



Hivos-Triodos Fund Foundation

Annual Report 2019

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Triodos  Investment Management



PricewaterhouseCoopers
Accountants N.V.
For identification
purposes only

Hivos-Triodos Fund Foundation Annual Report 2019

Hivos-Triodos Fund Foundation is a joint initiative of Hivos and Triodos Bank.



Triodos  **Bank**

Hivos-Triodos Fund is managed by Triodos Investment Management, which is a wholly-owned subsidiary of Triodos Bank.

Key Figures

amounts in euros	Year-end 2019	Year-end 2018
Participations	5,012,932	2,304,729
<i>Number of contracts</i>	5	2
Participations (managed for third parties)	8,305,692	37,091,912
<i>Number of contracts</i>	6	8
Loans provided	30,884,178	26,942,874
<i>Number of borrowers</i>	31	22
Subordinated loans provided	879,190	845,420
<i>Number of subordinated borrowers</i>	1	2
Total portfolio before deduction of specific provisions and including receivables from loans and assets managed for third parties	45,867,102	69,918,449
Committed investments	15,217,491	8,549,077
Equity	16,017,983	14,888,367
Result	In 2019	In 2018
Income	3,203,729	2,266,928
Expenditure	-2,381,557	-1,564,952
Operating profit	822,172	701,976
Movement in provision for (subordinated) loans	-32,238	-19,117
Movement in provision for interest (subordinated) loans	-3,375	-8,214
Exchange rate result	343,056	88,313
Corporation tax	-43,793	-
Result	<u>1,085,822</u>	<u>762,958</u>

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General information

Hivos-Triodos Fund Foundation (Hivos-Triodos Fund) was formed on 22 December 1994 by the Hivos Foundation (Hivos) and the Triodos Fund Foundation.

The objective of the fund is defined in the articles of association as follows: 'The objective of the fund is to contribute to the sustainable development of countries that are lagging behind in terms of prosperity and well-being, all in the broadest sense of the word'. Hivos-Triodos Fund has its registered office in Zeist, the Netherlands.

Board of Management

The Board of Hivos-Triodos Fund consists of: Dick van Ommeren (from 15 May 2020) and Jacco Minnaar. Both were members of the Management Board of Triodos Investment Management BV (Triodos Investment Management) in 2019. Marilou van Golstein Brouwer was a member of the board until 23 December 2019.

Administrator

Hivos-Triodos Fund is managed by Triodos Investment Management. Triodos Investment Management is licensed under the Financial Supervision Act. The Board of Triodos Investment Management is made up of:
Jacco Minnaar (Chair)
Kor Bosscher (Director Risk and Finance)
Dick van Ommeren (Director)

For the practical implementation of the policy, Hivos, Triodos Bank, Triodos Investment Management and Hivos-Triodos Fund have entered into a cooperation agreement.

Fund Manager

Triodos Investment Management has appointed a Fund Manager. Since April 2015, Karel Nierop has been the Fund Manager of Hivos-Triodos Fund.

Supervisory Board

The members of the Supervisory Board are:
Elsbeth Aubel-Bezemer
Bernedine Bos
Diane Griffioen
Edwin Huizing
Johan van de Ven

In 2019, Natasja van den Berg and Marcel Karman stepped down from the Supervisory Board. Johan van de Ven was appointed in 2019.

Report of the Board

Hivos-Triodos Fund was set up with the aim of contributing to sustainable socio-economic development in developing countries. Access to financial services is very important in this respect. Hivos-Triodos Fund finances microfinance institutions that provide financial services to people in the lower income strata of society. People who have access to loans, savings products, payment services and micro-insurance can make a living, utilise their talents and create employment. An accessible and well-functioning financial sector thus forms an important foundation for building a solid local economy.

Since 2011, Hivos-Triodos Fund has committed itself to promoting access to renewable energy and contributing to the development of sustainable agricultural chains in developing countries. As such, the fund is building on the knowledge and experience of Hivos and Triodos Bank in these sectors. These investments preferably take place through local financial institutions and funds that focus on small and medium-sized enterprises. In addition, Hivos-Triodos Fund invests directly in companies and organisations active in sustainable agriculture and/or renewable energy.

The formation of the United Nations Sustainable Development Goals and the 2015 Paris Climate Agreement reflect a growing global awareness that sustainable change is needed. Access to finance, access to renewable energy, and the greater sustainability of agricultural chains are recurring themes that contribute to achieving the Sustainable Development Goals.

In this context, at the end of 2015, the Supervisory Board endorsed the Strategic Plan of Hivos-Triodos Fund for the period 2016-2020. The further repositioning towards more investments in renewable energy and sustainable agricultural chains has been elaborated in this plan. Cooperation with local partners has been further expanded in India and East Africa from 2018 with Caspian Impact Advisors and AlphaMundi Group, respectively.

Market developments

The high economic growth that has characterised recent years slowed down in 2019. The growth rate of the world economy decreased from 3.5% in 2018 to 2.9% in 2019. Developed economies grew by 1.7% (2018: 2.3%). The lower growth in the United States (US), the United Kingdom (UK) and the Eurozone was mainly due to the stagnation of world trade and a global downturn in the manufacturing sector. The Japanese economy improved slightly in 2019, although the rate of growth remained low.

Economic growth in emerging economies and developing countries weakened to 3.9% in 2019 (2018: 4.6%). Growth in China as a result of the trade war with the US and, at the same time, the Chinese government's interventions to reduce debt levels, are under pressure. Other economies, including Argentina, Brazil, India, Iran, Mexico, Turkey and Russia, performed below expectations.

In Latin American countries, political unrest slowed down economic growth. Tensions in the Middle East, US sanctions against Venezuela and Iran, continued strong US production and weak global demand were the main factors contributing to the rise in oil prices in 2019, which is important for oil-dependent economies.

Currency movements

In 2019, the value of the US dollar rose by 2.3% against the euro. Currencies pegged to the dollar also increased in value. In general, the value of most of the local currencies in the portfolio appreciated against the euro, although, for example, the Indian rupee depreciated.

Sector developments

Access to financial services

Similar to last year, digitisation and financial technology (FinTech) were important spearheads in the sector. In particular, FinTechs focusing on consumer finance to the urban middle class attracted the largest part of the capital in 2019.

Nevertheless, there is a need for investments in socially responsible FinTechs that specifically target low-income consumers in rural areas. The digitisation of financial products, such as mobile wallets, mobile money transfers and alternative lending platforms are becoming increasingly important for traditional microfinance institutions and banks to remain competitive from a financial and impact perspective. On the other hand, the existing institutions can build on their network, approach and customer knowledge. The ever-widening range of financial products on the market creates higher expectations among customers who prefer a combination of high technology (high-tech) and this personal approach (high-touch). Hivos-Triodos Fund gave several loans to FinTechs in 2019, including to Finaktiva in Colombia, which has a significant proportion of its loans to the creative and 'green' sector. The loan from Hivos-Triodos Fund has been specially earmarked to expand Finaktiva's loans in these sectors.

Customer protection remained an important item on the financial inclusion agenda this year. Experts stress the need to pay extra attention to the specific risks of new digital technologies, including data protection and privacy. Although the number of initiatives in the sector to close this gap has increased significantly, it is a challenge to keep up with the pace of innovation. Examples of initiatives include the digital credit guidelines and the investor guidelines for responsible financing of inclusive digital financial services, set up by the Social Performance Task Force (SPTF). These initiatives have been developed in collaboration with a wide range of industry stakeholders, including Triodos Investment Management.

Decentralised renewable energy solutions

Hivos-Triodos Fund will contribute to making affordable, reliable, sustainable and modern energy accessible for everyone. This is to contribute to the prosperity and well-being of households in developing countries with minimal greenhouse gas emissions, in order to minimise climate change. The International Energy Agency (IEA) expects that the strongest growth in global energy demand will come from developing countries, with an increase of 45% by 2040 due to population growth, economic development and current electricity shortages. The fastest growth in demand for electricity is expected to come from Africa. Currently around 850 million people worldwide, most of who live in Africa and India, have no access to electricity. For many of these people, decentralised renewable energy solutions - generated close to the end user - are now the cheapest way to access an electricity supply. For example, in the case of Sub-Saharan Africa, the IEA expects nearly 450 million people in rural and urban areas to have access to electricity through decentralised sustainable solutions. In addition to lack of access to electricity, almost a third of the world's population still cooks every day on an open fire or with a polluting stove. This has an enormous impact on the health, climate and social development of women and children in developing countries in particular. Here too, decentralised renewable energy solutions, particularly clean cooking stoves, can offer a solution.

Most companies offering these solutions are relatively young and still loss-making, which hampers their access to finance for further growth. Hivos-Triodos Fund focuses specifically on financing these types of businesses and solutions to catalyse further growth and thus enable sustainable access to energy. In 2019, Hivos-Triodos Fund continued financing M-KOPA Solar in East Africa, which has now provided more than 750,000 households and businesses with small solar energy systems. Hivos-Triodos Fund also financed Sistema.bio, which develops and sells biogas installations for small-scale farmers in Latin America and Africa.

Both companies also offer clean cooking stoves to their customers.

Sustainable agricultural chains

Hivos-Triodos Fund focuses on investments to make agricultural chains sustainable from production to consumption. A number of key themes are improving the welfare and prosperity of small farmers, stimulating sustainable agricultural practices, and preventing food waste in the chain before consumption. In 2019, the coffee sector faced a number of major challenges, including historically low market prices, negative effects of climate change, declining soil fertility, gender inequality, and an ageing population among coffee producers. In view of these challenges, the further promotion of fair trade and sustainable agricultural practices is becoming increasingly important. Hivos-Triodos Fund sees an increasing application of technology and renewable energy solutions for farmers in developing countries. In this context, in 2019 the fund invested in Ecozen Solutions in India, a company that, among other things, develops and sells solar-powered refrigerated storage to farmers in India. This reduces food spoilage and gives farmers more time to sell their products at an appropriate time at markets, which increases their income.

Portfolio development

The total portfolio held by Hivos-Triodos Fund, including assets managed for third parties, decreased by EUR 24.1 million to EUR 45.9 million. This decrease is mainly due to the sale of the stake in Centenary Bank in Uganda, which reduced assets managed for third parties by EUR 28.8 million to EUR 8.3 million.

Hivos-Triodos Fund can use part of the sale proceeds for new investments. The portfolio excluding assets managed by third parties increased by EUR 6.8 million to EUR 36.8 million. Since 1 January 2016 the invested assets have been calculated with inclusion of overdue and accrued interest.

Regional spread

Hivos-Triodos Fund has a highly diversified portfolio, distinguishing it from other investors in the sector by its relatively large 30% share in Africa and the Middle East. However, this share has decreased significantly (2018: 56%) through the sale of Centenary Bank in Uganda.

Risk classification

Hivos-Triodos Fund operates a risk classification system in which credit risks are ranked systematically. The entire portfolio is classified into risk classes 1 (low risk) to 5 (high risk). Various factors such as country risk, the degree of maturity of the sector and the profitability of the organisation are assessed. Clients classified in risk class 5 are those for whom a provision has been made or whose continuity is at risk.

