



DIGNITY FUND

Report from Management

Investment Activities: In May and June 2007, we closed two new facilities: a US\$400,000 loan to KAMURJ, Armenia alongside MicroCredit Enterprises and Kolibri Kapital, and a US\$500,000 loan to ACODEP, Nicaragua, alongside Katalysis Bootstrap Fund. See the descriptions of the MFIs on the column to the right and on page 2. In June 2007, we also funded the balance of our US\$600,000 commitment to MBK, Indonesia.

Capital Markets Activity in Microfinance: In recent months, there have been a number of groundbreaking transactions in the microfinance space: US\$40 million in private equity investments in two Indian MFIs, SKS and Share, and the widely discussed IPO of Mexican MFI, Compartamos. Though controversial, we feel that these commercial capital market transactions are reason for excitement. In the words of Steven Funk, co-founder and board member, who reflected on the Compartamos IPO in a recent issue of the Microcredit Summit E-News (attached): "One must allow and support the development of the capital markets to fund the impoverished. The more developed the capital markets become, the lower the cost of capital will become for MFIs, and for borrowers. This is basic market economics."

Portfolio Investments

June 30, 2007

| MFI / Country | Amount Invested | % of Total |
|--------------------------------|------------------|------------|
| Confianza / Peru | \$500,000 | 8.9% |
| D-MIRO / Ecuador | 500,000 | 8.9% |
| FIS / Argentina | 328,757 | 5.8% |
| Grama Vidiyal Trust / India | 300,000 | 5.3% |
| KLF / Kazakhstan | 500,000 | 8.9% |
| MBK / Indonesia | 601,162 | 10.6% |
| SOCREMO / Mozambique | 500,000 | 8.9% |
| KAMURJ / Armenia | 150,000 | 2.7% |
| ACODEP / Nicaragua | 500,000 | 8.9% |
| Commitments to be funded (a) | 750,000 | 13.3% |
| Liquid Assets | 1,019,278 | 18.0% |
| Total Investment Assets | 5,649,196 | |

(a) Funds for the following commitments to be disbursed: \$500,000 to Pro Mujer Mexico and \$250,000 to KAMURJ

INVESTOR UPDATE

As of June 30, 2007

Microenterprise Development Fund KAMURJ, Armenia (www.mdf-kamurj.am)

In May 2007, we disbursed US\$150,000 of a US\$400,000 commitment to KAMURJ, alongside MicroCredit Enterprises and Kolibri Kapital, which committed US\$400,000 and € 200,000 respectively. KAMURJ is one of the leading MFIs operating in Armenia, serving over 10,000 men and women in both urban and rural areas in the country. Established in 1998, KAMURJ's loan portfolio has been growing at 40% per annum in recent years.

Two successful KAMURJ entrepreneurs are Marietta Ghazaryan and Akhasy Danielyan. Marietta is on her 10th loan cycle and sells Armenian pastries from her shop as well as the central market. To continue expanding her business, Marietta plans to use her next loan to purchase a new location for her bakery. Akhasy is on his 13th loan cycle. He has used KAMURJ funds to invest in wood and supplies to create handcrafted furniture that he sells on consignment through local shops and directly to his growing list of customers. Akhasy employs his father and son and hopes to build a proper carpentry shop so that they can work indoors year round.

Photos of Marietta and Akhasy, two KAMURJ borrowers and success stories.



ACODEP, Nicaragua (www.acodep.org.ni)

In June, partnering with Katalysis Bootstrap Fund, the Dignity Fund closed on a US\$1.35 million loan to ACOCEP, one of the top three MFIs in Nicaragua. We funded our full US\$500,000 commitment at the end of June. ACOCEP began operations in 1989 and currently serves 74,725 borrowers from 43 branches throughout the country. ACOCEP is unique among the top Nicaraguan MFIs in terms of its outreach to poorer clients (its average loan size at US\$413 is much lower than its competitors), its commitment to client service, and its innovation in products and technology to serve the needs of the entrepreneurial poor. Nicaragua is one of the poorest countries in Latin America, with a GNP/capita of approximately US\$900, and despite ACOCEP's significant client base, there is substantial room for growth and high untapped demand for microfinance in the country. The Katalysis Bootstrap Fund, our partner in this transaction, specializes in lending to MFIs in Central America and has been a lender to ACOCEP since 2002. Below is the story of one of ACOCEP's clients:

Pastora Victoria Soza Velasquez is separated from her abusive husband, and provides for her children alone. She made candies from milk, coconuts, papaya and other sweets from time to time for her children, and one day she decided that selling sweets in her hometown might be a good business. Pastora's biggest issue was finding the capital she needed to buy the sugar and ingredients to make a large quantity of candy.

Pastora heard about ACOCEP and took out her first loan in 1997. She began selling her desserts in town, using a wheelbarrow to hawk the candy. Over time, she took on larger loans to expand her business to neighboring towns, selling candies directly to small stores and to schools.

She says that she is humbled by the fact that ACOCEP was willing to give her a loan. Initially, she felt very alone, but little by little, she gained confidence. With her success, she has been able to replace her broken black and white TV and radio with a color TV, to reinforce her house with concrete walls, and most importantly, to ensure that her children go to school regularly. Her children help her by delivering the candies to their school and receiving payment. Pastora says that her children's exposure to ACOCEP has taught them the value of working and saving money. With her increased income, she will continue improving her house and she appreciates most how her children have advanced in their studies.



Above: Maya Chorenge with the ACOCEP management team.
Below: Pastora and her sweets.



The Dignity Fund, L.P.

Balance Sheet (unaudited)

| | 6/30/2007 |
|--|------------------|
| Total Loans Receivable | \$2,949,919 |
| Interest in MFI Obligation to GCMC | 500,000 |
| Certificate of Deposits (for Guarantees & other) | 500,427 |
| Cash and Equivalents | 1,698,850 |
| Other Current Assets | 41,605 |
| Total Assets | 5,690,801 |
| Foreign currency exchange contracts | 7,395 |
| Other liabilities | 9,385 |
| Total Liabilities | 16,780 |
| Total Net Assets | 5,674,021 |
| Limited Partnership Interests | 5,594,980 |
| Retained Earnings | 95,870 |
| Distributions | (16,829) |
| Total Equity | 5,674,021 |

The Dignity Fund, L.P.

Income Statement (unaudited)

| | FYE | Quarters Ended | |
|--------------------------|-----------------|-----------------|-----------------|
| | 12/31/06 | 3/31/07 | 6/30/07 |
| Total Revenues | \$214,236 | \$65,594 | \$96,209 |
| Operating Expenses | 132,317 | 35,418 | 44,086 |
| Organizational Expenses | 60,871 | -- | -- |
| Noncash Expenses/(Gains) | 9,953 | 5,031 | (7,507) |
| Net Income | \$11,095 | \$25,145 | \$59,630 |

During the second quarter of 2007, facilities to MFIs increased to \$3.7 million (including certificates of deposit backing guarantees). Income was generated primarily from interest income and guarantee fees related to facilities provided to MFIs and interest income from funds in money market deposits. Operating expenses reflect reimbursement of general partner expenses incurred on behalf of The Dignity Fund during the quarter.