week at Envest, an outside observer would have had no idea that she was about to leave. She still actively investigated new possibilities for Envest and thought of ways to ensure our success.

While working part time for Envest, Mackenzie became involved with a start-up natural foods company called Yumbutter. Yumbutter sources sustainably produced ingredients for its products. At the beginning of 2017 she transitioned into a full time role at Yumbutter.

We remain the best of friends with Mackenzie and get together frequently. We very much enjoyed working with her and look forward to seeing her career blossom.

Welcome, Anna

By Jon Bishop

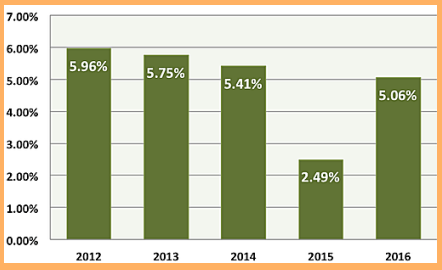
We are delighted to welcome Anna Schaefer to the Envest team. Anna interned with Envest from September to December, 2016, during her final semester at the University of Wisconsin-Madison. She graduated from UW in December with a BBA specializing in Marketing and with a Certificate in Spanish.

Anna joined Envest full time in January, 2017. She leads our marketing effort and is working to expand our web and social media presence--a critical role at this time. Until late 2016 regulations prevented Envest from engaging in public advertising, which precluded posting descriptions of our investment opportunity on our website. Now that we can advertise, Anna pursues her professional aspiration by spearheading development of our marketing campaign from scratch. There is no how-to manual for her– she is developing it on the fly.

Anna interned during the summer of 2016 in Santiago, Chile, at a business development consulting firm that promotes trade and investment in Latin America. The internship gave her invaluable experience in understanding the business environment in Latin America as well as gaining proficiency in Spanish. Anna reached out to Envest while interning in Chile and became an intern with us upon her return to Madison.

Anna will work with Envest through the end of July, 2017. She intends to return to Latin America for an extended period to teach English and increase her fluency in Spanish. Her ultimate career goal is to use her business and marketing skills to increase financial opportunities for marginalized populations, especially in Latin America. Microfinance fits that goal perfectly.

Investment Opportunity



Envest offers a meaningful investment opportunity for Accredited Investors* to make a difference in the world through microfinance. Of every investment that comes into Envest, 100% is used to make loans to our microfinance partners, who then use the money to make hundreds of small loans to their borrowers. As the borrowers repay, your investment is lent out again and again, making a difference for countless families around the world.

Along with the strong social return, Envest strives to offer meaningful financial returns that will contribute to the financial resilience of your portfolio. Envest targets a 5-6% annual return on investment, and has met this target four out of five years.

Please contact Jon Bishop at (608) 216-9898 or jonbishop@envestmicrofinance.org if you would like to view offering documents or learn more about Envest's model. **

** U.S. Securities Laws provide that an accredited investor is any natural person who: **1)** earned income that exceeded $200,000 (or $300,000 together with a spouse) in each of the prior two years, and reasonably expects the same for the current year, or **2)** has a net worth over $1 million, either alone or together with a spouse (excluding the value of the person's primary residence).*

*** Prospective investors should consult their own independent counsel or financial advisor regarding legal, tax and similar matters concerning an investment.*

Contact Envest Microfinance Cooperative

222 S Hamilton St. #11
Madison, WI 53703

(608) 216-9898

jonbishop@envestmicrofinance.org
lauradreese@envestmicrofinance.org