Participations

Hivos-Triodos Fund's participations portfolio that it manages for third parties decreased significantly by EUR 28.8 million to EUR 8.3 million, mainly due to the sale of Centenary Bank in Uganda. Hivos-Triodos Fund sold the majority of its shares in Centenary Bank to Triodos Fair Share Fund and Triodos Microfinance Fund; the remaining shares were sold to existing local shareholders in Uganda. For all shareholdings, Hivos-Triodos Fonds, as shareholder, actively supervises, among other things, the preservation of the social mission of the institution by, for example, sitting on the supervisory body of the shareholding.

In 2018, Hivos-Triodos Fund took shares on its own balance sheet for the account and risk of the fund. This portfolio increased by EUR 2.7 million to EUR 5.0 million in 2019, partly due to a joint investment with Caspian Impact Advisors in Ecozen Solutions in India.

Loans

In 2019, Hivos-Triodos Fund's loan portfolio increased by 14.3% to EUR 31.8 million.

Hivos-Triodos Fund extended new loans to 13 financial institutions and companies. All 13 are new in the portfolio. Nine financial institutions completely repaid their loans to Hivos-Triodos Fund in 2019.

Trade finance

Since August 2018, Hivos-Triodos Fund has been providing trade finance to producers of organic and/or fair trade products in developing countries. Thanks to this trade financing from the fund, farmers can be paid directly upon delivery of their harvest.

In 2019, Hivos-Triodos Fund provided trade finance to 17 companies for the processing and export of eight different sustainably produced products, of which coffee accounted for a significant proportion (29%). One of these companies is Cenfrocafé, one of the largest coffee farmer cooperatives in Peru, which exported more than EUR 30 million worth of coffee in 2019. Three quarters of this coffee has a sustainability certificate and generates a premium on top of the regular market price. The 3,000 members of Cenfrocafé have invested part of their Fair Trade premium in recent years in the construction of their own coffee processing plant and have thus taken some of the value added to coffee into their own hands. This increases the price they can charge for the coffee and thus the income of the affiliated coffee farmers.

Bad debt provisions

In 2019, Hivos-Triodos Fund fully amortised a provision on a financial institution in Latin America of EUR 1.6 million. Hivos Triodos Fund has closely monitored the situation in recent years and maintained close contact with the institution, co-financiers and the local supervisor. However, the current situation does not give any prospect of recovery, so full amortisation has been decided. On balance, this brings the total provisions to EUR 0.0 million (year-end 2018: EUR 1.6 million).

Life Cycle Model

Thanks to the cooperation between Hivos and Triodos Bank, Hivos-Triodos Fund was able to support organisations at an early stage until they reached institutional stability, and Hivos Triodos Fund, together with Hivos, had developed a life cycle model for this purpose, based on the needs of organisations in the different phases of their development.

In its first life cycle phase, an organisation particularly needs donations for construction. There is still insufficient income. In the subsequent growth phase, Hivos-Triodos Fund can finance the organisation, allowing it to further develop. In this phase, financing the organisation involves a high risk. With further professionalization and growth,

Portfolio by region (including participations managed for third parties)

(amounts in thousands of euros)	31.12.2019		31.12.2018	
	Number of clients	% of portfolio	Number of clients	% of portfolio
Africa and the Middle East	9	29.8%	10	56.7%
East Asia and the Pacific	2	7.8%	2	2.0%
Eastern Europe and Central Asia	0	0%	0	0%
Latin America	20	35.7%	13	22.9%
South Asia	6	22.9%	4	16.7%
Other	3	3.9%	2	1.7%
Total	40	100.0%	31	100.0%

the organisation will be increasingly able to attract loans from the capital market. Triodos Fair Share Fund and Triodos Microfinance Fund, which are also managed by Triodos Investment Management, were available for this purpose. As a result, funds regularly became available for Hivos-Triodos Fund, which it can use to finance innovative initiatives. Hivos-Triodos Fund sees continued growth of clients as an important objective. In 2019, Hivos-Triodos Fund sold part of its shares in Centenary Bank to Triodos Fair Share Fund and Triodos Microfinance Fund.

Result

Financial result

In 2019, the sale of Centenary Bank made a lot of liquidity available to Hivos-Triodos Fund, which was partly used to grow the loan and participation portfolio. Because the sale of Centenary Bank was realised later than expected, the income of Hivos-Triodos Fund in 2019 will lag behind the budget. Although management costs are lower than budgeted, other costs are higher than budgeted. This is mainly due to the partially non-deductible VAT on the carried interest paid on the sale of participations.

Hivos-Triodos Fund has realised a positive operating result of EUR 822,172 (2018: EUR 701,976). The result of Hivos-Triodos Fund consists of an operating result of EUR 822,172 (2018: EUR 701,976) less an addition to the provision for (subordinated) loans up to and including the time of full amortisation (see note 1 of the notes to the balance sheet and profit and loss account) of EUR 32,238 (2018: addition of EUR 22,832), less an addition to the provision for interest-bearing loans of EUR 3,375 (2018: EUR 4,499) plus an exchange result of EUR 343,056 (2018: plus EUR 88,313). The result before tax for 2019 therefore amounted to EUR 1,129,615 (2018: EUR 762,958).

The shareholders' equity is fully freely disposable and is used to contribute to the foundation's objectives.

Costs

Hivos-Triodos Fund pays a management fee to Triodos Investment Management. This management fee is the largest cost item and concerns in particular personnel costs. In addition, the management fee is also used to pay for all efforts pertaining to the administration and meeting the reporting requirements. In addition to the management fee, Hivos-Triodos Fund pays interest and other expenses. There are also transaction results on forward exchange contracts.

The total expenses in 2019 amounted to EUR 2,381,557 (2018: EUR 1,564,952).

Financial Risks

In 2019, Hivos-Triodos Fund had to deal with a number of financial risks.

The main risks were:

Market risk

Market risk is the risk that the value of an investment will fluctuate as a result of variations in the following external factors:

- I. exchange rate (currency risk)
- II. interest rate exposure (interest rate risk)
- III. market price (market price risk)

In respect of I: At year-end 2019, most of the financing by Hivos-Triodos Fund is extended in local currency. Most of this is not hedged by forward exchange contracts. The US dollar loans are almost fully hedged by means of these instruments, with the exception of short-term trade finance. The composition of the participation and loan portfolio by currency, as well as the hedging of the currency risk, is presented on page 31. Pages 31 and 32 contain two tables on the distribution of foreign currencies, comparing 2019 and 2018.

In respect of II: Hivos-Triodos Fund result partly depends on developments on the capital market. Depending on the composition of the portfolio, a change in the capital market interest rate may have

either a positive or a negative effect on the results of Hivos-Triodos Fund.

In respect of III: Investments in participations involve a market price risk. The value of this investment category is affected by a multiplicity of external factors, including prospects for macro-economic growth and the rate of inflation. The greater the fluctuation in the development of these factors, the greater the market risk. The Hivos-Triodos Fund cannot defend itself against macro-economic factors that affect the value of investments.

Five largest holdings*

	2019
Caspian Impact Investments, India	10.6%
M-KOPA Solar, East Africa	9.0%
Urmatt, Thailand	5.8%
Aldea Global, Nicaragua	5.6%
Twiga Foods, Kenya	5.0%

* as a percentage of the outstanding portfolio based on market value

Value adjustments of the participations managed for third parties are borne by these third parties.

Credit risk

Credit risk is the risk that a creditor or counterparty cannot or will not fulfil its obligations. The Hivos-Triodos Fund issues finance facilities that are almost exclusively risk-bearing and are generally not backed by mortgage or other collateral. The loan portfolio is spread in such a way that there is no material concentration risk.

In 2019, Hivos-Triodos Fund provided finance facilities to a total of 40 customers (2018: 31).

Liquidity risk

Liquidity risk is the risk that Hivos-Triodos Fund has no possibility of obtaining the financial means it needs to be able to fulfil its financial obligations at a certain moment. This scenario does not apply in the short term because the operating result from

operating activities and the periodic repayments on loans granted are considered sufficient for the time being to cover short-term liabilities. In addition, the Hivos-Triodos Fund has a current credit facility with a limit of EUR 10,000,000. Although investments made by the Hivos-Triodos Fund are illiquid, they could be sold if there is a need for resources in the short term. A standard part of every loan agreement is an 'assignment right' for Hivos-Triodos Fund. This is the lender's right to transfer (sell) the loan to another party without requiring the permission of the borrower, and without the borrower being able to stop this. In addition, the Foundation may negotiate early repayment. In 2019, the manager has had neither the wish nor the need to exercise the option of selling loans. Moreover, Hivos-Triodos Fund has a 'hold' strategy for its investments. The Foundation's investment policy aims to maintain the finance facility for the entire term of the loan and not to sell it unless absolutely necessary for the sake of the management of the Hivos-Triodos Fund (liquidity risk).

Cash flow risk

Cash flow risk is the risk that future cash flows associated with a financial instrument will fluctuate in volume. Future income from participations is difficult to predict and can fluctuate. Given the relatively modest size of dividend income, this cash flow risk for the fund is very limited and this risk is accepted.

Future cash flows from loans are primarily affected by currency exchange rates and market rates. Currency risk on the outstanding loan portfolio, however, is in principle hedged by currency derivatives. For insights into the degree of hedging of the investment portfolio see page 31.

Country risk

Country risk is the risk that political, fiscal or economic changes will negatively affect the fund's profits and assets.

Country risk is inherent in the objectives of the fund. The Hivos-Triodos Fund invests inter alia in

Five largest countries*

	2019
India	16.6%
Peru	7.8%
Kenya	5.1%
Ecuador	4.5%
Thailand	4.2%

* as a percentage of total assets including assets managed for third parties

countries with high political risks, countries in an economic recession and countries with a poorly developed legal framework. These may also be countries that due to a limited number of sources of income and a dependency on external financing have a dependent economic structure. Price developments on world markets and changes in international political policies can have a major impact on a country's macroeconomic development. In addition, policy changes can lead to political measures with a significant impact on investment, such as restrictions on the tradability of currencies. Inflation and devaluation of a currency can result from these influences.

Country risk is mitigated by geographical spread over a large number of countries. In 2019, investments were made in 20 countries. As of 31 December 2019, Hivos-Triodos Fund has the largest position in India with 16.6% of total assets.

Valuation risk

The valuation risk refers to the risk that the value of the investment is not a correct reflection of the fair market value. The reason for this is that the valuation is based on data from a non-regulated market, assumptions and 'peer group' comparisons. The Hivos-Triodos Fund invests almost exclusively in investments that are not traded on a regular market and that are not listed. The investments do not have directly callable prices and, therefore, are possibly difficult to value. In order to determine the value of the investments, the Hivos-Triodos Fund applies a

consistent, transparent and appropriate valuation method.

Triodos Investment Management has implemented a comprehensive framework including valuation methodology and procedures. In doing so, the fund manager guarantees an independent, sound, comprehensive and consistent valuation methodology. The framework sets out general requirements on the selection, implementation and application of the valuation methodology and techniques for all investments and ensures consistent procedures. Account is taken of the varied nature of the investments and the related market practice for valuing these investments. The framework also ensures a consistent approach to the valuation process, the independent valuation committees and, in some cases, the use of external valuation experts.

