



BlueOrchard

Microfinance Investment Managers



University of Zurich^{UZH}

The Importance of Microfinance

Swiss Institutional Investors Survey 2014

Dr. Annette Krauss, MD Center for Microfinance
UZH, Dept. of Banking and Finance

Peter Fanconi, CEO
Dr. Patrick Scheurle, CFO/COO
BlueOrchard Finance S.A.

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| 1 | Introduction |
| 2 | Key findings |
| 3 | Objectives and methodology of the survey |
| 4 | Survey participants |
| 5 | Drivers of microfinance investment |
| 6 | Barriers to microfinance investments |
| 7 | Conclusion |

Introduction:

The Center for Microfinance:

The Center for Microfinance is the center of excellence in applied research, advisory services, teaching and executive training on microfinance at the University of Zurich.

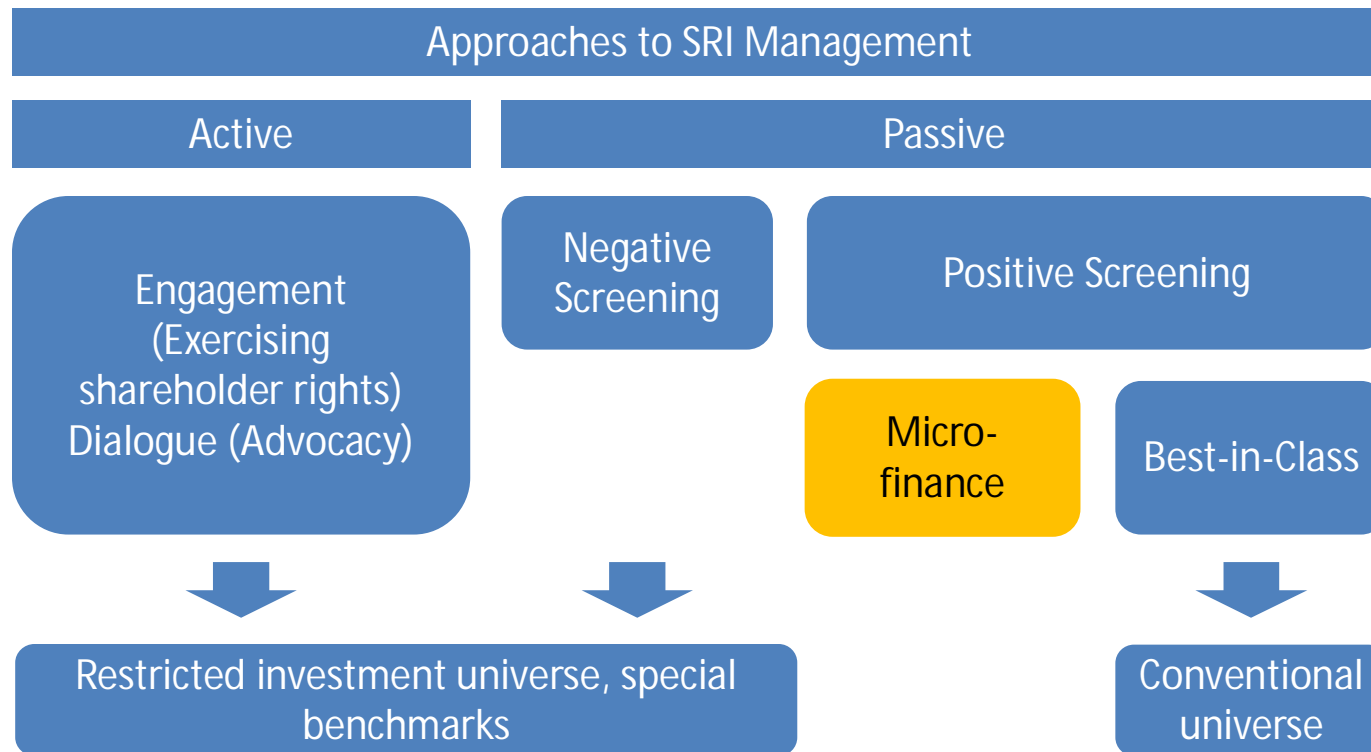
Founded in 2009 and affiliated to the Department of Banking & Finance (**Institut für Banking und Finance**), it aims to build microfinance knowledge for the microfinance industry, academic research, and private and institutional investors, and to contribute to a maintained quality of microfinance investments.

BlueOrchard:

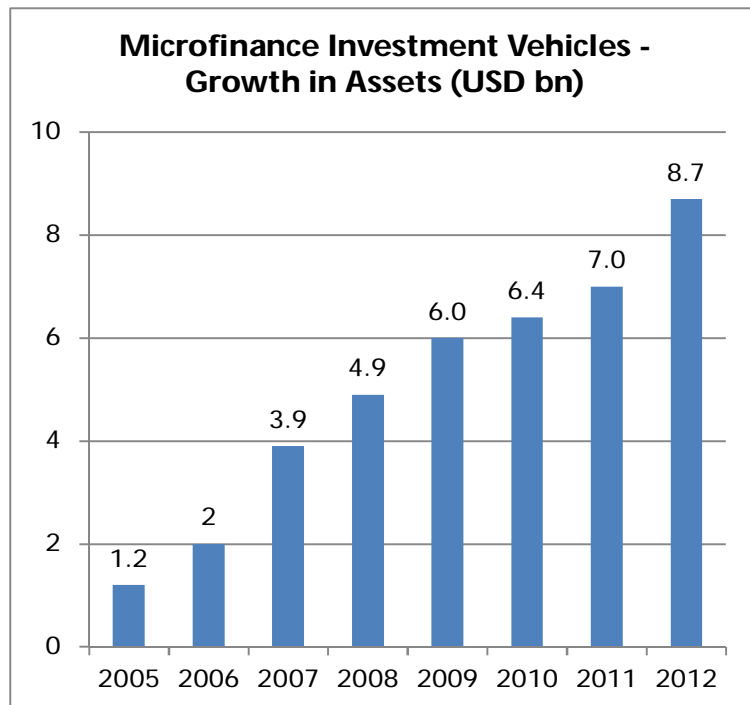
BlueOrchard Finance S.A. was **founded in 2001** as the first commercial manager of microfinance debt investments worldwide. To this day, the company has deployed in excess of USD 2bn in loans to microfinance institutions, providing access to microcredit to over **30 million individuals across 50 countries**.

