



Abstract

Symbiotics Microfinance Investment Vehicles Survey

A study of Global Microfinance Investment Funds

9th edition

September 2015

Key Survey Facts 2015

FUND UNIVERSE

Number of participants:

84

Market coverage:

96%

Market size:

USD 10 billion

Annual growth of funds:

+13%

Five-year growth
in microfinance portfolio:

78%

Switzerland's and the
Netherlands'
asset manager concentration:

55%

INVESTMENT UNIVERSE

Number of countries invested in:

102

Cambodia

Top 1 exposure:

8%

Africa is the
fastest growing region:

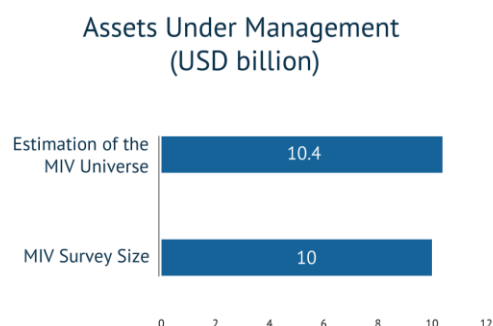
+21%

Smart Campaign
assessment:

only 25%

1. High Market Coverage

Out of 110 identified Microfinance Investment Vehicles (MIVs), 84 participated with total assets under management of USD 10 billion¹. This represents 96% of the total market of microfinance investment vehicles estimated at USD 10.4 billion. Many closed-end funds created back in 2003-2004 have matured or closed down, while three funds were merged with other entities. Among the new funds created by existing asset managers, six have a fixed income strategy.



2. Switzerland & Netherlands Leaders with 55% Market Share

In total, 43 asset managers based in 16 countries, are represented in the survey². 72% of the market investment volume is managed by European Asset Managers. Among the European countries, Switzerland remains the leader with one third of microfinance assets, followed by the Netherlands (25%) and Germany (17%).

	Total Assets (USDm)		Microfinance Portfolio (USDm)		Nb of MIVs per Asset Manager Location
	2013	2014	2013	2014	
Switzerland	28%	30%	33%	32%	20%
Netherlands	28%	25%	25%	24%	12%
Germany	17%	17%	14%	17%	10%
USA	9%	8%	10%	7%	23%
Luxembourg	7%	7%	7%	8%	4%

Overall, the asset managers' universe remains highly concentrated with the top 3 entities representing 43% of the benchmark volume. In terms of Microfinance Investment Vehicles, the market remains concentrated with the top 5 managing 45% of the total microfinance assets and the top 50 respectively 95%. In terms of investment strategy, funds continue to be mainly Fixed Income Funds (49 out of 84). The bulk of the MIVs' portfolio volume (59%) is invested in large microfinance institutions which have more than USD 100 million in total assets. All

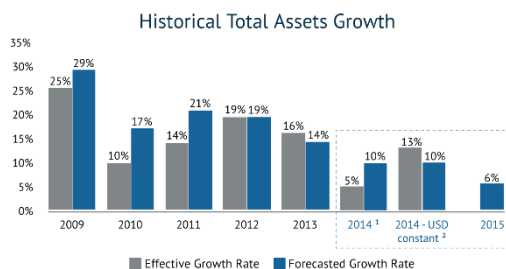
¹ For simplicity reasons, the terms MIVs and Microfinance Investment Intermediaries (MIIs) are used interchangeably in this paper as MIIs represent only 7% of the total estimated market size.

² Only Asset Managers' management mandates (and not advisory) are included in the sample's calculations in order to avoid double counting.

MIVs invest in a diverse range of countries, 102 in total.

3. Stable but Lower Growth

Since 2012, MIVs' total asset growth has been declining. On a year-to-year basis, they registered higher than expected growth, i.e. 13% vs. 10% forecasted in 2013³. With the fluctuation of the USD against other currencies in 2014, and with EUR funds representing a large portion of the survey sample, growth figures based on a constant sample are adjusted by applying a constant USD exchange rate as of December 2013. For the upcoming year, MIVs forecast a growth of 6%, the lowest ever.

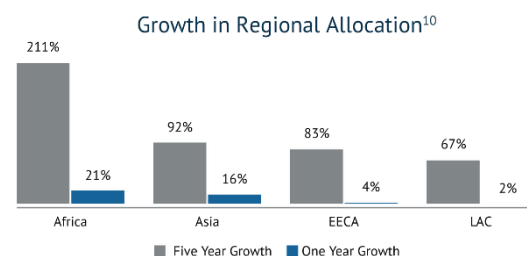


On a constant sample based on 40 MIVs reporting for the period 2010-2014, the Microfinance Portfolio increased by 78%. On a year-to-year basis, the Microfinance Portfolio increase was slightly lower than in 2013, i.e. 17% vs. 15.8%.

³ For the period 2013-2014, the growth rate is calculated on a constant sample of 66 MIVs. The growth is adjusted for currency fluctuation by using a constant rate as of

4. Africa with Higher Growth Levels

Historically, Eastern Europe & Central Asia (EECA) as well as Latin America & the Caribbean (LAC) have attracted the highest volume of microfinance investments. In 2014, they remain the prime geographic focus of MIVs with close to 70% of direct microfinance investments being concentrated around those two regions (EECA: 38% and LAC: 30%). While volume remains relatively low in Africa with 11% of the microfinance portfolio of all MIVs, investment in Africa has grown by 211% over the past 5 years. It is the fastest growing continent followed by Asia (+92% since 2010) mainly due to an increase of volume in East Asia and Pacific (EAP).