COVID-19

Triodos Investment Management considers the COVID-19 pandemic as a major event after the close of the financial year 2019. At this stage, it is not possible to assess the impact of the pandemic on people, businesses and the economy in general. The main risk identified for the manager is that a large number of staff or a very concentrated group of staff may become ill and be unable to perform their duties to the extent that critical or other processes cannot be carried out. The manager has made a list of the critical processes and persons and has taken appropriate measures, including making staff members work from home – where possible – and prohibiting international and other trips. These are measures that have also been tested and work effectively in practice.

For the fund (Stichting Hivos-Triodos Fonds) managed by Triodos Investment Management, the manager expects that the impact of COVID-19 will be concentrated on the valuations of the investments. The current processes regarding the valuations of the fund's investments periodically provide for adjustments to the valuations – including

the impact of COVID-19 on the valuations – if there is reason to do so and if this impact can be determined sufficiently in terms of quantity. Moreover, account is taken of an increased credit risk in the case of outstanding loans. There is a risk that a counterparty may not be able to meet its interest and repayment obligations, thus adversely affecting the fund's profits and net assets. This risk is also periodically evaluated – as part of the existing processes – and, if there is reason to do so, measures and/or provisions will be taken.

In general, the fund managed by Triodos Investment Management is well positioned. The Hivos-Triodos Fund has a lower correlation with developments on the financial markets. In times of crisis, however, correlations can increase. Outstanding loans may also be subject to collateral that mitigates (part of) the credit risk. The fund has long-term agreements with its financiers, i.e. Stichting Hivos and Triodos Bank.

The liquidity risk of the fund is estimated to be low because the fund has long term agreements with its financiers with whom a long and sustainable partnership already exists, i.e. Stichting Hivos and Triodos Bank.

The Hivos-Triodos Fund is also a foundation in which there is no periodic inflow and outflow of participants and/or shareholders. In addition, the fund currently has relatively high liquidity due to recent sales.

For the above reasons, the fund's manager assumes that there is no material uncertainty regarding the continuity of the fund under its management.

Non-financial risks

As fund manager, Triodos Investment Management ensures adequate control of the relevant risks. To this end, the manager has set up an integrated risk management system. This includes the risk management policy for the fund and the manager's framework for integrated risk management.

The non-financial risks consist of operational risks and compliance risks. Operational risks are risks of financial loss resulting from inadequate or failing internal processes, people and systems and/or external events. Compliance risks are risks related to failure to comply with applicable laws and regulations. These risks are identified, assessed, managed and monitored on an ongoing basis through appropriate procedures and reports. The risks are assessed on the basis of a degree of risk appetite determined at Triodos group level.

Risk management has been set up in accordance with the three-lines-of-defence model. The first line (the manager's executive function), the second line (the risk management function) and the third line (the internal audit function) operate independently of each other. The risk management function in the second line and the internal audit function in the third line are functionally and hierarchically separated from fund management.

In recent years, climate risk is a risk that has also become a risk for investors.

The consequences of climate change may affect the operational activities of the companies invested in. However, the fund invests a great deal in precisely those companies that combat climate change and contribute to resilience against the consequences of climate change.

Risk management function

Triodos Investment Management has a Risk & Compliance application that enables integrated management of all risk related issues.

This includes our integral risk management system, our internal 'Control Testing' and its outcomes, and our procedures relating to risk event management. In addition, the results of risk and control self-assessments are recorded, as well as the translation of the results of these sessions into the integrated risk management system. The application provides a central capture ('audit trail') for all of the above. Knowledge sessions and awareness training are organized for new employees.

Solvency

Triodos Investment Management more than complies with the minimum solvency requirements imposed on managers of investment institutions in accordance with the Decree on prudential rules for the Financial Supervision Act (BPR), AIFMD and the Dutch Civil Code. This makes Triodos Investment Management a robust party that can absorb setbacks to a sufficient extent.

Statement about operational management

Triodos Investment Management assessed various aspects of its business operations during the past financial year. On the basis of this, Triodos Investment Management, as manager of the fund, declares that it has a description of the structure of the business as referred to in article 115y, paragraph 5 of the Bgfo which meets the requirements as stipulated in articles 3:17, paragraph 2, subsection c, and 4:14, paragraph 1, of the Wft.

In its activities, Triodos Investment Management has not found the business operations to be ineffective or to function in accordance with the description. Triodos Investment Management declares with a reasonable degree of certainty that the business operations functioned effectively and in accordance with the description during the reporting year 2019.

Outlook

The outbreak of the COVID-19 virus and the subsequent rapid spread of the virus outside China have led to increased concerns about a severe and prolonged shock to the global economy.

Disagreements over oil prices and production levels between Saudi Arabia and Russia have triggered an oil price war, negatively affecting oil producing emerging markets. In the meantime, many governments around the world have declared national emergencies and lockdowns, in an attempt to curb the spread of the COVID-19 virus. This has a far-reaching impact on people's lives and the real economy. Despite never-before-seen monetary

easing and massive fiscal stimulus measures, a global recession seems inevitable.

As uncertainty increases, emerging markets face substantial capital outflows as investors focus on safer, more stable currency markets. The turmoil of these recent developments is expected to pose challenges to emerging markets at various levels. For example, because they focus on oil exports, or because foreign investors are withdrawing from the countries and looking for less risky investments, or because they are more dependent on tourism that suffers from global travel restrictions and lockdowns. In addition, the virus can have a significant impact on (the health of) the population in each country, and government restrictions can have a restraining effect on economic activities. This impact can differ substantially between countries.

Ultimately, these events can affect the real economy in which the financial institutions and companies in which Hivos-Triodos Fund invests operate. Many microfinance institutions in which the fund invests are currently assessing the impact on their loan portfolios and taking action, for example by easing payment terms for their end customers. In this context Triodos Investment Management has signed a letter of intent with other investors in inclusive financing, in which the intention to relax conditions is given and frameworks are agreed.

The impact of COVID-19 on the renewable energy sector is still unfolding, but it is clear that in countries where lockdowns apply, much less oil and electricity has been used during these lockdowns. According to the International Energy Agency, sustainable access to electricity will remain extremely important for economies worldwide, especially during these turbulent times. The Agency therefore advocates an important role for a renewable energy transition in the economic reconstruction and stimulus measures around COVID-19.

With regard to agricultural chains, there are delays and disruptions in the distribution of fresh produce in particular, mainly due to border closures and lockdowns in markets, catering and tourism, among

others. The Food and Agriculture Organisations of the United Nations (FAO) has expressed concern about the food security and incomes of the poorest and most vulnerable groups in the medium and long term.

At the moment, the actual impact of COVID-19 is very uncertain and therefore difficult to express a concrete expectation about. At the same time, now perhaps more than ever, the investments of Hivos-Triodos Fund have the potential to make a difference for people in challenging circumstances. Hivos-Triodos Fund will remain active in 2020 in providing funding to financial institutions. This is in line with the growing awareness that financial services contribute to achieving the Sustainable Development Goals. However, the emphasis will be increasingly on renewable energy and sustainable agricultural chains. Hivos-Triodos Fund sees an important role for small and medium-sized enterprises in this respect and will in the coming years work more closely with local partners in order to expand the financing within this sector. The fund will focus on Sub-Saharan Africa and South Asia. The starting point is to strengthen the expertise and knowledge of Triodos Investment Management through a local presence of networks and partners.

In 2020, Hivos-Triodos Fund expects to use the available liquidity to grow its loan and equity portfolio. As a result, Hivos-Triodos Fund expects to realise higher income than in 2019, which will be accompanied by higher management fee expenses. This is reflected in the budget for 2020, which estimates an operating result of EUR 1.7 million.

Hivos-Triodos Fund will not make a forecast on the exchange rate result of financing in local currencies. The cost structure of Hivos-Triodos Fund will not change in 2020 in comparison with 2019. The Hivos-Triodos Fund expects to have sufficient positive cash flows in the coming year to meet its obligations. As a result, the Hivos-Triodos Fund does not expect to require any additional funding.

2020 marks the final year of the fund's current strategy. Meanwhile, preparations are well

underway for the strategy for the next five years, which will be ready before the end of 2020.

The risk section refers to the impact of COVID-19 on the fund manager and the fund. As the situation regarding COVID-19 and the impact of COVID-19 may vary from day to day, the actual impact that COVID-19 may have on the fund is difficult to predict, and cannot be foreseen.

At the moment and based on impact analyses carried out by the manager, the impact of COVID-19 on the fund – and more specifically on the fund's operations – is not considered to be a material uncertainty with regard to the fund's continuity.

Zeist, 04 June 2020

Fund Manager Hivos-Triodos Fund
Karel Nierop

Board of Management of Hivos-Triodos Fund
Jacco Minnaar
Dick van Ommeren

Board of Triodos Investment Management
Jacco Minnaar (Chair)
Kor Bosscher
Dick van Ommeren

Report of the Supervisory Board

The Supervisory Board met three times in 2019. In 2019, it decided to meet at least three times a year as from 2020. In these meetings, the Supervisory Board reviewed the developments within Hivos-Triodos Fund. The budget for 2020 was also adopted. During the meeting of 12 April 2019 the annual accounts were discussed and adopted. At all meetings, the strategy of Hivos-Triodos Fund was also extensively discussed, with a view to a renewed cooperation agreement for the fund by 2021. Developments in the portfolio were also discussed at each meeting. One of the issues discussed with the Supervisory Board in relation to this strategy was the expansion of the trade financing in the portfolio.

In its meeting of 15 May 2020, the Supervisory Board discussed the annual report and annual accounts for 2019 of Hivos-Triodos Fund. The result for 2019 was EUR 1,085,822 (2018: EUR 762,958). This amount comprises operating profit of EUR 822,172 (2018: EUR 701,976), a change in provision for (subordinated) loans of EUR -32,238 (2018: EUR -22,832), a movement in the provision for (subordinated) interest of EUR -3,375 (2018: EUR -4,499) and a negative exchange rate result of EUR 343,056 (2018: EUR 88,313). The corporate income tax payable for the 2019 financial year amounts to EUR 43,793 (2018: nil).

After deduction of the result, the equity in 2019 amounted to EUR 15,974,190.