Investors in BlueOrchard-managed funds include private and institutional investors, supranational institutions as well as renowned foundations. The company employs highly experienced staff in Geneva, Zurich, Luxembourg, Lima, Phnom Penh, Tbilisi and Nairobi.

Microfinance – An independent asset class?

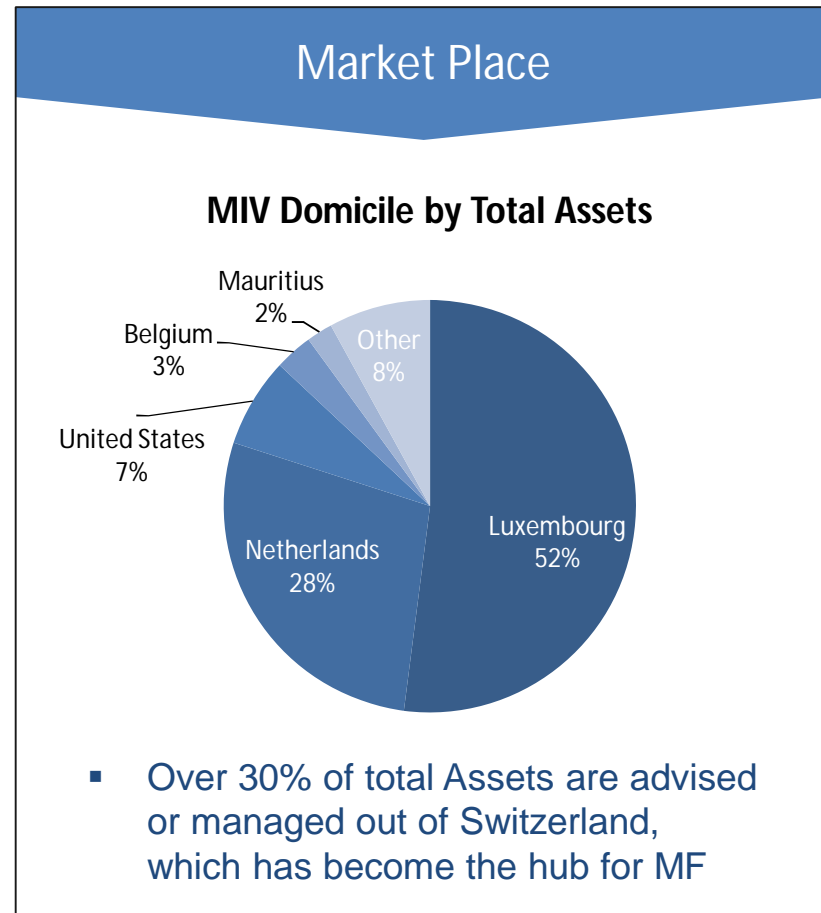
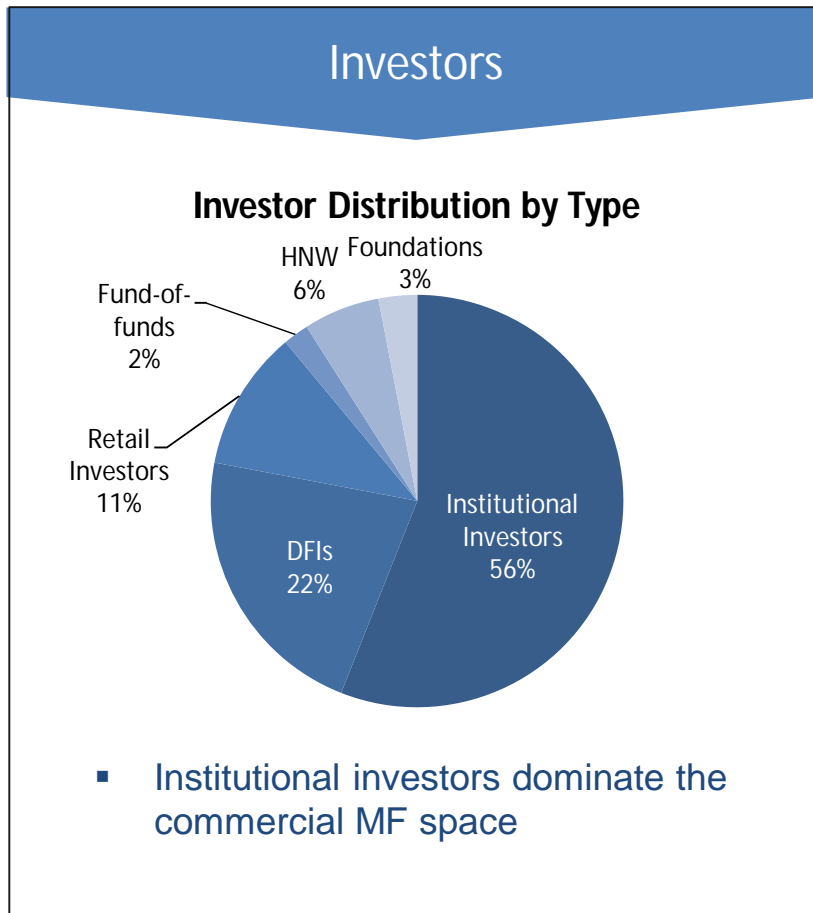


