CASE STUDY

SMALL ENTERPRISE ASSISTANCE FUNDS (SEAF): SICHUAN SME INVESTMENT FUND (SSIF)

IMPACT INVESTING 2.0

February 2014

ORGANIZATION HEADQUARTERS	Washington, DC, U.S.; Chengdu, China
YEAR FOUNDED / LAUNCHED	2000
LEADERSHIP	Bert van der Vaart, Founder; George Zhang, Managing Director
DESCRIPTION OF PRIMARY ASSET CLASS	Common Equity, Debt; $540,000 to $4.2 million investment per portfolio company
TOTAL ASSETS UNDER MANAGEMENT	$22,512,500
GEOGRAPHIC FOCUS	Sichuan, China
SECTOR FOCUS	Small and medium-sized enterprises (SMEs) across several sectors, primarily agribusiness and manufacturing
SUMMARY OF IMPACT AREAS	Job creation and wage growth, through strengthening SMEs in markets that lack access to finance and business advisory resources
FINANCIAL PERFORMANCE	11.38% net IRR and 22.73% gross IRR as of June 30, 2013; final five investments still to be exited
SOCIAL PERFORMANCE	21% average annual increase in employment and 17% average annual increase in wages at each portfolio company since SSIF investment; 58% of jobs created for low skilled workers

Daniel Brett was the lead author of this case. This case study is part of The Impact Investor, a research partnership between InSight at Pacific Community Ventures, CASE at Duke University and ImpactAssets from 2012-2014. The Impact Investor project team was co-led by Cathy Clark, Jed Emerson and Ben Thornley. More in-depth impact investing fund case studies, practitioner blogs, videos from expert convenings, as well as project reports, are available at: http://bit.ly/impinv and at the twitter hashtag #impinv2.

INTRODUCTION

Launched in 1989 as an experimental project of CARE, a large international humanitarian organization, Small Enterprise Assistance Funds (SEAF) was created to assist Eastern European countries in making the often rocky transition from communism to capitalism after the fall of the Berlin wall. Governments throughout the region were privatizing state-owned enterprises and laying off thousands of government workers, leading to high unemployment and economic crises.[1] SEAF believed that the growth of private small and medium sized enterprises (SMEs) was critical to creating desperately needed jobs and stimulating local economic growth and, after successfully launching several funds throughout Eastern Europe through the 1990's, developed a strong case for its uniquely SME-focused approach to economic development.

"I started working in venture capital in 1957 when it was a new phenomenon in the United States. I feel more at home with a fund like SSIF than if I were to join a modern VC fund in the U.S. today, because many of the challenges [SSIF encountered] are ones we faced 50 years ago in the U.S. SEAF is doing more than just providing capital – it has changed local businesses' perspective on what investment is and can be.""

— ROBERT STILLMAN, SSIF BOARD MEMBER, DIRECTOR AND CHAIRMAN OF THE EXECUTIVE COMMITTEE OF SEAF

The Sichuan SME Investment Fund (SSIF) represented an enormous milestone for SEAF and, broadly, for direct equity investing in China. With the launch of SSIF, SEAF became the first global SME equity investor; SEAF had previously invested in Latin America and Eastern Europe. SSIF was the first private equity fund in the province of Sichuan (where the population exceeds that of Germany) and one of the first funds targeting inland China. This was possible because of SEAF's strong track record in Eastern Europe and the reality that SME growth in Sichuan was a policy priority for the Chinese government due to the widening gap between rich and poor.

SSIF's story includes many distinctive elements. First, the fund benefited from especially strong financial support from development finance institutions (DFIs), which had invested in other SEAF funds and were pleased with their financial and social performance. This institutional and brand support enabled SEAF not only to attract investment from New York Life, but complete fundraising in a remarkably short eight months and persuade the Chinese government to approve the creation of the fund.

Second, as of early 2014, the fund has especially active limited partners who have, somewhat counterintuitively, improved the efficiency of the fund's management. The board and investment committee is one and the same, as the DFI investor representatives have extensive direct equity investment experience. Relatedly, the creation of the fund was uniquely driven by limited partners instead of fund managers. SEAF's Sichuan SME Investment Fund served a clear purpose to two key investor groups: a U.S. insurance company eager to demonstrate its support for Chinese enterprise, and DFIs committed to capitalizing small business development in China.

Third, SSIF's fund managers and board have especially diverse backgrounds, spanning senior positions with for-profit, nonprofit, and public organizations. SEAF founder Bert van der Vaart is a former lawyer specializing in international corporate law and a management consultant; Fund Manager George Zhang previously worked with New York Life and the People's Bank of China; and Board Member Robert Stillman is a former executive

[1] See Kolodko, 1991. "Polish Hyperinflation And Stabilization 1989-1990." http://www.tiger.edu.pl/kolodko/artykuly/Polish_Hyperinflation.pdf

at the Overseas Private Investment Corporation, the U.S. Small Business Administration, and several pioneer U.S.-based private equity funds. These diverse backgrounds have enabled SSIF managers to understand and nimbly navigate the economic, cultural, and political factors that shape the performance of equity investments and SMEs in the Sichuan Province.

At June 30, 2013, SSIF had made three exits and five partial exits,[2] with a gross IRR of 23.17 percent, below the fund's ambitious target gross IRR of 30 percent. The fund's net IRR is 11.38 percent as of June 30, 2013, in line with limited partners' expectations to receive an IRR in the "high single digits to low double digits" range. SSIF portfolio companies increased their workforce by 21 percent annually, and increased workers' wages by 17 percent annually.[3] SSIF's performance is particularly impressive when put into context: not only has the fund outperformed the vast majority of global private equity funds of the same vintage year, but the fund's portfolio companies have created jobs and improved staff income levels faster than the broader Chinese economy.[4]

ORIGINS

SEAF's first fund was launched in Poland in 1992 with funding from the U.S. Agency for International Development (USAID), the European Bank for Reconstruction and Development, and the Foundation for the Development of Agriculture. Over the next eight years, the organization expanded its presence across Eastern and Central Europe, setting up four additional funds in the region and spinning off from CARE by 1995. By the end of the 1990's, SEAF had positioned itself as the leading SME investor in Europe, generating strong (above 25 percent) gross IRRs as well as creating jobs and improving income levels for thousands of people.

In early 2000, the International Finance Corporation (IFC), which had previously invested in a SEAF Fund in Macedonia, approached SEAF with an unusual proposition: with the IFC's support, would SEAF be interested in launching a fund in the Sichuan Province of West China? Despite China's strong economic growth, the region was highly underdeveloped with income disparities of five to one compared to East China, where a majority of the country's economy and wealth was concentrated. There were virtually no formal private equity or risk capital providers in Sichuan – or almost any part of China outside of its major cities, for that matter.[5] At the time, bank lending was the only formal source of capital for nearly all Chinese SMEs.

The central Chinese government was acutely aware of this growing inequity, SEAF learned. The driving force behind the IFC's request and, ultimately, the formation of the fund, was Beijing's intention to incentivize economic activity in its underdeveloped provinces. SEAF discovered that New York Life Insurance, one of the largest life insurers in world, had contacted the IFC about co-financing an SME fund in Sichuan, because they had received an especially enticing 'carrot' from the Chinese government. New York Life was in the process of obtaining a license to offer insurance in China, and its corporate counsel was informed by government officials that if New York Life Insurance were to kick-start an SME fund in Sichuan – where unemployment was a bigger problem than a lack of insurance – Beijing would look upon New York Life favorably.

[2] Includes sales from the merger of Hualong and Hui Ji.

[3] Data only available from 2003 – 2010.

[4] See the Results section below for more details.

[5] According to interviews with SEAF staff.

As SEAF was the preeminent SME equity investor in formerly socialist countries seeking to transition from state-run to market-driven economies, New York Life and the IFC viewed SEAF as more than just a highly attractive potential partner. Their selection of SEAF as fund manager was out of necessity. "This was so remote and out of the way that nobody else would do it," recalls Bert van der Vaart, SEAF's founder and Executive Chairman.

