

March 15, 2011

Dear Dignity Fund Investors,

As the fund comes to its close, we thought we would take the opportunity to reflect on what the Dignity Fund has achieved during its five years of existence and where the microfinance industry is today versus when we began our journey in 2005.

The Dignity Fund was launched with dual goals of assisting the entrepreneurial poor to improve their lives through access to credit and generating modest investment returns for its investors. Secondary goals were to structure many of the loans to microfinance institutions (MFIs) in local currency, to work with the microfinance industry's premiere microfinance networks and investors, and to provide to investors a window into the world of microfinance and the working poor in developing countries. We believe we have succeeded on all of these fronts.

In terms of assisting the entrepreneurial poor, we estimate that at full deployment, funds provided by the Dignity Fund were on-lent by MFIs to approximately 35,000 micro-entrepreneurs per annum. Through the MFIs that it funded, the Dignity Fund touched individuals in twelve countries in India, Southeast Asia, Latin America, Africa and Central Asia. Over time, the Dignity Fund provided debt financing to fourteen MFIs, many of which were "up and coming" institutions that did not have a broad base of commercial funding available to them. Providing loans to these younger but well run MFIs allowed the Dignity Fund to assist them in a crucial period of growth as they established operating and financial track records that allowed them to later receive funding from more established microfinance investment funds and commercial lenders. As mentioned, we endeavored to structure Dignity Fund loans to insulate MFIs from foreign currency risk. We achieved this in all of our loans, save one (for which there were no liquid hedging instruments available in the country), through hedges, back-to-back loans or guarantee structures. We also built strong relationships with multiple players in the industry co-investing in debt facilities, conducting joint due diligence, collaborating on loan documentation. Among our most active partners were Blue Orchard, Deutsche Bank, MicroVest, MicroCredit Enterprises and Unitus. In several instances, we were part of industry firsts, among them, participating in the first syndicated loan among microfinance investment funds in 2007.

The Dignity Fund has been profitable every year since inception. It recorded only modest net profit in 2005 and 2006 when it amortized organizational expenses incurred in raising and setting up the fund and in 2010 when deployed capital was reduced and closing costs were accrued. The Dignity Fund returned 4.1%, 6.1% and 6.4% to Class A Limited Partners in the fiscal years ended 12/31/07, 12/31/08 and 12/31/09, respectively.

In terms of portfolio quality, the Dignity Fund has encountered, as expected, a few bumps along the way, but in general has performed well for its Class A Limited Partners. As you will recall, the fund does have a "first loss" cushion of \$1 million in Class B shares. There have been occasional late payments of some facilities, a few prepayments of loans, and a few requests for restructuring of loan payments from some MFIs over the course of our five years. To date, all loans and guarantees have been repaid and retired in full save for that of Acodep, the MFI in Nicaragua that encountered a series of difficulties over the past two years. Acodep is still in the process of repaying our loan as part of a broad restructuring package with all of its creditors. As of this writing, \$107,258 is still due from Acodep, and should there be any failure to repay this amount in the coming 12 months, any losses will be borne by the Class B shares.

Lastly in terms of the fund's goals, the Dignity Fund was intended to be a window into the world of microfinance and to allow some investors to "put a toe in the water" of microfinance investing. Along the way, some of you have invested in other microfinance investment funds (both debt and equity), some of you have taken trips to visit microfinance operations in the world, and many of you have continued to engage with us with questions and observations regarding the industry. We hope that your curiosity and confidence lead you to continue to support the efforts to bring essential products and services to the poor.

Finally, we'd like to share a few thoughts on the evolution of the microfinance industry over the past five years. The industry has grown and changed since we first began our investment activities. Bangladesh's Grameen Bank and its founder, Muhammad Yunus, won the Nobel Peace Prize. Today, the share of invested capital in microfinance is estimated to be over \$35 billion versus approximately \$15 billion when we began. Growth rates in the late 2000s had accelerated to over 30% for the industry, though that number has come down post the financial crisis and other slowdowns in the industry. There were over 70 microfinance investment vehicles in operation in 2009 versus closer to 40 when we first began. Three MFIs completed initial public offerings: Equity Bank in Kenya, Compartamos in Mexico and SKS in India, all firsts in their countries (and not without controversy). The growth of MFIs in the late 2000s led to over 100 million individuals in the developing world being touched.

With all of these accomplishments, there is still much work to be done. Approximately 400 million potential recipients of microfinance still remain unserved. Though some MFIs have evolved and matured, many still suffer from poor governance, mediocre management, under-par operating capabilities and lack of access to capital. Of late, there have been several industry crises in several parts of the world resulting from political interference in the case of some, fraud in the case of others. Clearly, there is much room for improvement. What fundamentally drove us to launch the Dignity Fund was the recognition that the poor deserve opportunity and that the entrepreneurially minded management teams and MFIs who have the best interests of their poor clients at heart deserve our support.

Thank you for support all these years and for coming on this journey with us.

Sincerely,



Elizabeth Funk  
CEO, Dignity Fund

Susan Zeleznik  
Managing Director, Dignity Fund

Maya Chorengel  
Board Member, Dignity Fund