The Importance of Microfinance



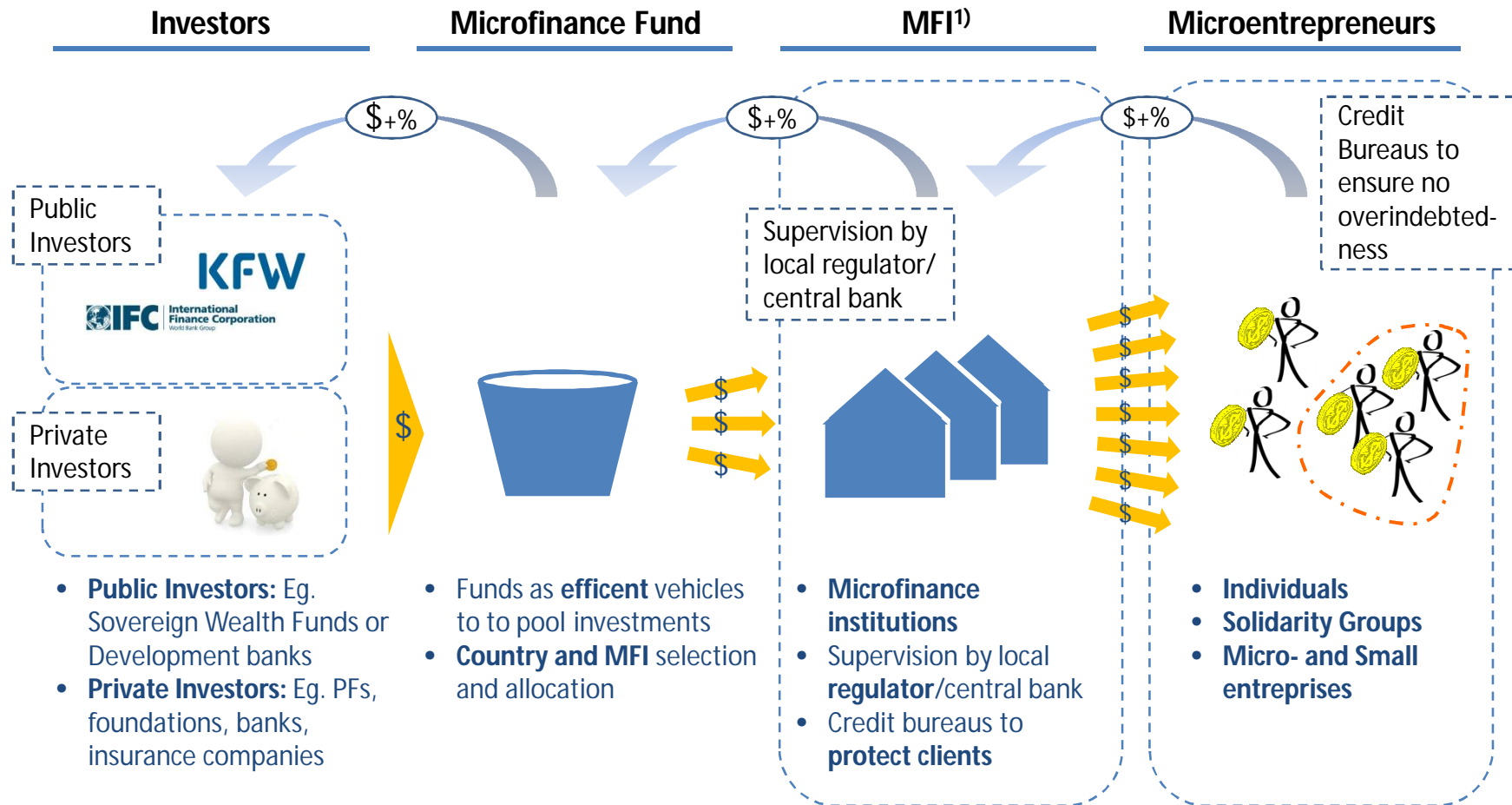
- Microfinance is a fast growing asset class
- Commercial volume amounts to roughly USD 10bn
- 80% AuM: debt financing
- 20% equity financing

Investors and Domicile



Sources: 2013 Symbiotics MIV Survey; Microrate, The State of Microfinance Investments 2013 and 2011 Symbiotics MVI Survey Report; Swiss Microfinance Investments – From Early Growth Stage to Maturity: History, Current Developments and New Challenges

The microfinance value chain: Connecting capital markets to Microfinance



1) Microfinance Institution

Microfinance is an asset class with double bottom line impact; economic performance and social benefits go hand in hand

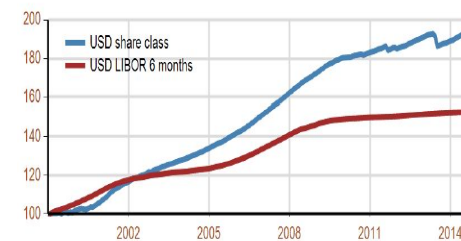
Microfinance contributes to:

- Empowering the poor by supporting their income-generating activities
- Ensuring sustainability through loans and paying financial service
- Fighting poverty in a lasting manner by improving economic security and quality of life