Zeist, 04 June 2020

Elsbeth Aubel-Bezemer
Bernedine Bos
Diane Griffin
Edwin Huizing
Johan van de Ven

Annual Accounts 2019

Hivos-Triodos Fund Foundation

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Balance sheet as at 31 December 2019

before profit appropriation (amounts in euros)	Note*	31-12-2019	31-12-2018
Assets			
Fixed assets			
Participations	1	5,012,932	2,304,729
Loans provided	1	30,884,178	26,942,874
Subordinated loans provided	1	879,190	845,420
Paid collateral currency forward contracts	2	650,000	550,000
		37,426,300	30,643,023
Current assets			
Receivables, prepayments and accrued income	3	2,272,717	1,059,383
Liquid assets	4	14,853,259	3,615,769
		17,125,976	4,675,152
Total assets		54,552,276	35,318,175
Liabilities			
Equity			
General reserve	6	14,800,055	14,125,409
Exchange Equalisation Reserve	6	88,313	–
Result for financial year	6	1,085,822	762,958
		15,974,190	14,888,367
Long-term debt capital			
Loans	7	7,400,000	7,400,000
Subordinated loans	8	22,985,989	2,868,540
Current liabilities			
Current liabilities, accruals and deferred income	9	6,877,952	8,260,702
Amounts owed to lenders	5	728,194	1,693,766
Currency forward contracts	2	585,951	206,800
Total liabilities		54,552,276	35,318,175
Off-balance sheet liabilities, assets and rulings	10		
Committed investments			
Participations		13,240,430	4,360,163
Participations (relating to assets managed for third parties)		620,400	931,707
Loans provided		4,874,025	3,257,207
Assets managed for third parties			
Participations Hivos		8,305,692	37,091,912

* See notes to the balance sheet

Profit and loss account for 2019

(amounts in euros)	Note*	2019	Budget 2019	2018
Income				
Income from loans and subordinated loans provided	11	3,124,187	3,186,000	2,266,809
Income from loans and subordinated loans provided	12	60,715	–	–
Income from loans and subordinated loans provided	13	82	–	119
Donations received	14	18,745	–	–
		3,203,729	3,186,000	2,266,928
Expenditure				
Management fee	15	1,264,688	1,403,000	836,814
Auditor's fee and consultancy fees	16	77,526	50,000	63,037
Interest expenses	17	418,000	399,000	358,225
Transaction results of currency forward contracts	18	466,401	p,m,	290,906
Other expenses	19	154,942	56,000	15,970
		2,381,557	1,908,000	1,564,952
Operating profit**		822,172	1,278,000	701,976
Movement in provision for loans receivable/received	1	-31,859	p,m,	-17,360
Movements subordinated loans provision	1	-380	p,m,	-5,472
Movement in provision for interest on loans		-1,318	p,m,	-1,757
Movement in provision for interest on subordinated loans		-2,056	p,m,	-2,742
Exchange rate result	20	343,056	p,m,	88,313
Result before tax		1,129,615		762,958
Corporation tax		-43,793		–
Result		1,085,822		762,958
Proposal for allocation of results:				
General reserve		742,766		674,645
Exchange Equalisation Reserve		343,056		88,313
Result		1,085,822		762,958

* See notes to the balance sheet and profit and loss account

** The operating result of the budget does not include the transaction results of currency forward contracts, which are not included in the 2019 budget

Notes to the balance sheet and profit and loss account

(amounts in euros)

General

Stichting Hivos-Triodos Fonds (the Foundation) was established on 22 December 1994. These annual accounts represent its twenty-fifth financial year, which ended on 31 December 2019. The annual report for 2019 has been drawn up in accordance with Directive for Annual Reporting 640 for not-for-profit organisations as this guideline is more in line with the size of the Foundation. The Foundation has its registered office in Zeist and is listed in the commercial register under number 41.158.899.

The participations are financed by third parties. They are presented, together with the funding received from third parties, under 'off-balance sheet liabilities, assets and rulings' and the relevant notes.

The Foundation has no staff.

COVID-19

Triodos Investment Management considers the COVID-19 pandemic as a major event after the close of the financial year 2019. At this stage, it is not possible to assess the impact of the pandemic on people, businesses and the economy in general. However, we expect the manager's growth to be less strong or to stabilise by 2020, due to the effects of the COVID-19 pandemic. The main risk identified for the manager is that a large number of staff or a very concentrated group of staff may become ill and be unable to perform their duties to the extent that critical or other processes cannot be carried out. The manager has made a list of the critical processes and persons and has taken appropriate measures, including making staff members work from home where possible and prohibiting travel nationally and abroad. These are measures that have also been tested and work effectively in practice.

For the fund (Stichting Hivos-Triodos Fonds) managed by Triodos Investment Management, the manager expects that the impact of COVID-19 will be concentrated on the valuations of the investments. The current processes regarding the valuations of the fund's investments periodically provide for adjustments to the valuations – including the impact of COVID-19 on the valuations – if there is reason to do so and if this impact can be determined sufficiently in terms of quantity. Moreover, account is taken of an increased credit risk in the case of outstanding loans. There is a risk that a counterparty may not be able to meet its interest and repayment obligations, thus adversely affecting the fund's profits and net assets. This risk is also periodically evaluated – as part of the existing processes – and, if there is reason to do so, measures and/or provisions will be taken.

In general, the fund managed by Triodos Investment Management is well positioned. The fund has a lower correlation with developments on the financial markets. In times of crisis, however, correlations can increase. Outstanding loans may also be subject to collateral that mitigates (part of) the credit risk.

The liquidity risk of the fund is estimated to be low because the fund has long term agreements with its financiers with whom a long and sustainable partnership already exists, i.e. Stichting Hivos and Triodos Bank. The fund is also a foundation in which there is no periodic inflow and outflow of participants and/or shareholders. In addition, the fund currently has relatively high liquidity due to recent sales. For the above reasons, the fund's manager assumes that there is no material uncertainty regarding the continuity of the fund under its management.

Criteria for inclusion in the balance sheet

The Foundation recognises financial instruments in the balance sheet as soon as it irrevocably becomes a party to the contractual provisions of the financial instrument. The basis for the initial valuation of the financial instruments is fair value. A financial instrument is no longer recognized in the balance sheet if it is transferred to a third party. In that case, all or almost all beneficial rights and all or almost all risks regarding the financial instrument are then vested in that third party.

Opinions, estimates and uncertainties

In applying the principles and rules for preparing the annual accounts, the manager of Hivos-Triodos Fund forms various opinions and estimates which may be essential for the amounts included in the annual accounts. If it is necessary for the purposes of providing the information required under Book 2 Article 362(1) of the Dutch Civil Code, the nature of these opinions, estimates and the assumptions associated with the uncertainties are included in the notes to the relevant items of the annual accounts.

General notes to the accounting policies for valuation and determination of results Comparison with previous year

The accounting policies and determination of profit/loss applied have not changed since last year.

Reference numbers

Reference numbers are included in the balance sheet and the profit and loss account. These numbers refer to the notes.

Accounting policies

Use of estimates, assumptions and judgements

The preparation of the annual accounts requires the management to form opinions, make estimates and assumptions. These partly determine how the principles are applied and how the value of the assets and liabilities are reported. The same is true for the reporting of income and expenditure. The actual outcome may differ from the estimates made by the management. Those estimates and assumptions are therefore reassessed each time. Whenever an estimate is revised, it is included in the period in question.

According to the management, the following aspects require estimates and assumptions:

- Valuation methods chosen for investments;
- The classification of loans according to risk categories and project-related variables;
- Valuation of other receivables, prepayments and accrued income and current liabilities;
- Creation of provisions.

The manager uses multidisciplinary credit and valuation committees that operate independently from the operational departments. They monitor the valuation methodology and make the most prudent management estimates possible.

Participations

Investments in participations mainly involve currency risk and market price risk. The participations in Stichting Hivos Triodos Fonds are listed in euros. Investments by the Foundation and payments to the Foundation by the institutions in which it invests have been made in Indian rupees.

Exposure to volatile exchange rates may affect the value of the investments and thus the value of the Foundation. As a result, the Foundation runs a currency risk.

The currency risk associated with investments in Indian rupees was not hedged at balance sheet date. The currency risk associated with investments in local currency is hedged, where possible, unless the costs are excessive.

The market price risk affects the valuation of the participations. The value of these investments is affected by external factors, including prospects for economic growth and the rate of inflation. The more fluctuation there is, the greater the market risk, and the Foundation cannot defend itself against macro-economic factors that influence the value development. The Foundation values these participations at fair value, choosing an appropriate valuation method for each type of investment. An important aspect of the chosen valuation method is whether the participations are listed on an active stock exchange and/or have a regular market quotation.

If the company is not listed on an active stock exchange and/or has a regular market quotation, the valuation method is determined internally as described in the accounting policies for the valuation of participations.

In determining the fair value based on this internal valuation method, the manager uses a number of elements to determine the valuation. Below is an overview of elements used in determining the fair value as at 31-12-2019:

- current financial situation of the institution;
- the chosen valuation method and the possible use of a market multiple;
- cash flows

An inherent risk in the above method of valuation is the valuation risk. The valuation risk refers to the risk that the value of the investment is not a correct reflection of the fair market value. The reason for this is that the valuation is based on data from a non-regulated market, assumptions and peer group comparisons. The Foundation invests almost exclusively in investments that are not traded on a regular market and that are not listed. The investments do not have directly callable prices and, therefore, are possibly difficult to value. In order to determine the value of the investments, the Foundation applies a consistent, transparent and appropriate valuation method.

Loans

The main risks that have been identified for the valuation of the loans are the credit and currency risks. Credit risk plays an important role in determining the provision for loans. Given the nature of the loans – the fact that there is no active market for these loans – the subjective assumptions with respect to determining the interest rate and the relatively short fixed interest rate periods, an interest rate risk has only a limited effect on their valuation.

Credit risk is the risk that a borrower will be unable to meet his interest and/or repayment obligations. The Foundation limits the risk of losses due to credit risk by spreading the investments in the fixed-income securities. The Foundation issues finance facilities that are almost exclusively risk-bearing and are generally not backed by mortgage or other collateral.

The loan portfolio is partly sensitive to currency risk. The currency risk associated with investments in US dollars is largely hedged through currency forward contracts. The currency risk associated with investments in local currency is hedged, where possible, unless the costs are excessive. Interest payments are usually not hedged due to the high costs.

Loans are valued at amortised cost. In general, there is no active market for the Foundation's loans and the manager periodically determines the fair value on the basis of internal valuation methods.

Below is an overview of elements used in determining the amortised cost as at 31-12-2019:

- future cash flows;
- discount rate used: market rate for comparable financing with a maturity corresponding to the fixed-interest period;
- fixed-interest periods: the fixed-interest period for the loans issued is relatively short;
- project-related variables;
- subjective assumptions regarding the determination of interest rates.

If, in the opinion of the manager, the market rate changes significantly during the reporting period, the fair value will be recalculated.

In view of the above variables (actuarial interest rate and short-term fixed-interest periods), the fair value will be virtually equal to the nominal value. This is after deduction of any provisions, and taking account of exchange rates.

The provision is determined on a quarterly basis by the manager at loan level, taking into account the following aspects:

- developments in both the regular and special management portfolio;
- debtors' arrears.

An inherent risk in the above method of valuation is the valuation risk. The valuation risk refers to the risk that the value of the investment is not a correct reflection of the fair market value. The reason for this is that the valuation is based on data from a non-regulated market, assumptions and peer group comparisons. The Foundation invests almost exclusively in investments that are not traded on a regular market and that are not listed. The investments do not have directly callable prices and, therefore, are possibly difficult to value. In order to determine the value of the investments, the Foundation applies a consistent, transparent and appropriate valuation method.

Other receivables and prepayments

The main risk identified for these financial statements items is the credit risk, which plays a role at debtor and country level. The receivables consist of interest receivable and repayments on loans. The determination of the provision on these receivables is carried out in close connection with the provisions on the loans, in which the same elements play a role.

