

WHITE PAPER
NOVEMBER 2015

SWISS MICROFINANCE INVESTMENTS REPORT

A review of the microfinance
investment vehicles managed
in Switzerland

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This report was published in collaboration between Symbiotics and the University of Zurich's Center for Microfinance. The data collection and aggregation was done by Marina Parashkevova, Market Research Analyst at Symbiotics, using the firm's 2015 MIV Survey results, which she manages. The report itself was co-written by herself and Dr. Julia Meyer, Post-Doctoral Researcher at the Center for Microfinance. Roland Dominicé, Symbiotics CEO, and Dr. Annette Krauss, Managing Director of the Center for Microfinance, provided proofreading and editing support. The report was published in November 2015.

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SWISS MICROFINANCE INVESTMENTS REPORT

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FOREWORD

Investments in financial inclusion have become a visible and relevant component of the investment universe. Often classified as part of socially and responsible investments or impact investments, some even categorize them as a separate asset class. A key component of an asset class, besides showing distinct characteristics, market performance, and regulatory requirements, is transparent reporting.

This report aims at contributing to the transparency of the microfinance investment universe. It complements the global, annually published aggregate report on microfinance investment vehicles (MIVs) that Symbiotics has been producing since 2007, and shows disaggregated data for the Swiss subset of global MIVs. It follows a first report on this subset published by Symbiotics in collaboration with the Swiss Development Agency (SDC) in December 2011. It cannot, however, present detailed reporting of individual MIVs and is thus complementary to reports that the MIVs prepare themselves.

The report uses the clear-cut definition of MIVs brought forward in CGAP's Microfinance Disclosure Guidelines. As a result, it covers MIVs but not other microfinance investment intermediaries, and it does not give an update on other Swiss microfinance activities. Reporting on a relatively homogenous group of MIVs that follow harmonized reporting standards allows to aggregate indicators into cumulative numbers and to calculate means in a meaningful way.

The last four years brought some important developments for Swiss microfinance investments. We have seen growing investment volumes worldwide but in particular through the Swiss vehicles. Financial performance has peaked up again since 2014, liquidity came down to the targeted level, and risk diversification improved. At the same time, social performance reporting of MIVs has become more visible and seems to attract more interest. This is a reminder of the so-called double-bottom line objective of microfinance and financial inclusion, which are, last but not least, investments for the development of low-income populations and marginalized economies.

As an avid observer of the microfinance world, the Center for Microfinance at the University of Zurich was pleased to contribute to the present report. The report was compiled for and launched at the Swiss Microfinance Platform event in November 2015, celebrating ten years after the initial launch of the platform. While the microfinance industry has evolved significantly during these ten years, we expect growth to continue. We are aware that more changes are likely to come, and believe that continuing monitoring and reporting on industry developments will remain crucial.

Dr. Annette Krauss, Managing Director of the Center for Microfinance,
University of Zurich and Roland Dominicé, CEO of Symbiotics.

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KEY FINDINGS

SWITZERLAND – A MARKET LEADER IN MICROFINANCE INVESTMENTS

As of December 2014, the Swiss microfinance market asset size was estimated at USD 3.9 billion, i.e. 38% of global microfinance investments¹. Eight Swiss managed or advised MIVs are part of the 15 largest global MIVs in terms of assets under management.

POSITIVE GROWTH

The Swiss MIVs' assets under management registered a 15% annual compounded growth rate (CAGR) compared to a 5% CAGR for the global MIV market. The forecast for 2015, despite conservative is 11% and exceeds twice the one on a global level (i.e. 6%).

STABLE TOP 3 PLAYERS

The market remains stable with three main specialized Swiss asset managers, BlueOrchard Finance, responsAbility and Symbiotics managing 96% of the total Swiss MIV market. While the majority of the managed products are fixed-income, one asset manager specialized in impact investing, Bamboo Finance manages one of two Swiss MIVs investing in equity.