Social/environ. impact



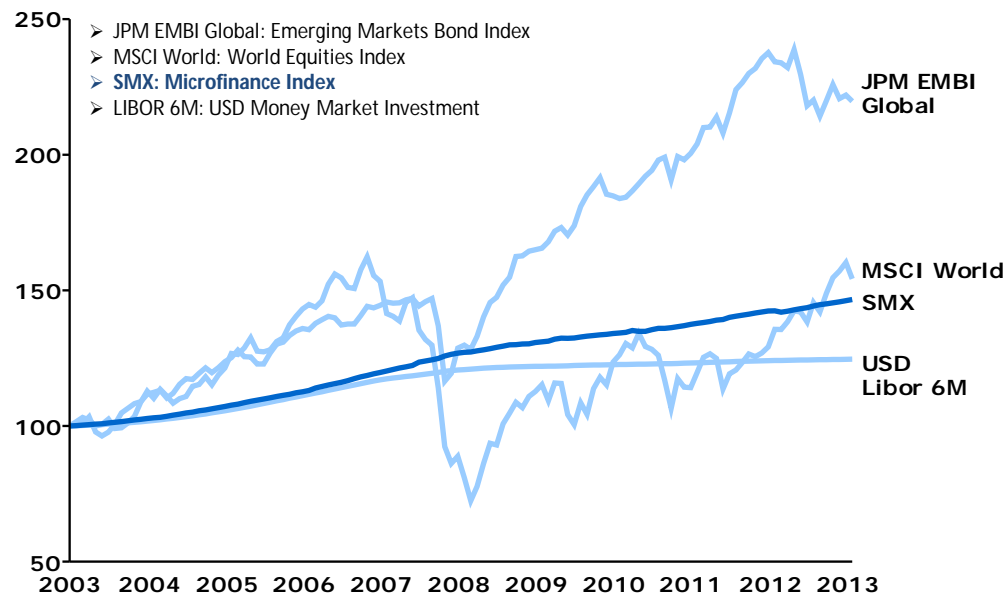
Economic performance



Stable returns and low correlation with major asset classes are key features of microfinance investments

Cumulative returns of Microfinance and other asset classes¹⁾

Indexed at 100



SMX Return, volatility and correlation¹⁾

| Return | Annualized |
|-----------------|--------------|
| 10 years | 3.90% |
| Volatility | Annualized |
| 3 years | 0.61% |
| 5 years | 0.55% |
| 10 years | 0.60% |
| Correlation | Over 5 years |
| USD Libor 6M | 0.11 |
| JPM EMBI Global | 0.21 |
| MSCI World | 0.25 |

Upcoming: Online publication of CMF's Microfinance Investment Index (MFII)

1) Source: Telekurs, company websites, based on monthly USD returns.

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Key findings

- With **20%** of respondents **invested in Microfinance**, the asset class has become increasingly professionalized and is widely recognized
- Typical barriers institutional investors face are:
 - **Technical constraints**, such as investor`s portfolio structure and the legal framework
What can institutional investors and regulators do to overcome such constraints?
 - **Substantial information gap**. Microfinance is a fast growing market that shows an attractive risk/return profile. The survey shows that investors frequently do not know about these characteristics and lack transparent information.
What can multipliers such as universities and the media do to overcome information gaps?
- **Internal and external awareness building is key** for the further development of Microfinance with Swiss institutional investors and Switzerland as a hub for Microfinance managers
- **Outlook:** Based on the growth rate of the industry and the findings of this survey, we expect **every second institutional investor** in Switzerland to be invested in Microfinance by **2020**

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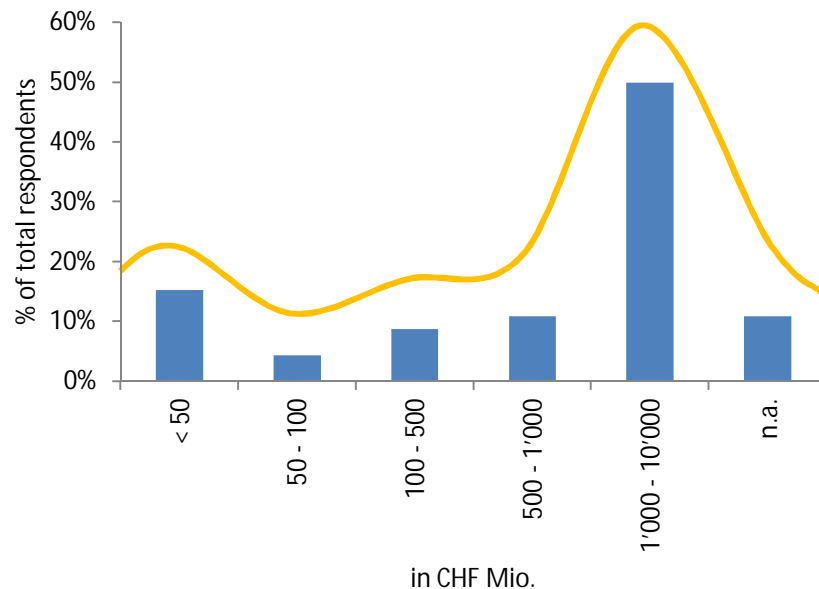
Objective and Methodology

- **Switzerland** is playing a key role in managing and investing in the field of Microfinance (MF) = 1/3 of global MF Assets.
- To date there has been no broad survey conducted within Swiss institutional investors.
- The **University of Zurich's Center for Microfinance** and **BlueOrchard** have decided to team up and conduct a joint survey among Swiss institutional investors.
- The objective is to identify **current expectations** (social and financial) and financial exposures as well as to understand **future needs and demands**.
- Participants will receive all data collected in addition to an individualized gap analyses.
- The survey results will allow for increased industry transparency as well as individual benchmark analyses.
- The survey was conducted online, the largest **282 Swiss institutional investors** were contacted, out of which close to 50 institutions participated actively in the survey.