Current liabilities

This annual accounts item mainly consists of management fees payable to the manager, prepayments received and expenses payable relating to the financial year of the financial statements. These costs incurred and expected invoices are determined annually by the manager at the balance sheet date. The determination of these costs is subject to estimation.

Valuation of investments

The investments are valued on the basis of their fair value or amortised cost. Acquisition costs of investments are shown as an asset. The sale costs regarding divestments are charged to the transaction result in the profit and loss account. All changes in the fair value of investments are taken to the profit and loss account. The valuation of the investments is as follows:

Participations

Participations, which are equity interests that do not serve the fund's long-term operations, are valued at the last known stock exchange quotation in the financial year if the participations involve securities quoted on an active stock exchange. The fair value of participations that do not involve securities quoted on an active stock exchange or that do not have a regular market quotation can be determined in various ways: firstly, on the basis of the most recent market quotation, taking new market developments into account; secondly, by using the profitability value, return value and/or net asset value, individually or in combination, which may be considered relevant in relation to the purpose for which the investment is maintained; and thirdly, by using the market value of comparable investments for which there is an active market with regular market quotations. The first valuation consists of the cost price including transaction costs. Loans are valued at market value when first recognised. Value adjustments are taken to the profit and loss account. Upon sale, the transaction costs are deducted from the sales proceeds.

Loans provided and subordinated loans provided

Loans and subordinated loans provided are, taking into account exchange rates as at the balance sheet date, carried at the amortized cost price net of specific provisions for doubtful debts. The valuation method is also an approximation of the fair value. Projects financed with loans are by nature high-risk. Consequently, losses on the original investment must be taken into account. A specific provision is made for anticipated loan losses and the associated interest payable in case a project has to be discontinued. Making provisions are based on estimates by the manager. The manager will use multidisciplinary credit and valuation committees acting independently from the operational matters to make the estimates in the most objective way possible. The existence of objective evidence of impairment is assessed at each balance sheet date.

Currency forward contracts

Currency forward contracts are only concluded to hedge currency risk. The Foundation applies cost price hedge accounting for the processing of assets, liabilities and results arising from currency forward contracts for loans. This means that all receivables and liabilities arising from these instruments are carried at the exchange rates on the balance sheet date. Value changes in respect of these items are recognised in the profit and loss account under unrealised gains/losses. The difference between the spot rate applicable upon conclusion of the currency forward contract and the forward rate at which the currency forward contract will

be settled is amortised over the term of the currency forward contract. The Foundation has generic hedging and other documentation available for the application of cost-price hedge accounting. The effectiveness of hedging is assessed throughout the reporting period.

Collateral

Collateral is exchanged with counterparties as a result of provisions in agreed currency forward contracts. This exchange can be either a payable or a receivable collateral and is recognised in the balance sheet at nominal value upon initial recognition and per subsequent valuation.

Valuation of other assets and liabilities

Other assets and liabilities are valued at current value of the goods/services provided when first recognized and are subsequently valued at amortised cost. The term for these receivables and payables is less than one year.

Valuation of liquid assets

Liquid assets (funds) consist of cash, bank balances and deposits with a maturity of less than one year.

Current account liabilities at banks are recognised under debts to credit institutions, under current liabilities.

Liquid assets are valued at nominal value.

Valuation of loans and debts to credit institutions

Loans and debts to credit institutions are measured at fair value upon initial recognition. After initial recognition, they are measured at amortised cost. The fair value of liabilities will be approximately equal to the nominal value.

Valuation of current liabilities

Current liabilities are valued at fair value when first recognized. Current liabilities are subsequently valued at amortised cost, being the amount to be paid, taking into account share premium or discount and transaction cost. The fair value of liabilities will be approximately equal to the nominal value. Current liabilities have a term of less than one year

Functional currency

The annual accounts have been drawn up in euros; this is both the functional and the presentation currency of the Foundation.

Carry-over losses

If the exchange rate results at the end of the year produce a negative balance, this will be debited from the Exchange Equalisation Reserve in the subsequent financial year, entered under equity, by means of proposed profit appropriation in the financial year.

Foreign currency

Transactions in a foreign currency during the period under review are recognised in the annual accounts at the exchange rate applicable at the transaction date.

Monetary assets and liabilities in foreign currencies are translated into the functional currency at the exchange rates applicable at the balance sheet date. The exchange differences resulting from settlement and conversion are not credited or debited to the profit and loss account because of hedge-accounting.

Non-monetary assets that are valued at current value in a foreign currency are translated at the exchange rate applicable on the date of the current value.

Non-monetary assets that are valued at current value in a foreign currency are translated at the exchange rate applicable on the date of the current value.

Currency hedging instruments are arranged, as described in note 2, to hedge foreign exchange differences on loans.

Principles for determining the result

The result is determined based on the allocation of income and expenditure to the corresponding period.

Direct results from investments

Interest income and other income is credited to the financial year to which it relates on a time-proportionate basis. The proceeds from dividend distributions on participations shall be recognised in the year in which they are made available for payment.

Indirect result from investments (revaluations)

All movements as a result of realised/unrealised revaluations of investments are taken to the profit and loss account. To determine the realised results for partial sales of investments, composite historical cost is used.

The part of the profits that relates to positive unrealised revaluations shall not be distributed to the participants, but added to the revaluation reserve. Negative revaluations, including provisions, are charged to the other reserves via the profit appropriation, once the annual accounts have been adopted.

Transaction costs of investments

Transaction costs may include broker's fees, transfer charges and notaries' fees. Transaction costs directly attributable to the acquisition of investments are initially included in the valuation of the investments and are then directly charged to the profit and loss account via the unrealised changes in value. Transaction costs that are not directly attributable are charged directly to the profit and loss account. The cost of selling investments is recognized as part of the realised change in value upon sale.

Where financial investments are subsequently valued, the cost of selling is disregarded.

Operating expenses

Expenses are allocated to the period to which the activities relate on the accrual basis of accounting. If the expense reserves are determined, any accrued and prepaid expenses are also taken into account.

Other income and expenditure

Other income and expenditure are allocated to the period to which the activities relate on the accrual basis of accounting.

Transaction results of currency forward contracts

Upon initial recognition, the transaction results of currency forward contracts (forward points) are capitalised and subsequently amortised over the term of the contract.

Exchange rate result

Results arising from the conversion of foreign currencies into the presentation currency in euros are taken to the profit and loss account. The result is determined by means of the conversion as described under 'Foreign currency'.

Transactions with associated parties

Significant transactions with affiliates are explained in the notes, insofar as they have not been entered into at arm's length. The nature and scope of the transaction and any other information necessary to obtain an understanding are specified in the notes.

Managing financial risks

The use of financial derivatives and other financial instruments involves various financial risks. The policy pursued by the manager of Hivos-Triodos Fund Foundation with respect to these risks is set out below.

Market risk

Market risk is the risk that the value of an investment will fluctuate as a result of variations in the following external factors:

- I. exchange rate (currency risk)
- II. interest rate exposure (interest rate risk)
- III. market price (market price risk)

In respect of I: At year-end 2019, most of the financing by Hivos-Triodos Fund is extended in local currency. Most of this is not covered by currency forward contracts. The US dollar loans are almost fully hedged by means of these instruments, with the exception of short-term trade finance.

short-term trade finance. The composition of the participation and loan portfolio by currency, as well as the hedging of the currency risk, is presented on the next page. The following pages contain two tables on the distribution of foreign currencies, comparing 2019 with 2018.

In respect of II: Hivos-Triodos Fund result partly depends on developments on the capital market. Depending on the composition of the portfolio, a change in the capital market interest rate may have either a positive or a negative effect on the results of Hivos-Triodos Fund.

In respect of III: Investments in participations involve a market price risk. The value of this investment category is affected by a multiplicity of external factors, including prospects for macro-economic growth and the rate of inflation. The greater the fluctuation in the development of these factors, the greater the

market risk. The Foundation cannot defend itself against macro-economic factors that affect the value of investments. Value adjustments of the participations managed for third parties are borne by these third parties.

Distribution of currency participation and loan portfolio 2019

(amounts in euros)	Volume investments	Hedged (or no exposure)	Not covered	Percentage of the portfolio
Colombia, Colombian peso (COP)	707,218	707,218	–	1.9%
Honduras, Honduran lempira (HNL)	1,281,128	–	1,281,128	3.5%
India, Indian Rupee (INR)	5,513,632	1,878,172	3,635,460	15.0%
Myanmar, Myanmar kyat (MMK)	914,725	914,725	–	2.5%
Peru, Peruvian Sol (PEN)	2,301,527	360,787	1,940,740	6.2%
South Africa, South African Rand (ZAR)	1,790,709	1,790,709	–	4.9%
Total in local currency	12,508,939	5,651,611	6,857,328	34.0%
Total investments in US dollars	24,190,861	7,699,539	16,491,322	65.7%
Total investments in Euros	76,500	–	76,500	0.2%
Subtotal portfolio excl. value of the forward exchange contracts	36,776,300	13,351,150	23,425,150	99.9%
Currency forward contracts	64,049			0.1%
Total value of portfolio at year-end 2019	36,840,349			100.0%

Distribution of currency participation and loan portfolio 2018

(amounts in euros)	Volume investments	Hedged (or no exposure)	Not covered	Percentage of the portfolio
Bolivia, Bolivian Bolivianos (BOB)	408,877	–	408,877	1.3%
Honduras, Honduran lempira (HNL)	1,267,136	–	1,267,136	4.2%
India, Indian Rupee (INR)	6,279,614	1,886,812	4,392,802	20.6%
Peru, Peruvian Sol (PEN)	3,499,966	346,929	3,153,037	11.5%
South Africa, South African Rand (ZAR)	836,006	836,006	–	2.8%
Total in local currency	12,291,599	3,069,747	9,221,852	40.4%
Total investments in US dollars	17,801,424	10,148,762	7,652,662	58.5%
Sub-total portfolio excl. value of currency forward contracts	30,093,023			98.9%
Currency forward contracts	343,200			1.1%
Total value of portfolio at year-end 2018	30,436,223			100.0%

Credit risk

Credit risk is the risk that a creditor or counterparty cannot or will not fulfil its obligations. The Foundation issues finance facilities that are almost exclusively risk-bearing and are generally not backed by mortgage or other collateral. Bad debt risk is based on the definition of reporting requirements for the entire balance sheet total of EUR 54,552,276 (2018: EUR 35,318,175). From an economic point of view, credit risk is primarily present on the loan portfolio of EUR 31,763,368 (2018: 27,788,294). The loan portfolio is spread in such a way that there is no material concentration risk.

Liquidity risk

Liquidity risk is the risk that Hivos-Triodos Fund has no possibility of obtaining the financial means it needs to be able to fulfil its financial obligations at a certain moment. This scenario does not apply in the short term because the operating result from operating activities and the periodic repayments on loans granted are considered sufficient for the time being to cover short-term liabilities. In addition, the Foundation has a current credit facility with a limit of EUR 10,000,000. Although investments made by the Foundation are illiquid, they could be sold if there is a need for resources in the short term. A standard part of every loan agreement is an 'assignment right' for Hivos-Triodos Fund.