AN ALIGNMENT OF POLICY PRIORITIES, TRACK RECORD, BRAND, AND ATTITUDE

SEAF's first – and most essential – task prior to launching the fund was convincing the Chinese government that SEAF and its limited partners genuinely cared about supporting SMEs. To accomplish this, SEAF set up meetings with the Sichuan Foreign Investment Promotion Bureau in early 2000, explaining SEAF's strong financial track record in SME investing in Eastern Europe along with its commitment to creating positive economic impact in Sichuan. These meetings went surprisingly well, and SEAF subsequently worked with the Governor of the Sichuan Province, the Director of the Sichuan Foreign Investment Promotion Bureau, and relevant government agencies to receive approval to set up the SSIF.

Van der Vaart attributes several factors, beyond the strength of SEAF's track record, to this success. First, SEAF benefited from the New York Life and IFC names. "In China, brand is especially important," he says. Second, government officials appreciated that SEAF did not have an underlying political agenda, and showed respect toward Chinese entrepreneurs and culture.

"[The Chinese Government appreciated that] we weren't big suspender-wearing investment banker types from New York; they also didn't see us as aggressive Chinese Americans who came from Taiwan or Shanghai, but really as people who were looking at Sichuan as a separate problem set. They saw we were really devoted to [this initiative] with an attitude that was not as brash or as mercenary as other groups might have been," van der Vaart explains.

Critically, SSIF received approval from the Chinese government; growing SMEs in Sichuan was a policy priority because of the widening gap between the rich and poor in China, a scaling back of state-run enterprises, and the lack of entrepreneurial culture in the province. Van der Vaart candidly explains the direct influence the central Chinese government had on the approval of SSIF, a testament to the centralization of political power in China. "I think the central government just told the Sichuan government to make it happen," he says. Soon after New York Life's investment in SSIF was made and the official announcement of the fund was released, the Chinese government granted the insurance company approval to sell in China.

After receiving government approval and obtaining commitments of $9 million from New York Life and $4.5 million from the IFC, which joined the fund at New York Life's request, SEAF sought financing from European DFIs that had invested in SEAF's funds in Eastern Europe and who had developed good relationships with SEAF. DEG, Norfund, and Swedfund, DFIs based in Germany, Norway, and Sweden, respectively, quickly agreed to invest. They were particularly interested in creating positive developmental impact in "out of the way places" relative to other DFIs, says van der Vaart. Table A shows the capital committed by each of SSIF's limited partners (LPs).

NAME	TYPE	CAPITAL COMMITTED, USD	PERCENTAGE
SEAF	Promoter, Seed Investors	10,000	0.0%
DEG	DFI	3,000,000	13.3%
Norfund	DFI	3,000,000	13.3%
Swedfund	DFI	3,000,000	13.3%
IFC	DFI	4,502,500	20.0%
NY Life Insurance	Insurance Conglomerate	9,000,000	40.0%
TOTAL		**22,512,500**	100%

While each had its own motivations, most LPs shared a desire to pioneer growth equity investing in a poor yet economically promising region of the world with nonexistent private equity markets. "The original rationale for IFC's investment was to provide equity capital to SMEs in the interior of China and promote private sector growth and employment by SMEs," says Tracy Washington, a Senior Investment Officer with the IFC, who shares the caveat that she was not working with IFC when it invested in SSIF.

Washington reflects on other factors that led the IFC to invest in SSIF. "The IFC invested with SEAF in other frontier markets prior to this one, and encouraged SEAF to try the model in Sichuan, China. We had at the time what was known as the China Project Development Facility, which helped SMEs develop business plans and with capacity building. Those SMEs didn't have any access to finance, however. SSIF was attractive because it could provide that needed capital."

THE TEAM: COMBINING GLOBAL INVESTING ACUMEN WITH LOCAL KNOWLEDGE

Van der Vaart chose Jon Carr to help him set up the SSIF fund and initially lead it as fund manager. Carr had launched and managed two SEAF funds in Poland and Russia and had extensive experience with deal structuring and valuation. Similar to previous SEAF funds, Carr and SEAF senior management recruited a local team that had extensive knowledge of the local business and political landscape. George Zhang, originally with New York Life Insurance, joined the SSIF team in 2004 and assumed the role of fund manager, bringing his strong understanding of and network within the municipal and provincial government to support SSIF's portfolio. The diverse profiles of SSIF principals spanning the private, public, and nonprofit sectors are included in Appendix A, and specific advisory services that SSIF provided are outlined in the investments section.

THE FUND

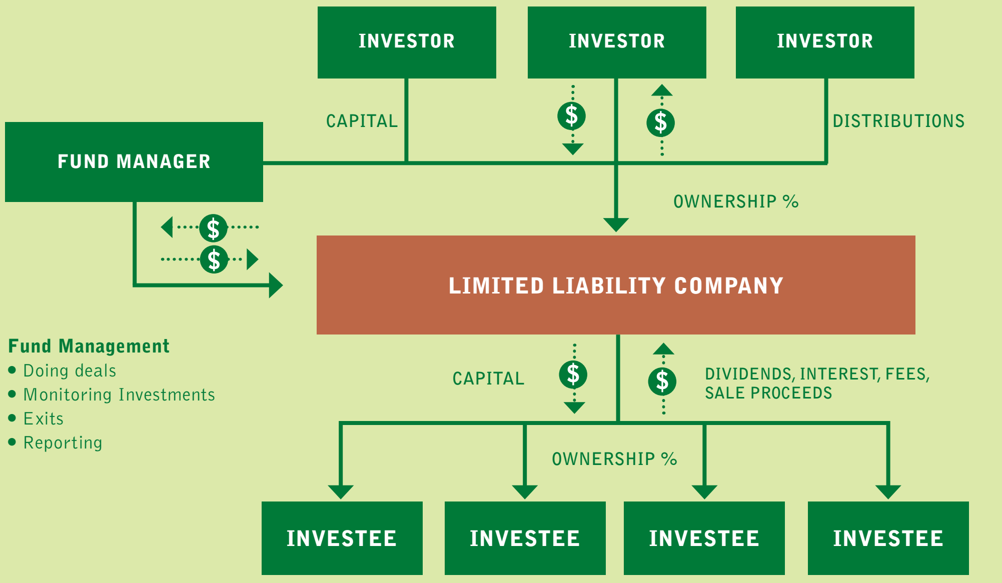
After securing commitments from DEG and Norfund, it was only a few more months until SEAF closed SSIF, on December 15, 2000 at $22.5 million. The speed of the fundraising process, which lasted eight months, was remarkable, in SEAF's experience. "[Fundraising] normally takes 18-24 months, particularly for smaller funds. And $22.5 million seemed like a lot of money," says van der Vaart. This was SEAF's largest fund, as its European funds had corpuses of between $10 and $20 million.

The objective of the fund was to provide a tool for economic development that enabled SMEs to access capital as well as information, management science, and technology; all of these factors inhibited private sector growth in China. SSIF intended to invest in and develop the business management sophistication of Chinese SMEs, which it believed would generate an acceptable rate of return as well as contribute to a large share of growth in employment, tax and social security payments.

STRUCTURAL OVERVIEW: A STREAMLINED PRIVATE EQUITY APPROACH

The structure of SSIF (Figure 1) was similar to many other private equity and venture capital funds.

FIGURE 1. SSIF'S STRUCTURE



Source: Doing Deals: ANDE Orientation Training, 2011. Prepared by Bob Webster, COO of Grassroots Business Fund

Investors took ownership of a limited liability corporation, the Sichuan SME investment Fund LLC, domiciled in Delaware, U.S., and SEAF Management LLC represented the fund manager.

Unique to SSIF, however, was its streamlined governance structure. Unlike many investment funds that use a sub-committee of the Board or a separate group of experts to review investment proposals made by fund management, the full Board of SSIF acted as its Investment Committee and was designed to play an active role in the management of the fund. This included semi-annual meetings in Chengdu, the capital of Sichuan, China, where board members would visit potential investees, as well as a few portfolio companies.