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Survey Respondents – Profile of institutional investors by AuM (in CHF millions)

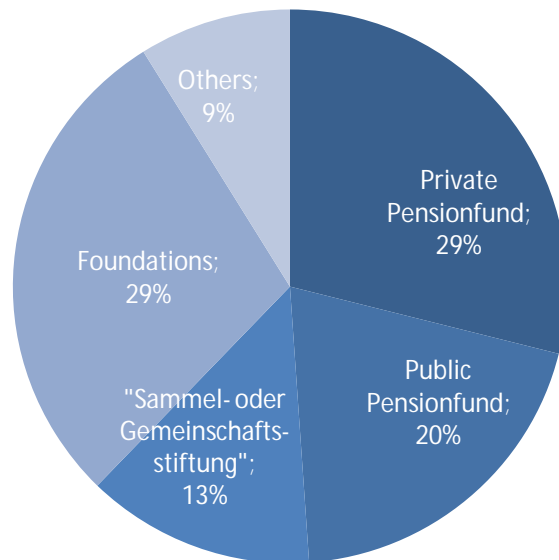


2/3 of respondents are key decision makers, i.e., BoD, investment committee or executing the investment strategy

- The sample is solid in size and represents a wide range of institutions in terms of volume

Survey Respondents – Profile of institutional investors by type

Share of type of institution of respondents

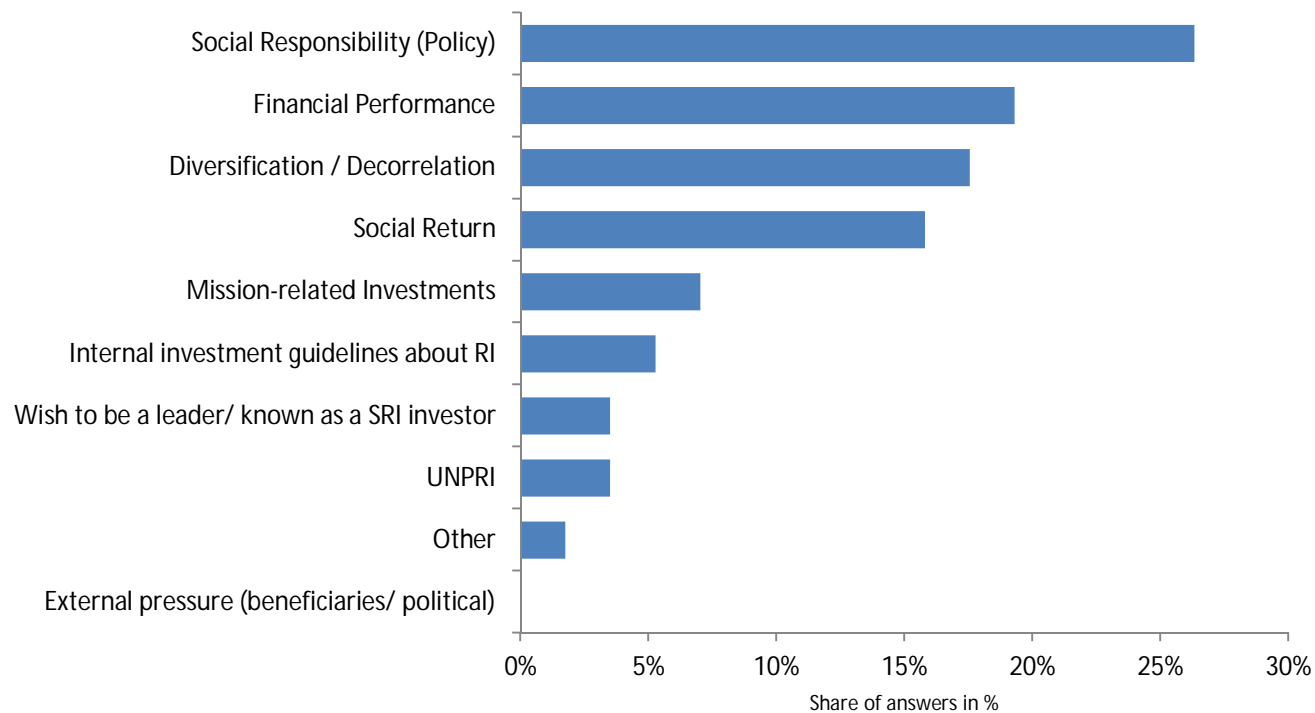


Most relevant types of the Swiss pension fund system are represented

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What matters? – Motivations for Investing in Microfinance