This is the lender's right to transfer (sell) the loan to another party without requiring the permission of the borrower, and without the borrower being able to stop this.

In addition, the Foundation may negotiate early repayment. In 2019, the manager has had neither the wish nor the need to exercise the option of selling loans. Moreover, Hivos-Triodos Fund has a 'hold' strategy for its investments. The Foundation's investment policy aims to maintain the finance facility for the entire term

of the loan and not to sell it unless absolutely necessary for the sake of the management of the Foundation (liquidity risk).

Cash flow risk

Cash flow risk is the risk that future cash flows associated with a financial instrument will fluctuate in volume. Future income from participations is difficult to predict and can fluctuate. Given the relatively modest size of dividend income, this cash flow risk for the fund is very limited and this risk is accepted. Future cash flows from loans are primarily affected by currency exchange rates and market rates. Currency risk on the outstanding loan portfolio, however, is in principle hedged by currency derivatives. For insights into the degree of hedging of the investment portfolio see page 31.

Fiscal status

With effect from 1 January 2018, Stichting Hivos Triodos Fonds will be liable to corporate income tax within the meaning of the Corporation Tax Act 1969.

Fixed assets

1. Investments in participations and (subordinated) loans

Participations

Changes in participations	2019	2018
As at 1 January	2,304,729	–
Purchases	2,694,954	2,160,345
Revaluation	60,715	–
Revaluation due to foreign exchange differences	-47,466	144,384
As at 31 December	<u>5,012,932</u>	<u>2,304,729</u>

The revaluations of investments consist of positive and negative revaluations of participations during the financial year.

Loans provided

Movement in loans	2019	2018
As at 1 January	28,122,216	24,548,684
Advance	28,381,710	12,716,341
Repayment	-24,879,943	-10,332,564
Write-off	-1,211,201	–
Foreign exchange differences	471,396	1,189,755
Subtotal	30,884,178	28,122,216
Loans provision	–	-1,179,342
As at 31 December	30,884,178	26,942,874

Movements in the provision for loans	2019	2018
As at 1 January	1,179,342	1,161,982
Write-off	-1,211,201	–
Foreign exchange differences	31,859	17,360
As at 31 December	–	1,179,342

Subordinated loans provided

Movements in subordinated loans	2019	2018
As at 1 January	1,217,126	1,205,403
Advance	–	–
Repayment	–	–
Write-off	-372,086	–
Foreign exchange differences	34,150	11,723
Subtotal	879,190	1,217,126
Subordinated loans provision	–	-371,706
As at 31 December	879,190	845,420

Movements in the provision for subordinated loans	2019	2018
As at 1 January	371,706	366,234
Write-off	-372,086	–
Foreign exchange differences	380	5,472
As at 31 December	–	371,706
	=	=

The write-down of the (subordinated) loans concerns the loans granted to Cooperativa Mixta Mujeres Unidas, Honduras. These were already fully provided for in previous years.

Remaining term of the loans (including subordinated loans), overdue (payable on demand)	31-12-2019	31-12-2018
- < 1 year	16,637,294	13,994,678
- > 1 year en < 2 years	8,366,559	7,845,289
- > 2 years and < 3 years	4,269,083	4,032,336
- > 3 years and < 4 years	914,725	1,070,571
- > 4 years and < 5 years	1,325,659	–
- > 5 years	250,048	845,420
	31,763,368	27,788,294
	=	=

The fair value of the (subordinated) loans approximates to their book value.

2. Currency forward contracts

Movement in currency forward contracts	2019	2018
As at 1 January	-206,800	370,826
Movements relating to valuation of contracts	-502,917	-1,087,293
Movement in forward points (transaction result)	123,766	509,667
As at 31 December	-585,951	-206,800
	=	=

The terms are divided as follows:

	31-12-2019	31-12-2018
Less than one year	-45,424	19,823
One to five years	-540,527	-226,623
	-585,951	-206,800
	=	=

The Foundation uses currency forward contracts with a value at year-end 2019 of EUR -585,951 (2018: EUR 206,800) in the form of currency forward contracts to hedge the currency risk of its investments. These are contracts in which Hivos-Triodos Fund has made a commitment to buy or sell the agreed foreign currency amounts on the agreed dates.

During 2019, USD 16,415,000 of net sales contracts relating to (subordinated) loans were concluded (2018: USD 16,795,000).

The fair value of the currency forward contracts approximates the book value. At the end of 2019, the fair value of the currency forward contracts was EUR -605,848 (2018: EUR -225,054). The hedge relationship was effective as at the reporting date.

Collateral paid

With regard to the currency forward contracts concluded with Triodos Bank, arrangements have been made for the exchange of mutual collateral, i.e. liquidity deposited as security in connection with the fair value of derivative positions. As at the balance sheet date, the fund made a collateral payment of EUR 650,000 (2018: 550,000) related to the negative fair value of the forward exchange contracts.

Current assets

3. Receivables, prepayments and accrued income

	31-12-2018	31-12-2017
Interest due on loans	542,696	637,280
VAT due	1,444,407	130,047
Prepaid project costs	43,200	52,144
Claims on loans	–	57,086
Receivables relating to participations	242,414	182,450
Prepaid contributions & levies	–	376
	<u>2,272,717</u>	<u>1,059,383</u>

The VAT receivable at year-end 2019 mainly concerns the VAT still to be reclaimed on the carried interest paid on the sale of participating interests.

The fair value of other receivables, prepayments and accrued income approximates the book value.

4. Liquid assets

	31-12-2019	31-12-2018
Triodos Bank, EUR current accounts	–	–
Rabobank, EUR current accounts	7,085,435	2,007,976
Rabobank, USD current accounts	5,256,329	1,607,741
Kotak Mahindra Bank, INR current account	2,511,495	52
	<u>14,853,259</u>	<u>3,615,769</u>

The liquid assets are at the free disposal of Hivos-Triodos Fund. The balance of the current accounts with Triodos Bank shall not be subject to interest on the first EUR 500,000; on the excess, interest of 0.7% is payable (2018: interest of 0.5% payable on excess over EUR 500,000). Interest of 0.65% is due on the balance in the current account at Rabobank at year-end 2019 (year-end 2018: -0.56%). The balances on Rabobank's current USD accounts at year-end 2019 amount to USD 5,886,563 (2018: USD 1,841,603). The balances on the Kotak Mahindra Bank current account at the end of 2019 amount to INR 200,580,276. No interest is paid on the balances in the Rabobank USD current accounts and in the Kotak Mahindra Bank INR current account.

Liabilities

5. Amounts owed to lenders

This concerns the negative balance of liquid assets at Triodos Bank. At year-end of 2019, the balance was EUR -728,194 (year-end 2018: EUR -1,693,766). The debit interest on this account was 3.00% on average (2018: 3.00%).

As at the balance sheet date, the available credit facility amounts to EUR 10,000,000 (2018: EUR 7,000,000).

6. Equity

General reserve

The General Reserve is freely disposable for the Foundation's purposes.

	2019	2018
As at 1 January	14,125,409	12,471,614
Addition of result from last financial year	674,645	1,653,795
Closing comments	1	–
As at 31 December	<u>14,800,055</u>	<u>14,125,409</u>

Exchange Equalisation Reserve

The Reserve for exchange rate differences is freely disposable for the Foundation's objectives.

	2019	2018
As at 1 January	–	1,958,273
Addition of result from last financial year	88,313	-1,958,273
As at 31 December	<u>88,313</u>	<u>–</u>

Result for financial year

	2019	2018
As at 1 January	762,958	-304,478
Movement for General Reserve	-674,645	-1,653,795
Movement in reserve for exchange rate differences	-88,313	1,958,273
Addition to the result for the financial year	1,085,822	762,958
As at 31 December	<u>1,085,822</u>	<u>762,958</u>

Long-term debt capital

7. Loans

	Interest rate	Interest rate fixed until	31-12-2019	31-12-2018
Triodos Bank, loan II, matures 1 January 2022	2.63%	1 January 2022	5,500,000	5,500,000
Triodos Bank, loan VIII, matures 1 January 2022	3.00%	1 January 2022	1,900,000	1,900,000
			<u>7,400,000</u>	<u>7,400,000</u>

The principal amounts outstanding at the balance sheet date will be repaid in full at the end of the term. The fair value of the currency forward contracts approximates the book value.

8. Subordinated loans

	Interest rate	Interest rate fixed until	31-12-2019	31-12-2018
Hivos Foundation matures at end cooperation	Interest-free		4,272,264	4,500,000
Hivos Foundation matures at end cooperation	Interest-free		–	4,368,540
Hivos Foundation matures at end cooperation	Interest-free		22,713,725	–
			26,985,989	8,868,540
Less: repayment obligations already expired			–	-2,000,000
Less: repayments obligations due within one year			-4,000,000	-4,000,000
			22,985,989	2,868,540

Movements in subordinated loans	2019	2018
As at 1 January	8,868,540	13,717,294
Financing provided	22,713,725	–
Repayment	-4,596,276	-4,848,754
	26,985,989	8,868,540
Less: repayment obligations already expired	–	-2,000,000
Less: repayments obligations due within one year	-4,000,000	-4,000,000
As at 31 December	22,985,989	2,868,540

In addition, on 23 December 2016 Hivos extended two subordinated loans totalling EUR 17,184,022 to Hivos-Triodos Fund for microfinance institutions and similar entities. The amounts borrowed under these subordinated loans are EUR 4,500,000 and EUR 12,684,022. Both loans were repaid in full or in part in 2018 and 2019. As of 30 July 2019, Hivos granted a new subordinated loan of EUR 22,713,725 to Hivos-Triodos Fund. These subordinated loans are both interest-free and have a maturity equal to the duration of the cooperation between Hivos and Hivos-Triodos Fund. These loans are subordinated to other debts.

The repayments in 2019 are not equal to the current repayment obligations as recognised at year-end 2018. The difference is explained by the fact that part of the current repayment obligation has been used to repay the subordinated loans for participating interests as explained in note 10.

All subordinated loans are valued at amortised cost, are interest-free and have a term equal to the term of the cooperation between Hivos and Hivos-Triodos Fund. These loans were provided by Hivos in order for the

fund to pursue its objective as a foundation through investments. There is a limited market for subordinated loans granted by a cooperation partner - for a certain term in the field of impact investments - and therefore the fair value of these subordinated loans cannot be reliably determined. As a result, the fair value of subordinated loans is not disclosed in the financial statements.

Important aspects for determining the fair value are the future cash flows and the interest rate with which the value is discounted to a valuation on the balance sheet date. As the loans are interest free, the future cash flow consists of the repayment at the end of the cooperation between Hivos and Hivos-Triodos Fund, which is not foreseen in the short term. To determine an effective interest rate, given the specific characteristics of the subordinated loans, there is no reliable risk premium to be estimated, also in view of the fact that the lender Hivos is a not-for-profit foundation that provides the loans to create impact. The subordinated loans provide the necessary security for Triodos Bank to grant a loan to the fund. Hivos-Triodos Fund thus uses a blended finance construction that enables the fund to pursue its objective with a combination of different types of financiers with and without a profit motive.