The board consisted of seven members, including Mr. van der Vaart, Robert Stillman, a pioneer of the venture capital sector in the U.S. and member of SEAF's executive committee, and representatives from each of the fund's limited partners.

This unusual structure improved the efficiency of the investment process, which allowed SSIF to more rapidly deploy capital. Stillman explains this was made possible by the uniformly strong investment experience of the board. "[All board members] have extensive direct equity investment experience, rather than public equity experience, and this makes the hands-on approach of the board / investment committee very effective."

FINANCIAL INSTRUMENTS AND INVESTMENT CRITERIA: A FOCUS ON HIGH-GROWTH SMES

SEAF intended to make investments using a combination of equity; quasi-equity, or instruments that require dividend payments but whose value is linked to the valuation of the company; and credit guarantees.[6] Initial equity or quasi-equity investments were intended to range from $100,000 to $1,000,000, with follow-on investments of up to $1,000,000. In order to diversify

[6] Credit guarantees represent a promise of full and timely debt service payment, used to reduce the probability of default of the debt instrument and increase the recovery if default occurs. http://www.ifc.org/wps/wcm/connect/Topics_Ext_Content/IFC_External_Corporate_Site/Structured+Finance/Products/

TABLE B. COSTS & FEES	
Start-up Costs (e.g., physical infrastructure)	<$100,000
Organizational Costs (e.g., legal documentation, registration, and custodial fees)	<$150,000
Management Fee, Investment Period (3.5% Total Corpus)	
Portfolio Company Development Expenses	
Total Costs (2011 & 2012)	$660,000
Performance Fee: carried interest; hurdle rate	20%; 6%

risk, the combined exposure to one investment could not exceed $2,000,000 or 10 percent of the total capital committed, with average combined exposure expected to be $750,000 to $1,000,000. SSIF also had the following investment criteria:

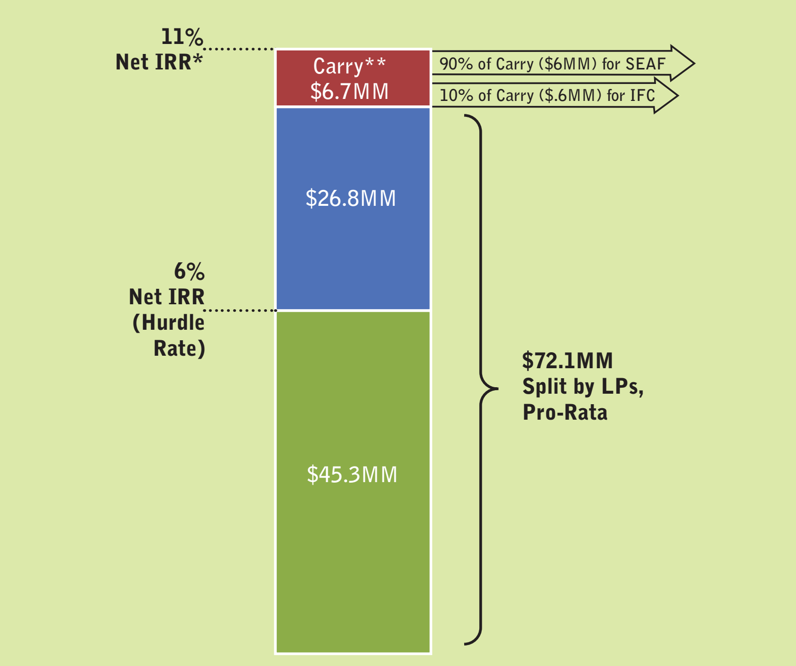
- Only work with SMEs that were less than 50 percent directly or indirectly owned or controlled by a governmental entity;
- Seek to achieve average pre-tax returns on equity investments of 30 percent or more, with a target IRR on individual equity investments of 35 percent or more, with the minimum projected return for equity investments set at 30 percent;

COSTS, FEES, AND INCENTIVES

Similar to SEAF's other 2000-2001 vintage funds, SSIF's costs and fees were not low. These costs reflected, in SEAF's view, investors' understanding of the level of work and resources required to run the first equity fund in an undeveloped area of China, where SMEs were unfamiliar with the concept of equity. Fund costs are outlined in Table B.

A unique feature of SSIF's fee structure was that 10 percent of its carried interest (i.e., the percentage of profits above a six percent net IRR generated for investors) was structured to be provided to the IFC. This meant that SEAF would obtain 18 (rather than 20) percent of the fund's profits beyond the six percent net IRR hurdle rate, with the IFC obtaining an additional two percent in addition to the 20 percent returns it received as an owner of the fund. As the IFC initially approached SEAF regarding the opportunity to work with New York Life, the fund's cornerstone investor, this fee-sharing arrangement is considered to represent compensation for the IFC's critical role in the formation of the SSIF. See Figure 2 for an illustrative example of the fund's distribution of profits.

FIGURE 2. DISTRIBUTION OF SSIF PROFITS (ILLUSTRATIVE)



* Chosen for illustrative purposes. Assumes a 12-year fund life.
** 20% of fund profits above the 6% hurdle rate.

Unique to SSIF's fee structure was its inclusion of Portfolio Company Development Expenses (PCDEs), which were used to cover a portion of the in-depth business advisory support SEAF intended to provide portfolio companies. SEAF's rationale for including these fees was that SMEs in Sichuan were unable to afford basic services that "go beyond the standard investment process in the venture capital industry." These expenses could reach a maximum of 2.5 percent of the committed capital during the investment period and 2.5 percent of the capital contributions – i.e., the fund corpus – post-investment period for the purposes of establishing portfolio companies' financial and accounting systems, obtaining bank financing, and preparing business plans. Fees collected from portfolio companies for advisory support would partially offset this fund expense, such that companies would only receive assistance in areas which they perceived to have real value.[7]

[7] The portfolio companies paid regular fees to cover at least a portion of the services provided to them by the fund management team and others. The proportion varied based on the level of service provided to individual companies. The actual fee was calculated as a percentage of the capital that was invested in a company.

The PCDE fee model is one that SEAF pioneered for other funds, but was particularly useful in Sichuan because no dedicated technical assistance facility existed in the region to support portfolio companies. SEAF management stated that SSIF investors viewed PCDEs as a vehicle to support companies' development and growth in the absence of grant-based assistance, which SEAF views as the alternative to this model. Although a few other SEAF funds have used the PCDE model, as of July 2013, it is no longer used by SEAF as DFIs now typically prefer to have assistance funded through grants where possible. SEAF and many DFIs believe, however, that it is important for the portfolio companies to share a portion of this cost.

DUE DILIGENCE

Over its first eight years of operations managing four funds in Europe, SEAF developed a robust sourcing, due diligence, deal structuring and closing process. Appendix B is a detailed diagram outlining each step of this process. Like most private equity fund managers, SEAF's investment process is highly selective: roughly three out of 100 potential investees ultimately receive financing from SEAF. Although local economic development is SEAF's primary objective, it is not explicitly included in the organization's standard due diligence process. Instead, it is embedded into the governing policies of the organization.

While the SSIF Private Placement Memorandum (PPM) outlined in detail the impact of SME's on employment and GDP growth within China, it did not specify metrics the fund would track to screen for and assess social and environmental performance of investees. SEAF's general investment procedures and policies, however, incorporate the consideration of social and environmental impact in several areas. First, when preparing preliminary reports on potential investees (see Appendix B), SEAF considers "basic criteria," broadly defined as assessing whether the investment size required by the firm is appropriate for the fund, and whether "the investment is in line with SEAF's social and financial objectives." Second, after a deal has passed the final stage of review at the local level, SEAF prepares an investment memorandum for the Investment Review Committee (in SSIF's case, the Board), along with several additional reports, including an Environmental and Social Impact Report, which involves an audit of potential investee's properties to ensure compliance with environmental and labor laws and that firms have environmental and social policies.