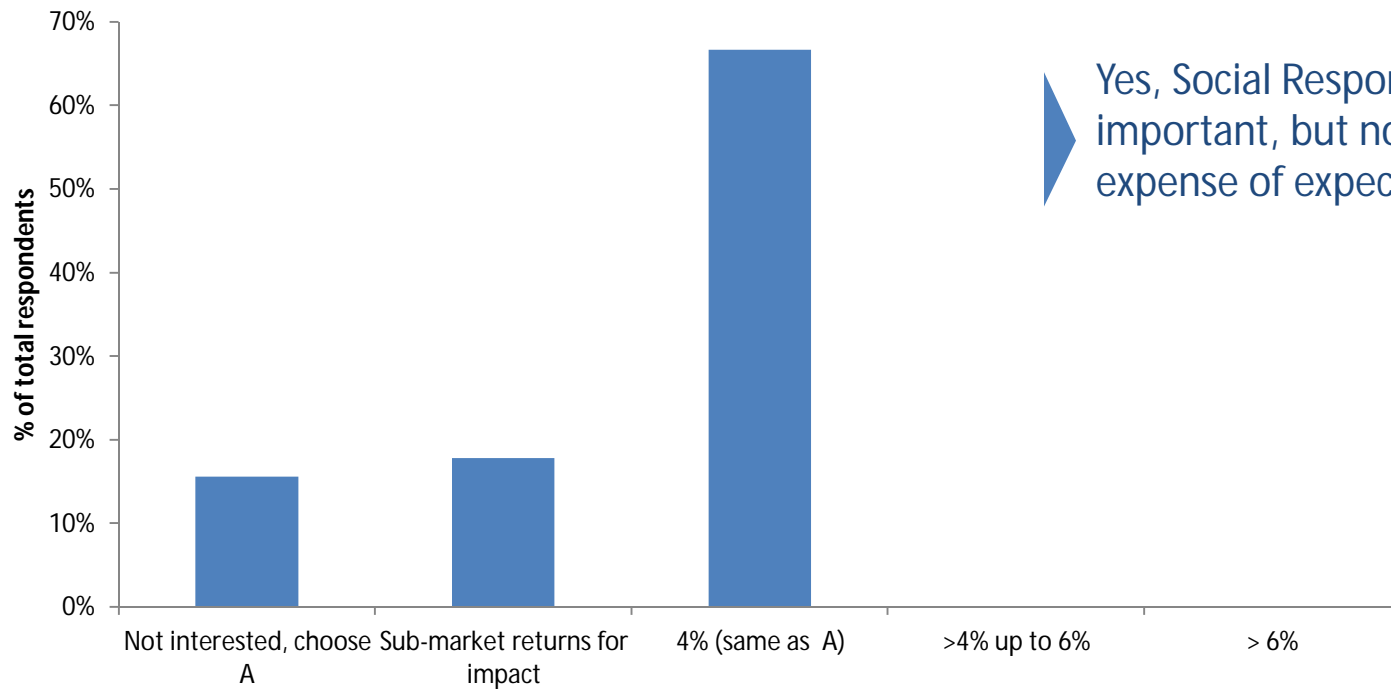
- Diversification and financial return eminent but **Social Return** and **Responsibility** prevail

Do social attributes really matter?

Test question

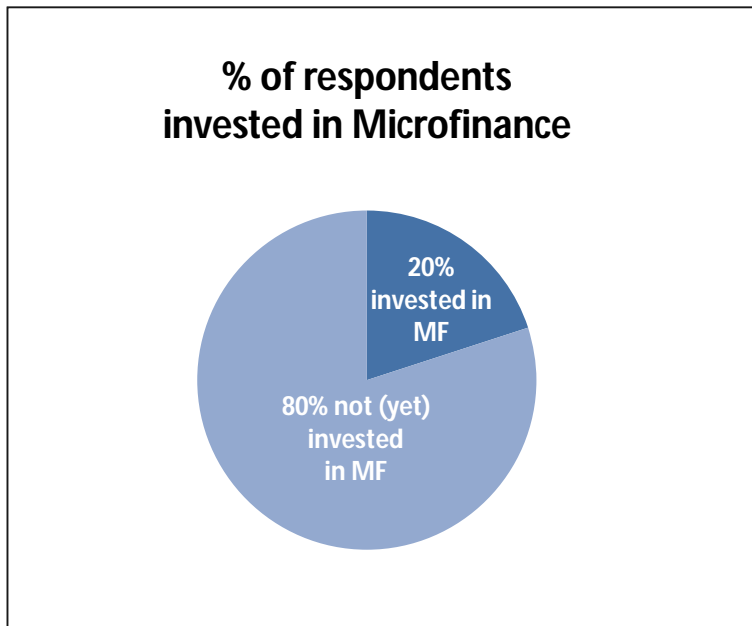
- A: profit-oriented fund
- B: "Sustainable fund"

} What is the required expected return of B to choose B over A?



▶ Yes, Social Responsibility is important, but not at the expense of expected return

A significant portion of institutional investors is invested in Microfinance but there seems to be (much) more potential



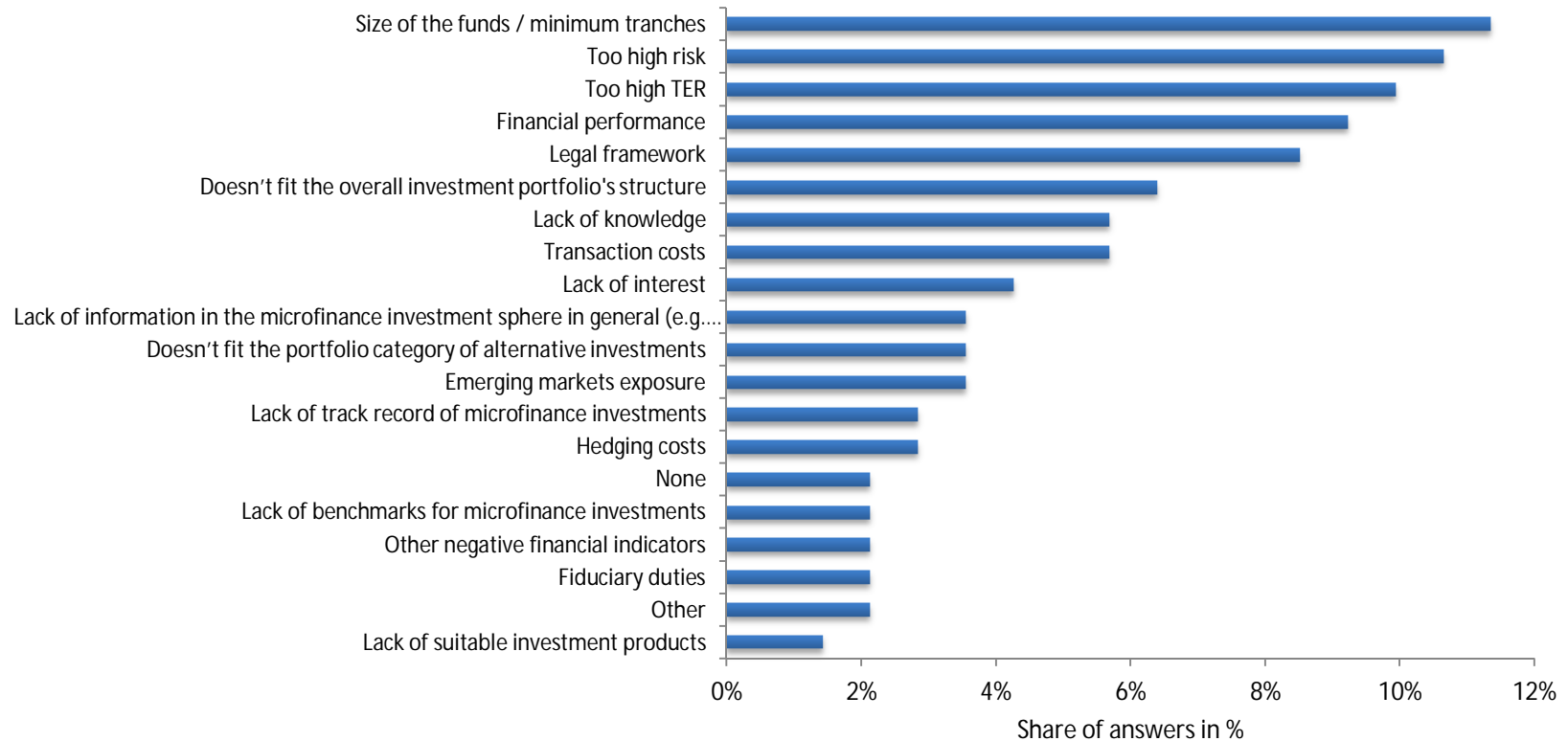
- Almost 20% of respondents are invested in Microfinance
- Switzerland has become the hub for Microfinance investment management
- How can the remaining potential be unlocked?