December 2013. Total Assets growth might differ from the online benchmark due to manual readjustment of the reported data of two outliers.

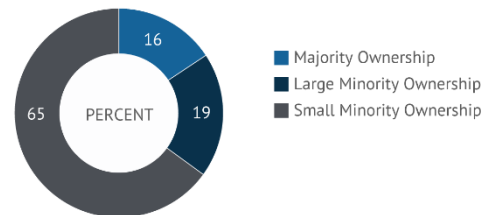
The country distribution of MIV's investments has been tracked for the first time in this 9th edition. Cambodia tops the list by receiving 8% of the direct microfinance portfolio of all MIVs, followed by India (6.9%) and Azerbaijan (6.5%). The country comparison with the regional distribution suggests that Cambodia and India form the bulk of investments in EAP and South Asia respectively. Six out of the top 10 countries belong to the EECA region. In terms of peer group analysis, Fixed Income Funds and Mixed Funds display similar trends to the aggregate benchmark with EECA and LAC being the two largest regions and Cambodia the top country. Equity Funds exhibit a different geographic asset allocation than the rest of the peer groups with a high concentration in South Asia (32%), mainly led by India in which a number of Equity Funds are solely invested.

5. New Metrics: PE Valuation

A new set of key performance indicators specific to Equity Funds are part of the new MIV Reporting Guidelines developed in 2015. A typical Equity Fund with microfinance as its core business has 2009 as its vintage year and an average investment period of 5 years. The general partner is eligible for a 20% carried interest at a 7.4% hurdle rate. Equity Funds are usually small minority owners in their investees (i.e.: under 25% ownership) but

represent on average 57.8% of the board of their portfolio holdings.

Equity Funds' Percentage Ownership in Microfinance Investees



Half of the portfolio volume is invested in large microfinance investees (i.e.: those with Total Assets over USD 100m) valued at 1.86 times their book value. This ratio is based on 10 equity valuations reported across the different regions involving a direct equity portfolio outstanding volume of USD 218 million of six MIVs.

Comparatively, the price to book value stands at 2.05x for the financial services sector (Non-bank and Insurance) in emerging markets⁴. Equity Funds are the smallest in size relative to other strategy types (i.e. Fixed Income Funds and Mixed Funds) with total assets of USD 58.4 million on average and committed capital of USD 68.2 million on average. They are however more diversified than other peer groups in terms of impact themes with 15.2% of total assets invested in a portfolio of products not related to microfinance (i.e.: Other Portfolio).

6. New Metrics: ESG

The additional MIV reporting guidelines developed in 2015 include a set of new

⁴ Source: Damodaran Online

Environmental, Social and Governance (ESG) indicators. Overall, MIVs continue to increase their outreach with the number of active borrowers financed reaching close to 260,000 on average per MIV. The average loan size of microfinance investees financed by MIVs has been decreasing since 2012 and stands at USD 1,622 as of December 2014.

As for the new set of indicators tracked in this 9th edition, mobile banking facilities are only provided by less than 10% of microfinance investees. This indicator witnessed a low response rate in the survey (19 MIVs out of 84), suggesting that very few MIVs actually track whether their portfolio companies make use of mobile banking as part of their operations. In terms of client protection, almost all participating MIVs have endorsed the Client Protection Principles (CPPs) set by

the Smart Campaign (99%). A large number of microfinance investees are also today endorsers of this initiative (1,600) but actually only 25% of investees financed by MIVs have gone through a Smart Assessment. Having completed this assessment is one step towards getting certified and guarantees that an entity has implemented the CPPs.

25%

Smart Assessment

9.3%

Mobile Banking Facilities

About Symbiotics Microfinance Investment Vehicles (MIV) Survey :

The 2015 Symbiotics MIV survey is an annual survey which aims to provide comprehensive market trends and peer group analysis on microfinance off-shore investments. The survey, in its 9th edition, is based on December 2014 financial and social performance indicators reported by a large number of microfinance investment vehicles (MIVs). This year, it included Microfinance Investment Funds that are not open to multiple investors. In addition, participants also followed new guidelines, developed in 2015 by Symbiotics in collaboration with other microfinance asset managers, which track a set of additional key financial and social performance indicators. Participants report their data based on the CGAP MIV Disclosure Guidelines (2010) that serve as the industry standards for MIV reporting.

About Symbiotics:

Symbiotics, incorporated in 2004 in Geneva, is an investment company specialized in emerging, sustainable and inclusive finance which offers market research, investment advisory and asset management services. It is an asset manager of collective investment schemes regulated by FINMA, the Swiss Financial Market Supervisory Authority and has an advisory license from the FCA, the Financial Conduct Authority, through its subsidiary in the UK. The company is headquartered in Geneva, with offices in Cape Town, London, Zurich, Mexico City and Singapore with a staff of over eighty professionals. Since 2004, Symbiotics has invested over USD 2.4 billion in more than 250 microfinance institutions in 50 emerging countries, working with more than 28 investment funds and many institutional investors.