SSIF ultimately tracked several social metrics during the life of fund, including total employees, total female employees, and total taxes paid. Mildred Callear, Executive Vice President of SEAF, reflected on SEAF's tolerance of imprecision when setting and tracking the achievement of impact objectives.

"The more specific the targets become, the more difficult it can be to balance the developmental objectives with the financial ones. For example, narrowing the universe of acceptable investments too much may mean that the available investments cannot meet financial objectives. Instead of strengthening the impact, a plethora of very specific and potentially competing metrics can hamper the investment team's ability to find good investments that meet the criteria. This results in the funding of financially unsustainable investments that meet neither social nor financial objectives."[8]

An in-depth assessment of the non-financial impact of the fund's portfolio was performed in 2010, covered in detail in the results section below.

[8] Exerpted from "From Ideas to Practice, Pilots to Strategy. 2013. World Economic Forum Investors Industries," page 37.

THE INVESTMENTS

The fund invested $16.9 million in nine growth-stage companies in the manufacturing and food industries between 2003 and 2006, using common equity and a small amount of short-term debt. Investments are described in detail in Table C.

TABLE C. SSIF's INVESTMENTS

SEAF PORTFOLIO COMPANY	Business Description	Date of Initial Investment	Equity Capital Invested ($)
Chengdu Bangbangwa Ind.	Dried meat snack and food production	9/11/2003	1,852,666
Sichuan New Highway & Bridge	Expansion joint manufacturer for bridges & highways	7/10/2003	1,330,000
Chengdu Qili Water Treatment	Design, assembly, and sale of equipment to disinfect water	2/7/2005	544,000
Tian Gong Valve	Valve manufacturing for the oil & gas industry	5/11/2005	987,409
Futian (Midsino)	Vented plugs and unformed refractory materials for use in steel production	5/11/2005	2,272,289
Feng Tai Packing	Corrugated box manufacturer	9/24/2005	2,477,731
Hualong/Hui Ji Food Industry	Wholesale trade agent and brokers. Other snack food manufacturing	9/20/2005	3,248,500
Bajia Food International	Food manufacturing	9/22/2006	4,193,531

TOTAL SICHUAN SME INVESTMENT FUND LLC: $16,906,126

Note: Hualong merged with Hui Ji in 2009, hence only eight companies are included in the table above.

The fund sourced deals predominantly through five distinct channels, providing a diverse mix of potential investments. The SSIF team's own market research, which involved reviewing sector, government, and media reports, as well as referrals from friends and family, represented a majority of potential investees. "Family and friend referrals play an important role in investing in China," notes Zhang, as they historically represented the primary or sole funders of SMEs. Government referrals represented another 20 percent of deals sourced, in Zhang's estimation, which typically involved local government officials inviting SSIF to attend investment conferences in Sichuan with local entrepreneurs. Another roughly 20 percent of the entrepreneurs who sought capital from SSIF were referred by local banks or through industry associations, most notably the Sichuan Chamber of Commerce.

While few companies came to SSIF directly for capital, a few did toward the end of the fund's investment period as SSIF had begun to develop a sound reputation in Sichuan. Bai Ja, a food manufacturer, learned about SEAF from two other food manufacturing and distribution companies that were also members of a local food association. Both companies had received investments from SSIF, and recommended the fund to Bai Ja. "As we built up our image, entrepreneurs started to find us," recalls Zhang.

Zhang explains that companies were attracted to obtaining investments from SSIF primarily for three reasons. First, entrepreneurs liked that SSIF offered long term, patient capital, as the life of the fund was 10 years. Most other investment firms offered only shorter term, five to seven year investments, as "they want [high] IRR in a short amount of time. We on the other hand, stay with them so we can help them grow," Zhang explains. Second, businesses were attracted to the diverse business advisory services offered by SSIF, including international resources, banking resources, and the export of products to international markets, along with further capital-raising support. Other equity investors that later began operating in Sichuan, which included Shenzen Capital, Orchid Capital, Yinke, Glory Industry, and the Infinity Group did not offer such extensive advisory support to portfolio companies. Additionally, since these investors are focused on bigger deal sizes and primarily pre-IPO companies, most are not viewed by SEAF as competition. Lastly, SSIF's exit terms were favorable for companies compared with those offered by other investors. Unlike many Chinese investors, SSIF did not adjust the number of shares it owns based on company performance. While SSIF did include mandatory buyback in its legal documents, requiring companies to repurchase SSIF's shares if the firm's performance did not reach predetermined milestones, SSIF differed from most Chinese equity investors as it did not specify when mandatory buybacks had to occur. "This is a universal term now in China," explains Zhang.

"DESPERATELY CHEAP" CAPITAL: THE DOWNSIDE OF POLICY-MANDATED INVESTING

Despite SSIF's unique value proposition and diverse range of deal sources, it took the fund three years to make its first investment. While the Chinese government was essential to the formation of the fund, its small business lending policies, according to Stillman, nearly caused SSIF to fail. Between 2000 and 2003, Stillman explains, the "Chinese government policy was to make credit widely available and desperately cheap; SEAF was trying to get started, but these companies were saying, 'why should we give up equity?'" As an expert on small business financing, Stillman provided more context on the difficulties SSIF faced in its early years, driven both by the well-intentioned yet distortionary public sector involvement in capital markets, along with cultural barriers to investment:

"At the time of the fund's inception, I headed a consulting team financed by the Asian Development Bank, responding to the question, 'What can the government of China do to make debt and equity more available to small enterprises?' My partner John Cox and I had earlier been colleagues at the U.S. Small Business Administration, where he managed the 7(a) loan guarantee program and I was in charge of the Small Business Investment Company program.

John reported on the great number of new local credit guarantee companies that at times would guarantee 100 percent repayment of a bank loan to a small business. The government was especially vigorous [in the early 2000's] in encouraging the banks to lend to companies in the west of China, where economic development was badly needed. On the equity side, the government had just mandated the establishment of venture capital funds by cities and provinces. Some of these have developed into excellent venture funds, but at inception, a great many were managed by inexperienced leaders, whose investments bore more resemblance to loans than to equity financings. The maturing of these entities and increased government supervision cooled off the rush to "invest."

Concurrently, SSIF was educating the market on venture capital, both by informal contacts with industry and government leaders, and through public conferences in which all the elements of new business formation and finance were discussed. It was a major challenge to overcome cultural patterns that created deep suspicions about allowing strangers to become part owners in a business owned by friends and family of the entrepreneurs. It is not surprising, therefore, that it took several years for the fund to make its first investment, as it refused to lower its standards just to create activity."

CAPITAL DEPLOYMENT: A SHIFTING STRATEGY

SSIF's delay in deploying capital may have been one reason the team focused on a smaller segment of the investment strategy outlined in the fund's PPM, both in terms of sector and investment size. Sectors initially targeted by SSIF included:

a. High-quality electronic components and products (especially telecommunications);

b. Media;

c. Pharmaceutical products and distribution;

d. Specialty packaging;

e. Leading local branded products;

f. Logistics and distribution;

g. Internet service providers and portals; and

h. Software and subcontract computer programming

The investments that were ultimately the most attractive were in the food processing and manufacturing sectors. According to SEAF, this shift reflected "reality on the ground" as well as the fund's opportunistic approach to making good investments. Investments in these sectors built on the strengths of livestock and crop production in the region, and were effective means for driving job growth and small farmer supplier impact. The team sought to focus on domestic market opportunities rather than the export-oriented market, given the "huge untapped potential of Sichuan."

Zhang puts SSIF's investment strategy into historical context. "We focus on manufacturing and food simply because Sichuan has food and manufacturing sectors…during World War II, the high quality manufacturing companies, moved inland, to Sichuan Province, under the instruction of the government."

"To SEAF's credit, they went in very strategically," says Tracy Washington. "We [the IFC's private equity group] tend to invest in generalist funds in small markets, where it is difficult to generate sufficient pipeline if there is a specialized focus. SEAF didn't go in there and invest in anything - they took the approach to focus on the food industry, which we thought was appropriate given the market landscape."