- There is a gap between the importance of Switzerland as a hub for Microfinance investment management and market participation by investors. What are the barriers?

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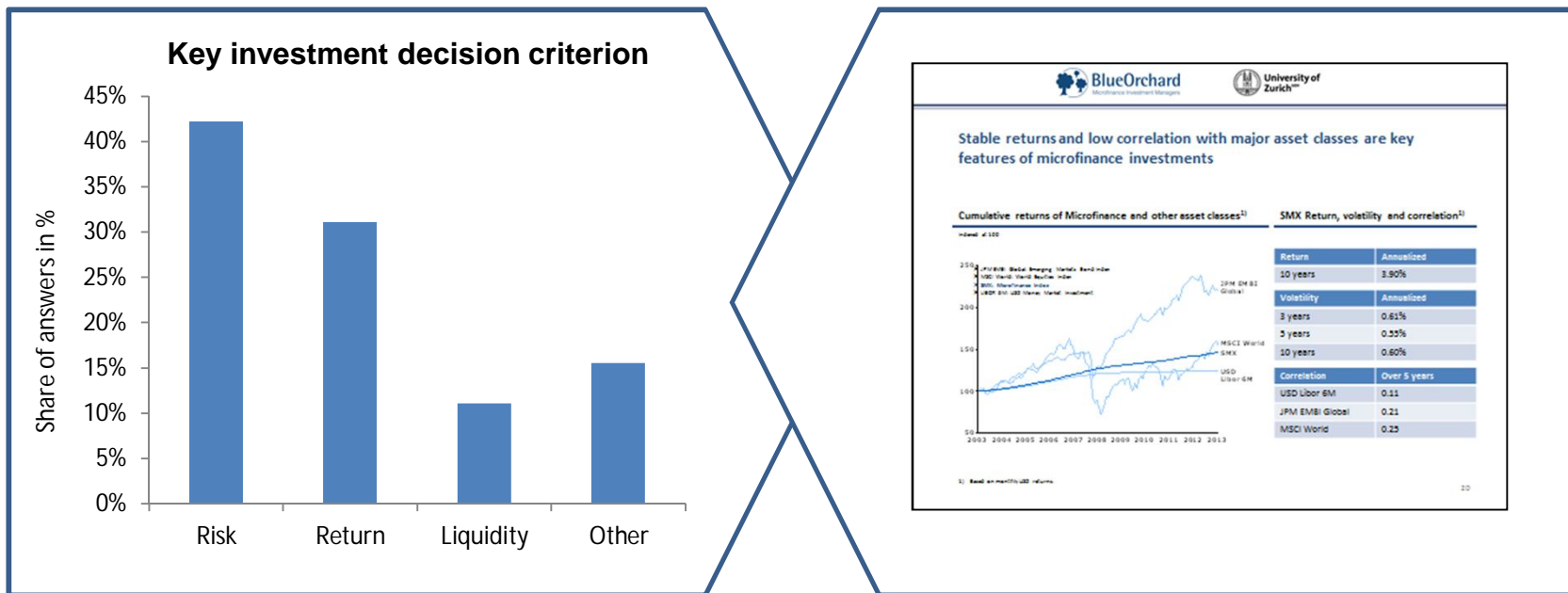
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What are the barriers to Microfinance investments?