ASSET COMPOSITION, MICROFINANCE INSTITUTIONS' INVESTMENT SIZE AND YIELDS

The microfinance portfolio share in the assets under management grew from 80% to 84% thanks to decreasing liquidity levels (16% vs. 12% in 2014). In terms of investee size, Swiss MIVs tend to invest in the largest Microfinance Institutions (with more than USD 100 million of assets) which results in relatively lower yields on direct debt microfinance portfolios.

GEOGRAPHIC DIVERSIFICATION

Latin America and the Caribbean as well as Eastern Europe and the Central Asian regions continue to attract the bulk of Swiss microfinance investments. In terms of country allocation, Cambodia, Peru and Ecuador are the three preferred countries for Swiss asset managers.

1 Within the scope of this report advisory and management mandates are all classified as Swiss disregarding their funds jurisdiction unlike the Symbiotics MIV Survey. This is why the resulting Swiss share of the global MIV market differs, i.e. 38% vs. 30% in the former.

INVESTOR TYPOLOGY

Private Institutional investors remain the main investor audience of Swiss MIVs, growing from 56% to 57% of MIV volumes. However, the highest growth was registered among public funders.

COST STRUCTURE

The Swiss MIVs total expense ratio decreased by 10 basis points from 2010 (from 2% to 1.9 %) in line with their high average size (USD 154 million in 2014) allowing better economies of scale and efficiency.

RETURNS

Financial performance has remained relatively low but stable and peaked up again from 2014 onwards (3.6% for US Dollars investments and 3.5% for Euro investments).

SOCIAL PERFORMANCE

Swiss MIVs' proxy indicators for social performance in terms of outreach are quite in line with the global trends; for instance in the reduction of average initial loan sizes to end clients. Swiss MIVs serve a large portion of global microfinance clients (more than 51% when accounting for global Fixed Income MIVs), but have on average, slightly lower shares of female and rural clients.

2

OBJECTIVE

This report seeks to review the landscape of microfinance investments in Switzerland. It does so by providing the most recent and accurate aggregate data of Swiss Microfinance Investment Vehicles (MIVs). By 'Swiss MIVs', this report refers to investment funds whose assets are predominantly invested in microfinance and whose fund operations are run by specialized firms based in Switzerland: their promotion and regulatory fund management in some cases, and their delegate portfolio management or exclusive investment advisory functions in all cases. The funds themselves are primarily based in Luxembourg, although some are domiciled in Liechtenstein, Switzerland, the Netherlands and the US. Key indicators reviewed include for instance asset size, geographical allocation, investor typology, cost efficiency as well as financial and social performance.

This report is a continuation and update of the *Swiss Microfinance Investments Report* published by Symbiotics in collaboration with the Swiss Agency for Development and Cooperation (SDC) in December 2011. The 2015 version has been produced by Symbiotics in cooperation with the University of Zurich's Center for Microfinance. It has been prepared for the *Swiss Microfinance Platform 2015* event in order to review and discuss the current microfinance landscape in Switzerland.

3

DATA SOURCES

The underlying data on the characteristics and financial and social performance of Swiss MIVs was collected by Symbiotics' Market Research team for the purpose of the annual global *Symbiotics Microfinance Investment Vehicles Survey 2015*. Most of the data is reported as of December 2014 based on the *Microfinance Investment Vehicles Guidelines*, published by CGAP². Furthermore, a new set of indicators, developed by Symbiotics in collaboration with several other leading microfinance fund managers in the period 2014–2015 was added to the above-mentioned guidelines³.

Among the different Microfinance Investment Intermediaries (MIIs, as conceptualized by CGAP⁴ – which also includes holding companies, and nonspecialized microfinance investment funds), only Microfinance Investment Vehicles (MIVs) are included in the samples. MIVs are a sub-segment of MIIs representing independent investment entities with more than 50 percent of their non-cash assets invested in microfinance institutions. For comparability purposes, this choice excludes non-MIV MIIs based in Switzerland, such as the Ecumenical Loan Funds for Human Development, the Aga Khan Agency for Microfinance or the Swiss Microfinance Holding run by FIDES.