SSIF's Board was supportive of the fund's relatively food industry-targeted, yet sector-agnostic, investment approach. "The board accepted an opportunistic strategy that I was very comfortable with, as we were interested in having the door open to proposals from any and all. We wanted to have a broad-based portfolio, which we do," Stillman says.

The fund's average investment size was more than $2 million, double the target outlined in the SSIF PPM. Rather than being driven by the specific needs of investees, this shift was the result of fundamental changes in China's economy along with SSIF's need to adhere to its investment and exit timeline.

Van der Vaart explains: "What happened during the course of the SSIF was that China grew incredibly quickly. Sichuan—being relatively underdeveloped in comparison with the East of China—grew at more than 15 percent annually. After a few years, even SMEs were requiring greater investment amounts. Further, as we headed to the end of the investment period, the Board agreed that the companies we should invest in should be relatively more advanced—closer to an ultimate exit. At the same time, the development objectives were retained and the impact that companies like Hui Ji/Hua Long made were tremendous." Hui Ji/Hua Long were able to include increasing numbers of small farmers into their supply chain, generating positive social and economic impact.

ADDING VALUE: FROM TECHNICAL TO STRATEGIC

SSIF provides a wide range of services to its portfolio companies, assisting managers in every aspect of their businesses. This support ranges from improving business strategy, corporate governance, financial management, human resources, marketing and branding, capital raising, obtaining government clearances, and sourcing of raw materials. Details on these services are outlined below.

FINANCIAL MANAGEMENT: SSIF requires that all its portfolio companies use electronic-based accounting systems, as several initially were tracking their financial accounts by hand. Through this process, SSIF assists companies with the adoption of the International Financial Reporting Standards (IFRS) and implementation of information management systems to more effectively track accounts and generally improve operational processes and management.

HUMAN RESOURCES: SSIF helps portfolio companies recruit both senior and junior management, even holding and participating in interviews for portfolio company positions in SSIF's office in Chengdu.

MARKETING AND SUPPLY CHAIN MANAGEMENT: SSIF assists companies with the expansion of distribution channels, especially with its portfolio companies operating in the food industry. This typically involves a) helping firms gain more market penetration by expanding out of what Zhang describes as "tier 1" into "tier 2 and tier 3 cities and towns," and b) selling not only to distributors who sell to dominant retail corporations like Carrefour and Wal-Mart, but also to small wholesalers. Selling solely to distributors is not an optimal business expansion strategy, Zhang explains, as distributors have more bargaining power to lower price and require vendors to pay additional fees, such as for adding packaging with scan codes. Not only does selling to wholesalers allow portfolio companies to capture higher margins, but "these customers help the food firms develop their brands outside of Sichuan's largest cities," says Zhang. Additionally, SSIF assists companies with designing packaging, transportation logistics, and control of product supplier input prices.

GOVERNMENT APPROVALS: SSIF leverages its relationships with local and municipal governments to help companies obtain government approvals and certifications critical to their legal operation in Sichuan. Citing an example, Zhang recalls that portfolio company "Hui Ji needed a land certificate for its head office and production facility, but was not able to obtain it from the municipal planning commission. SSIF lobbied the government, the vice-mayor of Chengdu visited the site, and by the next month, the approval was made."

CAPITAL RAISING: SSIF assists companies seeking to obtain bank financing, as they often "need other financial products such as a working capital facility [which provides short term debt] or other financial instruments that we cannot offer," Zhang explains.

Investment Profile: HUI JI FOODS, Chengdu, China

Founded in 2001, Hui Ji Foods manufactures and distributes healthy snack foods, primarily made from sunflower seeds and tofu. The company received a $1.6 million equity investment from SSIF in 2005 to support the expansion of Hui Ji's production capacity, introduce improved information management systems, and improve corporate governance. Wang Qi, Hui Ji's Secretary of the Board, states that company's management hoped that a partnership with SEAF would bring Hui Ji closer to the realization of the company's "ultimate goal" – to be listed on China's stock market.

Mr. Qi identifies several positive impacts of SSIF's investment. SSIF's capital enabled Hui Ji to construct new office buildings and a factory and to purchase more advanced manufacturing equipment, expanding the company's production capacity and efficiency. SSIF helped improve Hui Ji's corporate governance, and contributed to Hui Ji's strategic planning efforts in part by advising the company on input sourcing of high quality products. This advisory support was critical to Hui Ji's strong operational growth as well as social impact. Between 2005 and 2009 the company increased its staff from 520 to 1,240. At the same time, the average annual wage for employees nearly doubled, and the number of supplier farmers the company worked with more than tripled.

SSIF played an important role in Hui Ji's strategic restructuring and in making introductions to new investors. In 2009, SSIF assisted in Hui Ji's merger with Hua Long, a food snack distributor and SSIF portfolio company, to enable more rapid growth. Hua Long was launched by the founder of Hui Ji and had also received equity investment from SSIF in 2005.

Two well-known investment funds that focused on China (Orchid Asia and Shenzhen Venture Capital) agreed to invest in the newly merged Hui Ji and to purchase part of SSIF's shareholding, allowing SEAF to make a partial exit. Between the first quarter of 2009 and the same quarter of 2010, Hui Ji realized a 60 percent annual increase in revenue.

Mr. Qi posits that, had Hui Ji not received an investment from SSIF, the company's growth and profitability would have suffered, with a smaller market share and underperforming management team.

While Hui Ji's experience working with SSIF has been mostly positive, Mr. Qi states that cultural differences existed between SSIF and Hui Ji with regards to return expectations. "Chinese shareholders focus on long term investment return, while foreign shareholders may care about stable short-term returns as well as the long-term return. For example, foreign shareholders expect to receive an annual dividend from the investee company," Qi explains.

Note: Portions of this section were adapted from a profile of Hui Ji on SEAF's website.

ADVISORY SUPPORT: THE PRIMACY OF RELATIONSHIPS

Zhang explains that the support his team provided businesses, particularly for raising capital and obtaining government approvals, represents a unique value proposition; these services are not provided by SSIF's competitors. Zhang attributes the value of this distinctive offering to the SSIF team's deep relationships with commercial banks and local governments and the strong reputation of SSIF's funders. "I worked for the People's Bank of China for seven years as an approver [of loans], and I know many other approvers. This has enabled me to effectively source deals and help portfolio companies access additional investments. We have a close relationship with the foreign investment promotion bureau at the provincial and municipal level, which has been valuable because we refer investors and companies to them, and they help promote the fund's image. Other funds do not emphasize their image in the market, or with the government. We think that is very important, partly because we have very strong LPs like IFC and New York Life."

More than just a valuable resource for portfolio companies, Zhang explains that the team's relationships with local government are fundamental to the operation of SSIF, and are a reason why so few funds like SSIF exist. "You need seven government approvals to make an investment. In the exit period you need six approvals. Many other funds cannot handle that."

Diplomatically responding to the requests of entrepreneurs, Zhang notes, was an important component of supporting companies, especially when it came to disagreements. "Some of the requests entrepreneurs make are not good, such as for assistance with avoiding taxes by allocating profits to a subsidiary. This is illegal in China. But we would not say 'no' immediately," as this was critical to maintaining close relationships with entrepreneurs and getting them to see the bigger picture, Zhang recalls.

RESULTS

As of June 30, 2013, SSIF had made three exits and five partial exits, with a gross IRR of 23.17 percent, below the fund's target pre-tax gross IRR of at least 30 percent. The fund's net IRR was 11.38 percent, in line with limited partners' expectations to receive an IRR in the high single digits to low double digits range. Table D includes details on exits, 2012 portfolio valuations, and fund returns.[9]

While the performance of comparable growth stage equity funds in China is not publicly available, SSIF has significantly outperformed its global, non-mission driven peers. As of the second quarter of 2013, Cambridge Associates Venture Capital Index reports that out of 154 U.S.-based venture capital funds launched in 2000, the upper quartile had a median net IRR of 3.86 percent. Preqin reports in the fourth quarter of 2011, that of 78 global VC funds closed in 2000, the upper quartile net IRR was 4.2 percent.[10]

[9] Includes sales from the merger of Hualong and Hui Ji.