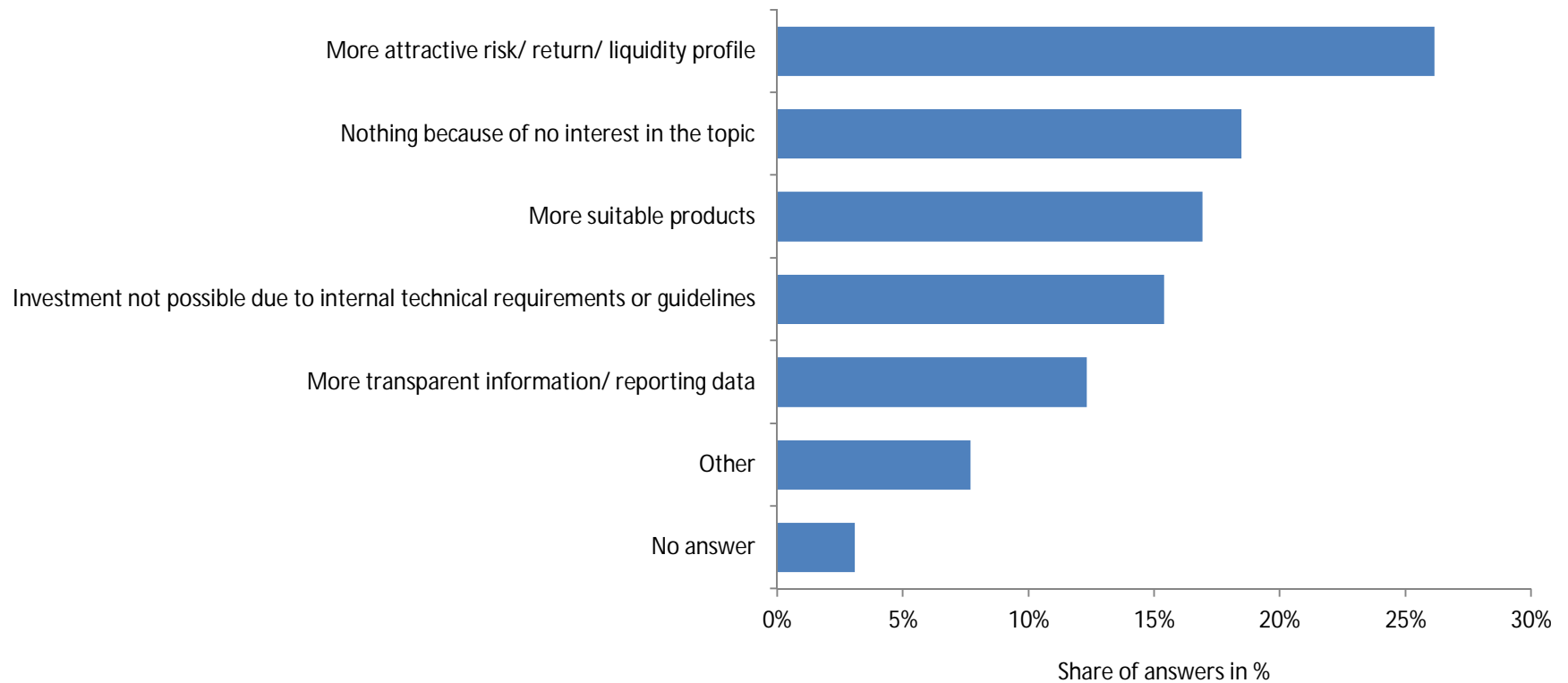
- **Perception of features such as size of funds as well as risk/return characteristics are the main barriers for investors**
- **Technical factors such as investors' portfolio structure and legal environment do often not favour MF investments**

Reality check: Risk is key investment decision criterion and perceived as (too) high in Microfinance – How does this relate to empirical figures?

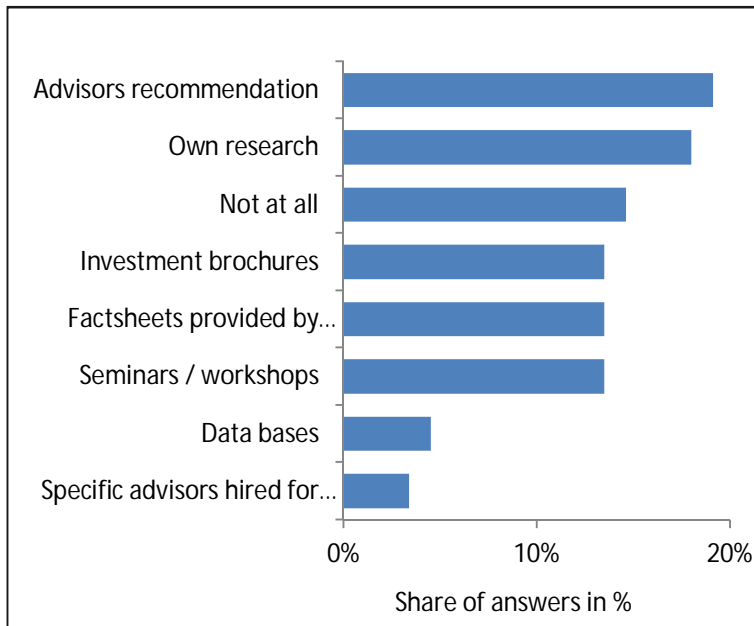


- **Attractive risk/return profile of Microfinance investments not yet known or just not trusted yet due to relatively short history?**

What do institutional investors themselves think, needs to change in order to facilitate Microfinance investments?



Hypothesis: It's not actual features of Microfinance investments but insufficient availability of quality information that hinders investments



- Most of information about MF is from advisory and own research
- Information gathering for MF investments is more costly and time-consuming than for investments in traditional asset classes

➤ **Who provides quality information and has the ability to act as multiplier?**

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Conclusion

- Microfinance is an attractive asset class with an interesting risk/return profile
- A significant portion of well informed Swiss institutional investors are invested in Microfinance
- Social attributes are important for the investment decision but do not compensate for market return
- Technical barriers and mis-perception of MF risk/return features seem to be key reasons for not being active in Microfinance
- Both aspects may be linked to the lack of existence and easy access to quality information
- Internal (within institutional investors) and external (for institutional investors) awareness building is key to facilitate the development of Microfinance investments and the sector at large
- Outlook: Based on the growth rate of the industry and the findings of this survey, we expect every second institutional investor in Switzerland to be invested in Microfinance by 2020