Current liabilities

9. Current liabilities, accruals and deferred income

	31-12-2019	31-12-2018
Repayments obligations Hivos	4,000,000	6,000,000
Finance facilities received in advance from Hivos	1,663,804	1,749,801
Management fee	323,182	267,732
Amounts received on behalf of third parties	258,201	–
Interest payable on Triodos Bank loans	61,627	75,661
Amounts payable in respect of the sale of participations	65,173	65,173
Debts to guarantors	–	18,745
Corporate income tax payable	43,793	–
Interest payable on current accounts	26,630	6,503
Auditor's fee and consultancy fees	14,931	7,466
Publicity expenses	5,000	5,000
Accounts payable	407,663	52,151
Miscellaneous	7,948	12,470
	<u>6,877,952</u>	<u>8,260,702</u>

10. Off-balance sheet liabilities, assets and rulings

Participations managed for Hivos

Participations, which are equity interests that do not serve the fund's long-term operations, are valued at the last known stock exchange quotation in the financial year if the participations involve securities quoted on an active stock exchange. The fair value of participations that do not involve securities quoted on an active stock exchange or that do not have a regular market quotation can be determined in various ways: firstly, on the basis of the most recent market quotation, taking new market developments into account. secondly, by using the profitability value, return value and/or net asset value, individually or in combination, which may be considered relevant in relation to the purpose for which the investment is maintained; and thirdly, by using the market value of comparable investments for which there is an active market with regular market quotations.

Hivos-Triodos Fund does not have to pay any management fee for the participations managed for Hivos. Direct arrangements regarding this have been made between Hivos and Triodos Investment Management.

Movements in participations	2019	2018
As at 1 January	37,091,912	37,060,555
Acquisitions	335,186	546,424
Sales	-30,657,863	-2,150,026
Write-off	–	–
Foreign exchange differences	819,789	92,873
Revaluation	716,668	1,542,086
As at 31 December	<u>8,305,692</u>	<u>37,091,912</u>

During the financial year 2019, the participation in Centenary Bank Uganda was sold to three parties (of which two related parties Triodos Fair Share Fund and Triodos SICAV II - Microfinance Fund) for an amount of EUR 30,197,573, where the sale costs are not included in the above overview. Costs were incurred in relation to this sale, consisting of consultancy fees (EUR 32,709), settlement fees (EUR 213,715) and carried interest. Settlement costs are the difference between the exchange rate on the transaction date and the date of transfer of liquid assets. Carried interest is disclosed to Affiliates.

Subordinated loan

Hivos has provided Hivos-Triodos Fund with a subordinated loan to finance participations. This subordinated loan is interest-free and has no due date. When a participation is sold, Hivos-Triodos Fund repays that part of the subordinated loan that relates to the participation with the proceeds from the sale. If the proceeds from the sale of a participation are not sufficient to repay the subordinated loan, Hivos shall waive that part of the subordinated loan not covered by the proceeds from the sale of the participation. Proceeds from participations that exceed the value of the subordinated loan will be paid to Hivos after carried interest has been paid to Triodos Investment Management.

Movements in subordinated loans	2019	2018
As at 1 January	9,514,203	10,665,449
Movements relating to repayments*	-1,830,947	-1,151,246
Movements related to Novastar distribution	1,172,113	–
As at 31 December	<u>8,855,369</u>	<u>9,514,203</u>

* Movement related to redemptions concerns the movement related to the (partial) sale of the participations EcoEnterprises Partners II (Costa Rica), Centenary Rural Development Bank (Uganda) and the write-off of Africap Microfinance Fund (Zambia) in 2019 (2018: (partial) disposals of the shareholdings EcoEnterprises Partners II (Costa Rica) and Banco Solidario (Ecuador)).

Dividends

Dividends received by Hivos-Triodos Fund will be at the disposal of Hivos and until then shall form part of 'Current liabilities, accruals and deferred income' on the balance sheet. Negative changes in the value of these participations, if realised, are charged to the (off-balance sheet) loans granted by Hivos. Negative changes in value are not set off between units.

Movements in dividends	2019	2018
As at 1 January	84,271	2,850
Dividends received	196,920	1,034,162
Dividends passed on	–	-952,741
As at 31 December	<u>281,191</u>	<u>84,271</u>

Currency forward contracts for participations

Forward exchange contracts for participations managed on behalf of Hivos are entered into at the expense and risk of Hivos. The advantages and disadvantages resulting from entering into these forward exchange contracts are therefore to the advantage or disadvantage of Hivos.

Movement in currency forward contracts	2019	2018
As at 1 January	-219,843	207,633
Movements relating to valuation of contracts	41,859	-425,290
Movement in forward points (transaction result)	3,297	-2,186
As at 31 December	<u>-174,687</u>	<u>-219,843</u>

The fair value of the currency forward contracts approximates the book value. At the end of 2019, the fair value of the currency forward contracts was EUR -167,950 (2018: EUR -219,851).

The terms are divided as follows:

	31-12-2019	31-12-2018
Less than one year	-174,687	-219,843
One to five years	–	–
	<u>-174,687</u>	<u>-219,843</u>

Amounts to be adjusted

Amounts to be adjusted relate to foreign exchange differences and positive and negative revaluations of participations.

Movements in amounts to be adjusted	2019	2018
As at 1 January	29,327,511	27,305,746
Movements in revaluations and income from participations	-28,718,097	1,642,634
Movements relating to foreign exchange difference on participations	729,991	200,362
Movements relating to currency forward contracts	-225,278	178,769
As at 31 December	<u>1,114,127</u>	<u>29,327,511</u>

The movements relating to revaluations of participations concern both the unrealised revaluations and the effect of the settlement with Hivos resulting from selling several participations.

The difference between the balance of the subordinated loan, the amounts to be adjusted, and the value of the participations relates to the funding paid as an advance by Hivos for participations. This balance is recognised on Hivos-Triodos Fund balance sheet under the balance sheet item 'Current liabilities, accruals and deferred income'.

Committed investments

Committed investments concern loans and participations approved and/or committed by Hivos-Triodos Fund, but not yet (fully) drawn by the organisation in which it has invested. After payment, the committed participations are also managed for Hivos.

Committed participations	31-12-19	31-12-18
AlphaJiri Investment Fund, Africa	8,929,369	–
Eco Enterprises III, Latin America	2,615,598	3,142,842
Accion Venture Labs, Worldwide	1,012,484	–
Caspian SME Impact Fund, South Asia	682,443	1,217,321
	<u>13,239,894</u>	<u>4,360,163</u>
Commitments (managed for third parties)	31-12-19	31-12-18
Novastar Ventures, East Africa	445,294	753,129
Leapfrog Financial Inclusion Fund, Worldwide	175,106	178,578
	<u>620,400</u>	<u>931,707</u>

Committed loans provided	31-12-19	31-12-18
Aldea Global, Latin - America	1,901,956	1,344,438
Latco International, Latin America	994,367	–
FinAktiva, Colombia (and Latin America)	669,703	–
SunFunder, Worldwide	446,468	–
Grace Bio, East Asia and Pacific	400,000	103,015
San Fernando, Latin America	250,513	–
Villa Andina, Latin America	194,043	–
Urmatt, East Asia and Pacific	–	785,711
Sistema Biobolsa, Africa and Middle East	–	436,506
San Fernando, Latin America	–	412,935
Etico, Latin America	–	174,602
	<u>4,857,050</u>	<u>3,257,207</u>

Other

In 2018, the Tax and Customs Administration registered Stichting Hivos-Triodos Fonds for corporate income tax purposes with effect from 1 January 2018. Hivos Triodos Fonds was not subject to corporate income tax until 2017.

The fiscal result for the financial year 2019 amounts to EUR 468.201 (2018: EUR -252,490). Stichting Hivos Triodos Fonds owes EUR 43,793 corporate income tax for the financial year 2019, after settlement of offsettable losses (2018: no corporate income tax due).

Income

11. Income from loans and subordinated loans provided

Interest received on loans provided and subordinated loans provided, as well as arrangement fees charged to borrowers when loans are granted are recognised here. Any costs directly attributable to the revenues are deducted from the revenues.

12. Unrealised changes in the value of shareholdings (excluding exchange rate differences)

The unrealised results are calculated as the difference between the value at year-end and the value at the start of the financial year. In the case of a sales transaction, the cumulative unrealised results are adjusted in the profit and loss account.

13. Donations received

The interest donated to Hivos-Triodos Fund by Triodos Bank clients, as well as donations received from third parties are recognised here.

14. Other income

This concerns the amounts waived by guarantors in respect of loss relief for the years 1995 to 2002.

Expenditure

15. Management fee

The management fee paid to Triodos Investment Management B.V. comprises the following three elements:

- a fee of 3.00% of the outstanding loans to microfinance institutions, plus exchange differences on currency forward contracts, guarantees and claims on loans at the end of the quarter;
- a fee of 3.00% of the outstanding indirect loans to entities other than microfinance institutions, plus exchange differences on currency forward contracts, guarantees and claims on loans at the end of the quarter;
- a fee of 3.75% of the outstanding direct loans to entities (through an investment vehicle in collaboration with a local partner in which Triodos has an active role, or otherwise) other than microfinance institutions, plus exchange differences on currency forward contracts, guarantees and claims on loans at the end of the quarter.

16. Auditor's fee and consultancy fees

	2019	2018
Auditor's fee	42,321	22,892
Consultancy fees	35,205	40,145
	<u>77,526</u>	<u>63,037</u>

The audit costs amount to EUR 42,321 (2018: EUR 22,892) related to the audit of the annual accounts. These fees amount to EUR 33,106 (2018: EUR 22,617) relating to the audit of the financial statements for the 2019

financial year and EUR 9,215 for the 2018 financial year: EUR 275 for the financial year 2017), regardless of whether the work has already been carried out during the financial year. The costs for other control activities amounted to EUR nil. The auditor has not rendered any consultancy services.

The consultancy fees include fees for legal services, tax consultancy fees and project costs.

17. Interest expenses

This includes the (penalty) interest charges on Triodos Bank's loans. Also included are the interest charges charged by Triodos Bank and Rabobank as a result of negative interest rates on the current account balances.

18. Transaction results of currency forward contracts

The amortised transaction results from currency forward contracts relating to the reporting period are recognised here.

19. Other expenses

	2019	2018
Non-deductible VAT	121,408	–
Publicity expenses	11,504	958
Contributions and levies	7,942	3,873
Bank charges	7,652	6,987
Office costs	5,217	2,052
Other	1,219	2,100
	<u>154,942</u>	<u>15,970</u>

The higher other expenses mainly relate to the VAT not fully deductible on the carried interest paid on the sale of participations to Triodos Investment Management.

Hivos-Triodos Fund pays no remuneration to former or current directors and/or supervisory directors. Furthermore, Hivos-Triodos Fund has not provided loans, advances or guarantees to former or current directors and/or supervisory directors.