In its thirteenth year of operation in 2013, SSIF's life was extended until 2015. SEAF states that this extension has been driven primarily by the fund's initial delay in deploying capital, the 2008 financial crisis, and fund management seeking to exit the companies at true fair market value rather than forcing a time-based exit decision that would be detrimental to overall investor returns.

SSIF's exits were made via a combination of management buybacks, trade sales, and secondary sales, with secondary sales and management buybacks being the most lucrative. Unlike most fund managers, SSIF intentionally sought to exit via management buyouts and developed contracts with portfolio companies that would enable the sale of SSIF's equity to management. "If you talk about management buyouts in the U.S., it is generally thought to be a second class way to exit," says Stillman. "In the case of China, the fact is that businesses can grow quickly enough for managers to be able to leverage their businesses to buy out investors like us. Additionally, since entrepreneurs often have concerns with having strangers as investors, they are attracted to management buyouts to maintain ownership and control of their businesses. In the U.S., entrepreneurs are more likely to think in terms of IPOs and sales to external buyers."

Investment Profile: CHENGDU FUTIAN NEW MATERIALS CO., LTD., Chengdu, China

Chengdu Futian New Materials (Futian) manufactures materials for use in steel production, such as vented plugs and refractory materials.[11] The company received a $2.3 million equity investment from SSIF in 2005 to increase the scale of its production and introduce "advanced management experience from overseas," says Guo Junxian, the company's Vice President.

Mr. Junxian outlines five key areas where SSIF's capital and advisory support benefited Futian. First, SSIF's investment not only provided financial support for the company's research and development, production and market expansion, but also "increased the influence of the company over the refractory industry of China." Second, SSIF helped Futian set up a Wholly-Foreign-Owned Enterprise (WFOE),[12] which allowed Futian to benefit from tax exemptions and deductions. Third, SSIF assisted with improving Futian's corporate governance structure and operations management. Fourth, SSIF assisted Futian with an acquisition and merger, and "introduced second round and pre-IPO financing to Futian that accelerated Futian's growth," says Mr. Junxian. Lastly, SSIF provided strategic guidance to Futian. "The two sides jointly made strategic development plans and resolved problems that occurred during the company's growth," notes Mr. Junxian.

Washington, of the IFC, reflects on SEAF's alternative exit strategy: "SEAF takes an experienced approach to structuring SME investments. It's not just about effectively putting equity in; [fund success is driven by] creating self-liquidating financial structures so portfolio companies don't have to exit via IPO and other traditional methods."

SOCIAL PERFORMANCE: OUTPERFORMING CHINA'S ECONOMY

As outlined in the fund's PPM, SSIF's non-financial objectives were to help address the inability of SMEs to access finance as well as information, management science, and technology, contributing to growth in employment, tax and social security payments. Not included in the PPM was SEAF's desire to improve the income levels of workers, create employment for low-skilled workers, and create indirect economic activity through payments to suppliers, customers reached, and benefits accrued by other company stakeholders. See Appendix C for a detailed summary of SSIF's non-financial impact as of 2010.[13]

A comparison of the employment created and wages paid by SSIF portfolio companies in June 2013 with the broader Chinese economy and manufacturing industry indicates that the fund has achieved both strong financial and social performance, by demonstrably helping SMEs create an outsized number of quality employment opportunities in Sichuan. Between 2003 and 2013, SSIF portfolio companies increased their workforce by a staggering 21 percent annually, and increased workers' wages by 17 percent annually.[14] The Chinese economy as a whole, by comparison, added jobs at a rate of 0.52 percent annually from 2003 to 2013, and Chinese manufacturing companies increased staff wages by an average of 13.7 percent each year

[10] See http://www.cambridgeassociates.com/pdf/Venture%20Capital%20Index.pdf and https://www.preqin.com/docs/reports/Preqin_Special_Report_Venture_Capital_May12.pdf.

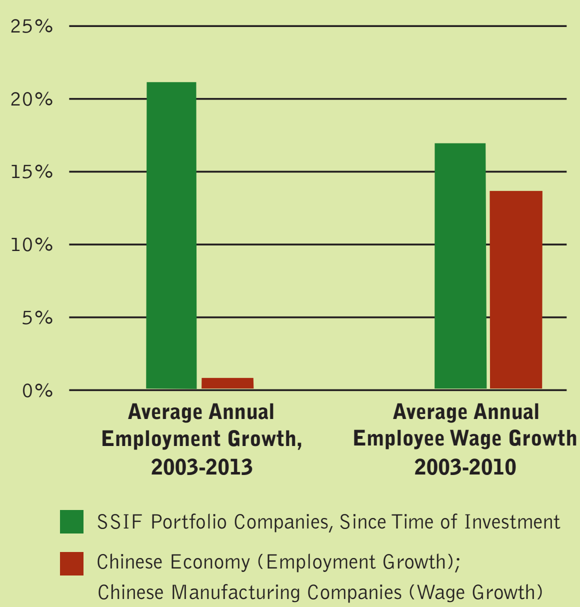
[11] Refractories are heat-resistant materials that constitute the linings for high-temperature furnaces and reactors and other processing units. See http://www.refractoriesinstitute.org/aboutrefractories.html

[12] WFOEs are limited-liability corporations organized by foreign nationals and capitalized with foreign funds. WFOEs are often (but not necessarily) used to produce a foreign firm's product in mainland China for later export, often through the use of Export Processing Zones which allow the importation of components duty free into China, to then be added to Chinese-made components and the finished product. An additional advantage with this model is the ability to claim back VAT on the Chinese manufactured component parts upon export. See http://www.wfoe.org/

TABLE D. SSIF'S FINANCIAL PERFORMANCE (AS OF JUNE 2013)

SSIF PORTFOLIO COMPANY	DATE OF INITIAL INVESTMENT	DATE OF EXIT (PARTIAL OR COMPLETE)	EXIT METHOD	EQUITY INVESTED ($)	REALIZED PROCEEDS ($)	UNREALIZED FAIR MARKET VALUE ($)	TOTAL FAIR MARKET VALUE ($)	IRR	MULTIPLE OF CAPITAL INVESTED	VALUATION METHODOLOGY
Chengdu Bangbangwa Ind.	9/11/2003	8/31/2010	Partial Management buyback	1,852,666	2,713,845	5,273,153	7,986,998	24%	4.31	50% DCF, 50% Comparable Comps
Sichuan New Highway & Bridge	7/10/2003	6/29/2010	Management Buyback	1,330,000	2,396,904		2,396,904	9%	1.8	Trade Sale
Chengdu Qili Water Treatment	2/7/2005	5/4/2010	Secondary sale to Chengdu Ming yi Investment Management Co.	544,000	1,553,234		1,553,234	26%	2.86	Trade Sale
Tian Gong Valve	5/11/2005	5/18/2011	Management Buyback	987,409	1,618,590	1,544,770	3,163,360	20%	3.2	50% Market Offer, 25% Comparable Comps
Futian (Midsino)	5/11/2005			2,272,289	1,457,333	5,048,238	6,505,571	19%	2.86	50% DCF, 50% Comparable Comps
Feng Tai Packing	9/24/2005	4/16/2008 & 2/9/2010	Management Buyback	2,477,731	5,012,783		5,012,783	23%	2.02	Trade Sale
Hualong/Huiji Food Industry	9/20/2005	11/20/2009	Secondary sale	3,248,500	5,124,806	13,856,110	18,980,916	33%	5.84	50% DCF, 50% Comparable Comps
Bajia Food International	9/22/2006	5/1/2013	Trade sale to Yashi International Food Corporation	4,193,531	2,617,576	6,333,022	8,950,598	13%	2.13	100% Market Offer
TOTAL				**16,906,126**	**22,495,073**	**32,055,293**	**54,550,365**	**22%**	**3.23**	

FIGURE 3. SSIF SOCIAL PERFORMANCE: OUTPERFORMING CHINA'S ECONOMY



from 2003 to 2010 (Figure 3).[15] While these figures are not precise benchmarks,[16] they do suggest that SSIF has tangibly contributed to the reduction of economic inequality in China, validating the Chinese government's original motivation for enabling and facilitating the creation of the fund.