The Swiss MIVs included in the study were funds whose portfolio management or exclusive investment advisory function is delegated to a fund management firm headquartered in Switzerland, irrespective of the jurisdiction of the funds, their place of distribution and promotion and the jurisdiction of the regulated fund management company of the funds. The guiding principle is that the origination, structuring and servicing of the microfinance investments are operated by specialized firms founded and headquartered in Switzerland. The only exception to this rule is made for the non-exclusive investment advisory mandates that two Swiss companies, BlueOrchard and responsAbility, among others, hold with the Microfinance Enhancement Facility (MEF)⁵. Given the size of this MIV in the microfinance investment landscape, their respective shares in the MEF portfolio (more than 50% in total for the last five years) are included in the total universe asset size while other financial and social performance indicators are referring to MEF's entire portfolio.

2 CGAP, *Microfinance Investment Vehicles Guidelines*, 2010.

3 Symbiotics, *Microfinance Investment Vehicles Disclosure Guidelines*, 2015.

4 CGAP, *Idem*.

5 In addition to its advisory role, BlueOrchard has also played the role of a placement agent of the senior tranche of MEF.

Out of 23 Swiss MIVs identified for this report, 21 took part in the global 2015 Symbiotics MIV Survey, covering approximately 96% of the Swiss MIV market. Three main types of MIVs were analyzed: Fixed Income MIVs (funds with 85 percent of their total non-cash assets invested in debt instruments), Mixed MIVs (funds that invest in both debt and equity, with greater than 15 percent and less than 65 percent of their total non-cash assets invested in equity investments) and Equity MIVs (funds with more than 65 percent of their total non-cash assets invested in equity instruments)⁶. The report also includes the oldest Swiss MIV, the International Guarantee Fund (FIG-IGF), whose main instrument is guarantees serving as collateral for local banks to extend loans to MFIs. Because all MIVs data is self-reported, some indicators – among others the net yield on direct debt portfolio and the investor typology – do not cover the entire surveyed MIV population. For confidentiality purposes, indicator outputs with less than three reporting MIVs were not taken into account.

6 CGAP, Idem

4

MIV BUSINESS MODELS

Microfinance investment vehicles are the main channel for foreign investors wanting to invest in the microfinance sector in emerging and frontier markets. Only a few specialized actors invest directly in microfinance institutions today, as the microfinance investment value chain and infrastructure are not as developed as those of traditional investment markets. A private or institutional investor cannot find information on MFIs on Bloomberg or Reuters, nor can they have access to credit ratings from Standard & Poor's or Moody's. Additionally, MFIs are very rarely listed on stock markets and do not issue listed bonds. The markets are illiquid, with practically no investment banks offering primary issuances and no brokers are available to exchange secondary transactions. Microfinance investors thus rely on specialized MIVs, which vertically integrate these multiple functions typically available to investors and fund managers in mainstream markets.

Specialized MIV managers have developed three essential investment functions which they offer to MIVs and their investors and which do not exist as stand-alone businesses today. First, they exhibit an investment analysis function producing the required research, due diligence, credit analysis and valuations to adequately evaluate investments. Second, they develop the pipeline management function with specialists who identify investment opportunities and originate and structure transactions. Finally, they set up the risk management function with teams and frameworks to monitor the investment decision-making. These are the functions that enable the international investment community to access the microfinance sector in emerging and frontier markets today.

Today, about a dozen specialized MIV managers have invested in the resources necessary to offer a traditional fund manager or investor comprehensive coverage of global microfinance markets and an appropriately diversified and managed portfolio of MFI investments worldwide. These MIV managers cover 50 and sometimes up to 60 emerging and frontier markets of interest, and well over 500 microfinance institutions and as a result have seen their staff's headcount grow over the past decade in order to cover this outreach. This development enables them to offer investors a relatively mature landscape and relatively high barriers to entry for newcomers.