20. Exchange rate result

	2019	2018
(Un)realised changes in value of participations	47,466	144,384
(Un)realised changes in value of loans	-813,927	496,541
Exchange rate differences on currency forward contracts	324,018	-493,914
Exchange rate differences on liquid assets and others accounts receivable	99,387	-58,698
	<u>-343,056</u>	<u>-88,313</u>

21. Corporation tax

	2019	2018
Corporate income tax for the financial year	43,793	–
	<u>43,793</u>	<u>–</u>

With effect from 1 January 2018, Stichting Hivos-Triodos Fonds will be liable to corporate income tax within the meaning of the Corporation Tax Act 1969. The tax result for 2019 is 468,201 (2018: -252,490).

Comparison of operating result with budget

The Supervisory Board approved the budget for 2019 at the end of 2018, which showed a budgeted operating profit of EUR 1,278,000. The actual operating profit is EUR 822,172.

Thanks to a clearer categorisation of operating expenses, the transaction result of currency forward contracts of EUR 466,401 was recognised in the 2019 operating profit.

However, in the budget the transaction result of currency forward contracts is recognised in the amount of the negative exchange rate result. If the transaction result of currency forward contracts of EUR 466,401 were reported according to the classification of the budget, the actual operating result for 2019 would amount to EUR 1,288,573. The actual result is almost equal to the budgeted result. Compared to the budget, the management fee is lower than budgeted and other expenses are higher than budgeted.

The higher other expenses mainly relate to the VAT not fully deductible on the carried interest paid on the sale of participations to Triodos Investment Management.

Budget 2020

The Supervisory Board approved the budget for 2020 at the end of 2019, which showed a budgeted operating profit, excluding transaction results currency forward contracts, of EUR 1,732,000 according to the following table:

(amounts in euros)	Budget 2020
Income	
Total income	3,465,000
Expenses	
Expenditure	1,378,000
Management fee Audit and consultancy fees	80,000
Interest expenses	241,000
Transaction results of currency forward contracts	t.b.c.
Other expenses	34,000
Operating profit*	1,732,000
Additions to provisions	t.b.c.
Exchange rate result	t.b.c.

Post-balance sheet events

The developments with respect to COVID-19 are considered by the Fund as a post-balance-sheet event (non-adjusting). The manager does not regard the impact of COVID-19 on the fund under its management as a material uncertainty with regard to the fund's continuity. The situation regarding COVID-19 and the impact of COVID-19 varies from day to day, making the actual impact that COVID-19 may have on the fund in the future difficult to predict and not fully foreseeable. For more information on the impact and possible consequences of COVID-19 for the fund, please refer to page 22 of the annual accounts.

Result destination

The articles of association of Hivos-Triodos Fund give no indication of the profit appropriation. The result for 2019 was EUR 1,085,822 (2018: EUR 762,958). This amount consists of an operating result of EUR 822,172 (2018: EUR 701,976) less an addition to the provision for (subordinated) loans of EUR 32,238 (2018: 22,832), less an addition to the provision for interest on loans of EUR 3,375 (2018: 4.499) and an exchange result of EUR 343,056 (2018: EUR 88,313). The operating result, the balance of the movements in provisions and corporate income tax payable for the financial year, totalling EUR 742,766, is added to the General Reserve. The exchange result of EUR 343,056 will be added to the reserve for exchange rate differences.

Affiliated parties

Hivos-Triodos Fund has relationships with the following legal entities:

- 1 Triodos Investment Management BV manages Hivos-Triodos Fund for which it receives a competitive management fee. Furthermore, Triodos Investment Management BV, if the conditions above are met, is entitled to carried interest fee on sales of participations. In 2019, the participation in Centenary Rural Development Bank Ltd was sold, for which Triodos Investment Management BV received a fee of EUR 7,226,730.
- 2 Triodos Bank NV is the sole shareholder of Triodos Investment Management BV.
- 3 Triodos Bank NV
 - Triodos Bank NV has made overdraft facilities available at competitive rates.
 - Triodos Bank NV has made two loans available at competitive rates.
- 4 Hivos-Triodos Fund together with Triodos Sustainable Finance Foundation, Triodos Fair Share Fund and Triodos SICAV II - Triodos Microfinance Fund provides financing (syndicated loans) managed by Triodos Investment Management BV. At the end of 2019, the value of the syndicated loans amounted to EUR 9,494,758. During 2019, Stichting Hivos-Triodos Fonds sold its participation in the assets of Centenary Bank in Uganda, with affiliated parties including Triodos Fair Share Fund and Triodos SICAV II - Microfinance Fund acting as purchasing parties. This transaction was entered into under market conditions.
- 5 MFX Solutions LLC is a financial institution that focuses on trading in foreign exchange instruments. Triodos Investment Management performs a supervisory task in respect of this entity. Hivos-Triodos Fund and the Triodos Sustainable Finance Foundation have their shareholders in MFX Solutions. Both funds have a minority interest. In addition, Hivos-Triodos Fund concludes currency forward contracts with MFX Solutions. The balance sheet value of all contracts at year-end 2019 is EUR 219,748 million credit. No collateral was paid in respect of the contracts concluded at the end of 2019.

Zeist, 04 June 2020

Board of Management of Hivos-Triodos Fund Foundation

Dick van Ommeren

Jacco Minnaar

Other information

ANBI-status

Hivos-Triodos Fund is designated by the Tax Authorities as a Public Benefit Organisation (ANBI). The RSIN of Hivos-Triodos Fund is 803826199.

Profit appropriation

The articles of association of Hivos-Triodos Fund give no indication of the profit appropriation.

To: the Board of Management and the Supervisory Board of Stichting Hivos-Triodos Fonds

Report on the financial statements 2019

Our opinion

In our opinion, the financial statements of Stichting Hivos-Triodos Fonds ('the Foundation') give a true and fair view of the financial position of the Foundation as at 31 December 2019, and of its result for the year then ended in accordance with the Guideline for annual reporting 640 'Not-for-profit organisations' of the Dutch Accounting Standards Board.

What we have audited

We have audited the accompanying financial statements 2019 of Stichting Hivos-Triodos Fonds, Zeist. The financial statements comprise:

- the balance sheet as at 31 December 2019;
- the profit and loss account for the year then ended;
- the notes, comprising the accounting policies and other explanatory information.

The basis for our opinion

We conducted our audit in accordance with Dutch law, including the Dutch Standards on Auditing. We have further described our responsibilities under those standards in the section 'Our responsibilities for the audit of the financial statements' of our report.

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

Independence

We are independent of Stichting Hivos-Triodos Fonds in accordance with the 'Verordening inzake de onafhankelijkheid van accountants bij assuranceopdrachten' (ViO, Code of Ethics for Professional Accountants, a regulation with respect to independence) and other relevant independence requirements in the Netherlands. Furthermore, we have complied with the 'Verordening gedrags- en beroepsregels accountants' (VGBA, Dutch Code of Ethics).



PricewaterhouseCoopers Accountants N.V.,
Fascinatio Boulevard 350, 3065 WB Rotterdam,
Postbus 8800, 3009 AV Rotterdam
T: +(31)88 792 0 10 F: 088 792 95 33, www.pwc.nl

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Emphasis of matter - uncertainty related to the effects of the coronavirus (COVID-19)

We draw attention to the note in paragraph COVID-19 in the annual accounts in which the Board has described the possible impact and consequences of the coronavirus (COVID-19) on the foundation and the environment in which the foundation operates as well as the measures taken and planned to deal with these events or circumstances. This note also indicates that uncertainties remain and that currently it is not reasonably possible to estimate the future impact. Our opinion is not modified in respect of this matter.

Report on the other information included in the annual report

In addition to the financial statements and our auditor's report thereon, the annual report contains other information that consists of:

- key figures;
- general information;
- management report;
- report of the Supervisory Board
- other information; and
- address and publication details.

Based on the procedures performed as set out below, we conclude that the other information:

- is consistent with the financial statements and does not contain material misstatements;
- contains the information that is required by the Guideline for annual reporting 640 'Not-for-profit organisations' of the Dutch Accounting Standards Board.

We have read the other information. Based on our knowledge and understanding obtained in our audit of the financial statements or otherwise, we have considered whether the other information contains material misstatements.

By performing our procedures, we comply with the requirements of Part 9 of Book 2 of the Dutch Civil Code and the Dutch Standard 720. The scope of such procedures was substantially less than the scope of those performed in our audit of the financial statements.

The Board of Management is responsible for the preparation of the other information, including the directors' report pursuant to the Guideline for annual reporting 640 'Not-for-profit organisations' of the Dutch Accounting Standards Board.

Responsibilities for the financial statements and the audit

Responsibilities of the Board of Management and the Supervisory Board for the financial statements

The Board of Management is responsible for:

- the preparation and fair presentation of the financial statements in accordance with the Guideline for annual reporting 640 'Not-for-profit organisations' of the Dutch Accounting Standards Board; and for
- such internal control as the Board of Management determines is necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

As part of the preparation of the financial statements, the Board of Management is responsible for assessing the Foundation's ability to continue as a going concern. Based on the financial reporting framework mentioned, the Board of Management should prepare the financial statements using the going-concern basis of accounting unless the Board of Management either intends to liquidate the Foundation or to cease operations or has no realistic alternative but to do so. The Board of Management should disclose events and circumstances that may cast significant doubt on the Foundation's ability to continue as a going concern in the financial statements.

The supervisory board is responsible for overseeing the Company's financial reporting process.

Our responsibilities for the audit of the financial statements

Our responsibility is to plan and perform an audit engagement in a manner that allows us to obtain sufficient and appropriate audit evidence to provide a basis for our opinion. 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 but not absolute level of assurance, which makes it possible that we may not detect all material misstatements. Misstatements may arise due to fraud or error. They are considered to be material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality affects the nature, timing and extent of our audit procedures and the evaluation of the effect of identified misstatements on our opinion.

A more detailed description of our responsibilities is set out in the appendix to our report.

Rotterdam, 4 June 2020

PricewaterhouseCoopers Accountants N.V.

Original has been signed by J. IJspeert RA

Appendix to our auditor's report on the financial statements 2019 of Stichting Hivos-Triodos Fonds.

In addition to what is included in our auditor's report, we have further set out in this appendix our responsibilities for the audit of the financial statements and explained what an audit involves.

The auditor's responsibilities for the audit of the financial statements

We have exercised professional judgement and have maintained professional scepticism throughout the audit in accordance with Dutch Standards on Auditing, ethical requirements and independence requirements. Our audit consisted, among other things of the following:

- Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, designing and performing audit procedures responsive to those risks, and obtaining audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the intentional override of internal control.
- Obtaining an understanding of internal control relevant to the audit 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 Foundation's internal control.
- Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Board of Management.
- Concluding on the appropriateness of the Board of Management's use of the going-concern basis of accounting, and based on the audit evidence obtained, concluding whether a material uncertainty exists related to events and/or conditions that may cast significant doubt on the Foundation's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report and are made in the context of our opinion on the financial statements as a whole. However, future events or conditions may cause the Foundation to cease to continue as a going concern.
- Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and evaluating whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with the supervisory board regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Address

Stichting Hivos-Triodos Fonds
Nieuweroordweg 1
Postbus 55
3700 AB Zeist
Telephone +31(0)30 693 65 11 (customer contact)
Telephone 030 693 65 00 (general)
www.triodos-im.com

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PricewaterhouseCoopers
Accountants N.V.
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