While SSIF's social and financial performance has been exemplary, the verdict is still out on the fund's ultimate contributions to both impact investing and economic development within Sichuan. "This fund is a great example of how you can stimulate a market to improve manufacturing technology and create jobs, but it's not over yet," says Washington. "If they don't close the fund's remaining investments with positive results, the fund will not be a complete success in our eyes, because the portfolio companies won't be [contributing significantly to local economic development], and the SSIF team won't be there to continue investing in and growing impactful companies. It's not enough to simply catalyze in our perspective."

[13] More recent comprehensive social performance data is not available, as SEAF offered an in-depth Development Impact Data Survey in 2010, 10 years after the launch of the fund. A more limited number of social metrics including number of portfolio company employees, number of female employees, whether companies are run by a woman, and taxes paid are tracked on an annual basis and reported to LPs.

[14] Data only available from 2003 – 2010.

[15] See http://www.tradingeconomics.com to access economic indicators for China.

[16] Employment growth within the food and manufacturing industries in China is not publicly available. While not all SSIF portfolio companies were in the manufacturing sector, wage growth in Chinese manufacturing was the closest proxy available to benchmark the extent to which SSIF contributed to increasing workers income.

CONCLUSION

As an investor in a frontier market, SSIF's performance cannot just be measured by its returns and direct impact, but by the extent to which it paved the way for a vibrant industry. That growth was nothing less than explosive: from a base of very little direct investing in 2000, private equity investors in China made more than 10,000 investments worth $230 billion between 2001 and 2012.[17] While SSIF certainly cannot take full credit for this rapid influx of capital and resulting economic activity, it was definitively a first mover in the private equity market outside of Beijing and Shanghai, and played a key role in changing how governments, banks, and business owners in the area fundamentally think about investment. Business owners increasingly understand that investment need not necessarily come from family members or banks, but can come from external owners and advisors. This cultural transformation, as SEAF board member Robert Stillman notes, parallels the growth of venture capital in the 1950's and 1960's in the United States, paving the way for the still thriving entrepreneurial environment in the U.S.

"I started working in venture capital in 1957 when it was a new phenomenon in the United States. I feel more at home with a fund like SSIF than if I were to join a modern VC fund in the U.S. today, because many of the challenges [SSIF encountered] are ones we faced 50 years ago in the U.S. SEAF is doing more than just providing capital – it has changed local businesses' perspective on what investment is and can be," reflects Stillman.

Reflecting on the strengths of the fund, Washington notes, "It's not enough to just be 'multilingual' - fund managers have to embody and be a part of the local market to effectively connect with business owners and help the investee clients. "SSIF could not have done what it did without the local team. The SEAF global team played a strategic role in focusing [the fund] on the food industry, with in-depth involvement from the local team. It couldn't have been done any other way."

While the ultimate performance of the fund remains to be seen, the fund's success to date offers several lessons for impact investing practitioners, especially those seeking to enter entirely new markets.

First, SSIF was especially hands-on when it came to providing advisory services, and developed a sophisticated understanding of the relative value of different forms of consultative support, ranging from helping companies obtain additional financing, financial management, and strategic planning. Of all the areas of advisory support provided, SSIF's fund manager discovered that strategic planning was the most crucial to companies' success.

Second, SEAF gained a deeper appreciation of the importance of investing with an eye to finding synergies between portfolio companies for potential mergers and roll-ups. The successful merger of two portfolio companies and the 33 percent IRR of SSIF's combined investments in those companies is testament to the value of this approach, rarely employed by fund managers in the impact investing space.

Most importantly, SEAF learned the initially painful lesson that governments can have an unpredictable and even unintentionally negative impact on fund performance, even when they were essential supporters of the fund's formation. SEAF's recruitment of George Zhang helped mitigate this risk, as he and his team can employ their knowledge of the local government - its processes and its officials - to navigate Sichuan's regulatory environment and effectively link companies with the resources and contacts they need to scale.

[17] http://dealbook.nytimes.com/2013/01/10/private-equity-in-china-which-way-out/

POSTSCRIPT

Since closing the Sichuan SME Investment Fund in December 2000, SEAF continued its expansion out of Eastern Europe, launching another 12 funds throughout Asia, Europe and Latin America. With $687 million capital committed since its inception and current assets under management at $390 million as of September 2013, SEAF maintains its leadership role as one of the largest and most experienced fund managers in the international SME and impact investing arena.

SEAF's experience with SSIF, in particular, has played a critical role in informing SEAF's global investment strategy. First, SEAF gained a clearer understanding of the myriad factors which delay the deployment of capital in emerging markets unfamiliar with equity investing, which must be taken into account as fund managers set goals. Because the first investment in a new fund is important in sending a signal to the market and to future potential investees, a fund manager needs to be very deliberate and careful, reflects van der Vaart. "It inevitably will take longer than investors expect to get the first deal done, as a) the first companies that come to the fund are likely ones that have exhausted all other options and may not be the best investments, b) the fact that nothing is yet routine in terms of the process internally or externally, and c) education can be needed to convince an entrepreneur that an equity partner is the right next step for his or her company."

Another lesson SEAF learned from SSIF is that government policies can have significant effects on the fund; in the case of SSIF, easy lending policies for banks can make a fund's offering less attractive at the time, especially to the higher performing companies. Pressure to deploy capital despite this reality can impact the quality of companies seeking an investment from the fund.

Lastly, SEAF gained a deeper appreciation of the importance of investing with an eye to finding synergies between portfolio companies for potential mergers and roll-ups. The successful merger of Hualong and Huiji Food and a 33 percent IRR of SSIF combined investments in those companies is testament to the value of this approach, rarely employed by fund managers in the impact investing space.

SEAF is constantly monitoring investment trends and opportunities, and plans to enter new markets where SME equity investing is scarce or nonexistent. In addition to a follow-on fund in Western China, SEAF China Growth Fund II, SEAF is considering opportunities in the Balkans, Nigeria, Sri Lanka and the MENA region along with a variety of nontraditional global investment vehicles that utilize SEAF's broader investment platform. As Tracy Washington of the IFC puts it, SEAF continually seeks to "go where no fund manager has gone before."

APPENDIX A: FUND MANAGEMENT PROFILES

HUBERTUS VAN DER VAART:

- Mr. van der Vaart has served as president and CEO of SEAF since May 1997 and is responsible for it overall investment operations. From August 1994 until May 1997, Mr. van der Vaart was the director-general of SEAF's Fund in Poland, CARESBAC-Polska, during which time CARESBAC-Polska made 27 investments. Prior to acting as director-general of CARESBAC-Polska, Mr. van der Vaart was the managing partner of the Brussels office of Gibson, Dunn and Crutcher, where he specialized in international corporate law, primarily with respect to corporate financings and mergers and acquisitions. Previously, he was a management consultant with Bain & Company in Munich. He has practiced law in Washington, Brussels, Paris, New York, and Frankfurt. Mr. van der Vaart holds a J.D. from Yale Law School, where he was an Articles Editor of the Yale Law Journal; a B.A. in Politics and Economics and an M. Phil. in Economics from Oxford University, where he was a Rhodes Scholar; and a B.A. from the University of North Carolina where he was a Morehead Scholar, a National Merit Scholar, and a co-valedictorian of his class. He also studied finance at the Yale School of Management. Mr. van der Vaart, a Dutch national, is a citizen of both the Netherlands and the United States and speaks English, Dutch, German, French, Polish, and some Russian.

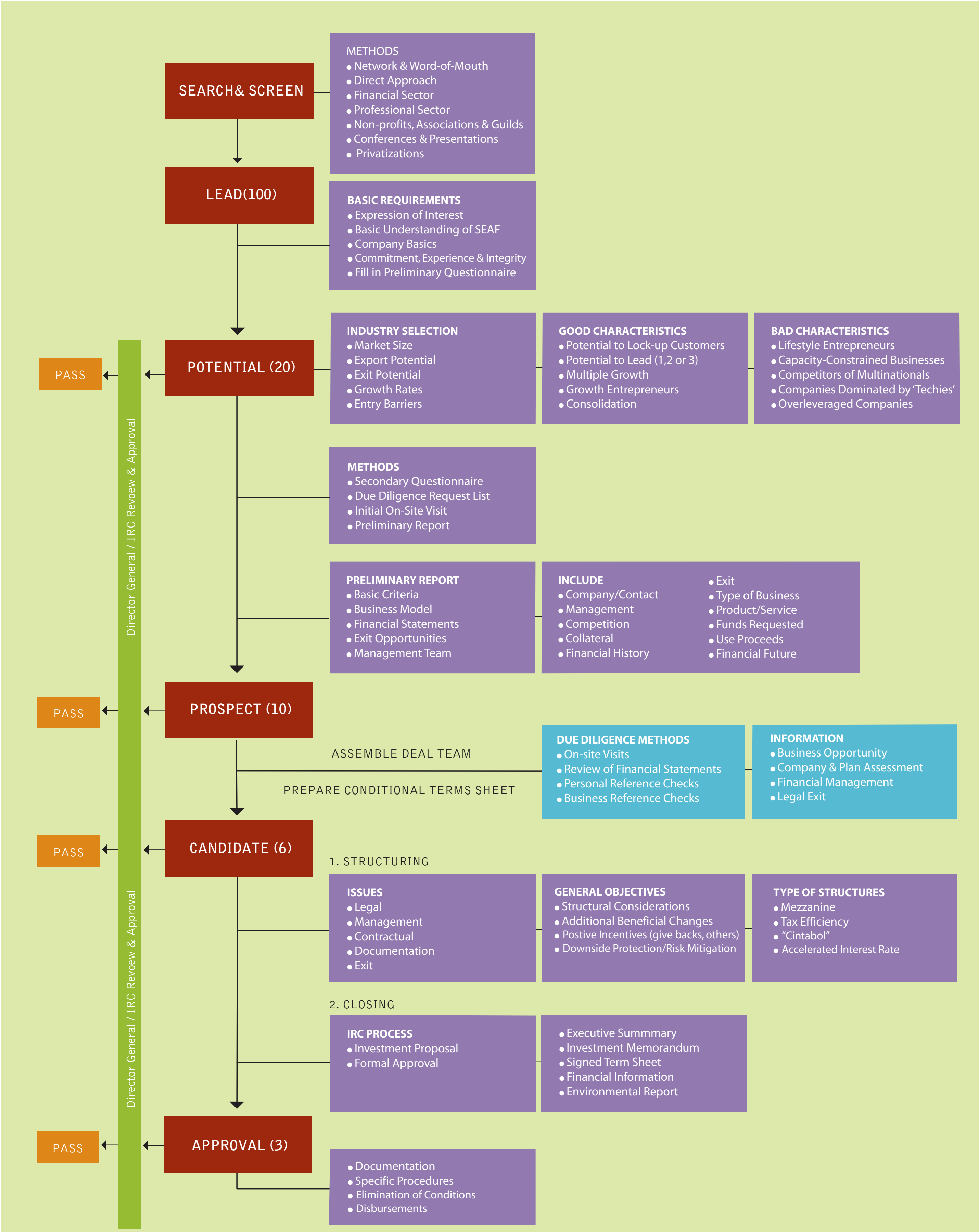
JON CARR:

- Jonathan R. Carr, President of the Fund and Managing Director for the Fund Manager in Sichuan. Mr. Carr has been with SEAF since 1994, primarily in Russia and Poland. Since mid-1996, Mr. Carr has been director-general of Small Enterprise Equity Fund – Saint Petersburg where he built and managed a staff of 10, which completed 12 investments. Investee companies operate in sectors such as printing, packaging, food processing, and light manufacturing. Before moving to St. Petersburg, Mr. Carr worked for CARESBAC-Polska where, as deputy director-general, he had lead responsibility in the origination and closing of a number of equity investments, including the negotiation of complex bank debt restructuring transactions, and in the opening and management of CARESBAC-Polska's Poznan office. Before coming to Eastern Europe in 1992 to work with the First Polish-American Bank, Mr. Carr was a key professional in the start-up of Bank One – Chicago where he built and managed a portfolio of asset-based loans to middle-market businesses. Mr. Carr holds an M.B.A from the Wharton School, where he also served as Senior Consultant to the Wharton Small Business Development Center, and a Bachelor of Business Administration degree from the University of Wisconsin.

GEORGE ZHANG:

- Before joining SEAF in 2004, Mr. Zhang worked as Chief Representative for the investment branch of New York Life International in Southwest China, originating, analyzing and structuring infrastructure projects and direct investment. Similarly, in inland Sichuan, Mr. Zhang served as Chief Representative and Senior Relationship Manager of Standard Chartered Bank, developing the nascent corporate banking, institutional banking, and derivatives products. While working for Standard Chartered Bank, he was honored as one of the top 10 best performers and high potential staff members from May 1995 to July 1999. Mr. Zhang's good resources and business and government relationships originated from his work experience at Sichuan Branch of the People's Bank of China from 1989 to 1995. At the People's Bank of China, he was the head of the foreign investment and banking business departments, approving businesses' registration and certification, establishing foreign branches for the international companies, monitoring the influx of capital and overseeing the management of the assets and liabilities of commercial banks. Mr. Zhang studied finance and accounting as a Visiting Scholar at Bentley College in Boston, Massachusetts and holds a M.A. in Economics from the Southwestern University of Finance and Economics in China and a B.A. in English and Japanese from Sichuan College of Foreign Languages in China.

APPENDIX B: SEAF'S INVESTMENT PROCESS DIAGRAM, PRE-INVESTMENT



APPENDIX C: SSIF 2010 DEVELOPMENT IMPACT DATA SURVEY RESULTS*

EMPLOYMENT	
22% average annual increase in employment since time of investment	65% average annual increase in benefits paid for employees in USD terms since time of investment
17% average annual increase in wages in USD terms since time of investment	100% of companies have provided formal training to their employees since the time of investment
58% of jobs go to low skilled workers	748 average number of employees per company in 2010
51% average annual increase in external training expenditures provided to employees in USD terms since time of investment	$3 million average per company paid in net wages and benefits to employees in 2010
SUPPLIERS	
14% average annual increase in # of local suppliers since time of investment	30% average annual increase in payments to local suppliers since time of investment
3 out of 5 companies provided trade credit to suppliers in 2010	$33 million average annual payment per company to local suppliers in 2010*
CUSTOMERS	
23% average annual increase in # of business /corporate customers (among companies with such type of customers) since time of investment	14% average annual increase in # of consumer customers (among companies with such type of customers) since time of investment
1,683 business/corporate customers in 2010 (among companies with such type of customers)	1,930 consumer customers in 2010 (among companies with such type of customers)
OTHER STAKEHOLDERS	
30% average annual increase in taxes paid to the government since time of investments	$1.4 million average amount paid in taxes per company in 2010
18% average annual growth in contributions to local community/ charity since time of investment	$7,400 average amount paid to local community/charity per company in 2010
GENDER ANALYSIS	
48% of employees were females in 2010	80% of the companies have women in senior management positions and on the Board of Directors in 2010
46% growth in number of women holding senior management companies since investment	40% growth in female representation on Board of Directors since investment

Note on all Survey results analysis: Growth data based on all companies with data available from time of SEAF investment to year of exit or 2010. Snapshot data is based on 2010 data for active companies (i.e., not exited) for companies with data available.