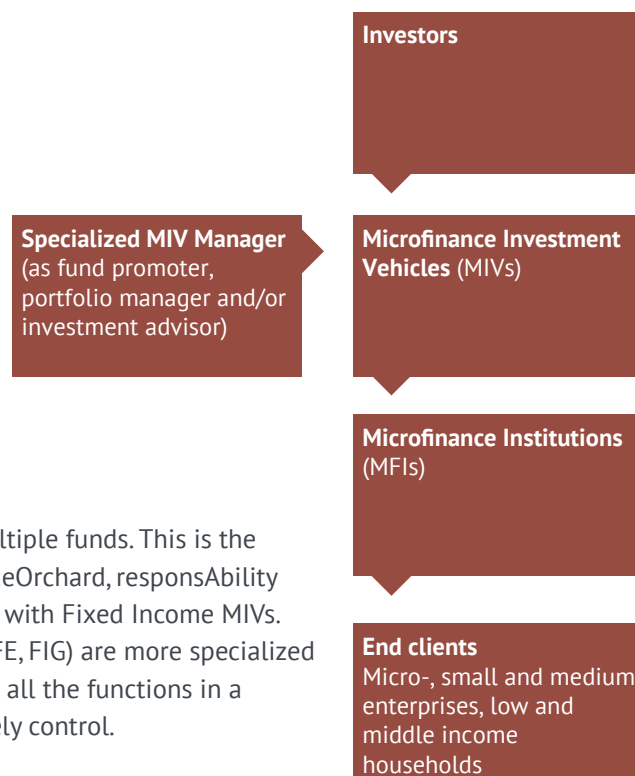
Although all of the specialized MIV managers integrate these three functions, they vary quite a bit in terms of their product setup and distribution channels (Figure 1):

Fund Promoter Some managers have built their own distribution channels which are used to promote funds to retail or institutional investors and fully manage these funds from a regulatory and operational perspective.

Portfolio Manager In other instances, fund promoters or investors delegate the portfolio management to them.

Investment Advisor In yet other instances, the managers are hired by traditional asset managers for investment advisory services including portfolio construction and monitoring.

Figure 1
Specialized MIVs' Business Model

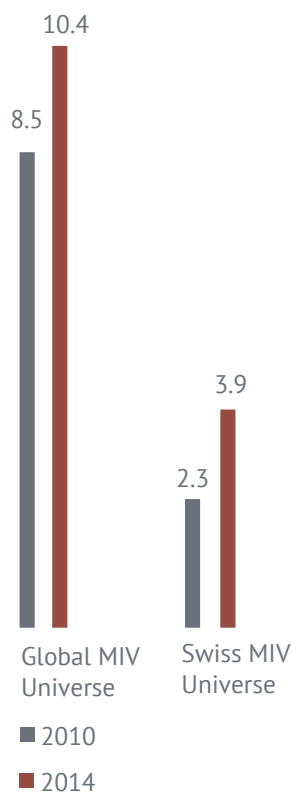


Most specialized MIV managers operate with multiple funds. This is the case with the top three Swiss MIV managers (BlueOrchard, responsAbility and Symbiotics), all of which are primarily active with Fixed Income MIVs. However, other Swiss MIV managers (Bamboo, DFE, FIG) are more specialized in equity or guarantee instruments and integrate all the functions in a single microfinance fund setup which they entirely control.

5.1

MARKET SIZE

Figure 2
Total Assets Under Management
(USD billion)



As of December 2014, Swiss MIVs account for USD 3.9 billion worth of assets under management channeled through 23 MIVs (Figure 2). This represents 38% of the total global MIV universe composed of 110 MIVs with a total estimated asset size of USD 10.4 billion and a global MIV market share increase from 26% to 38% over the past four years (2010 to 2014). Furthermore, in terms of asset size, eight Swiss managed MIVs are part of the 15 largest global MIVs. The Swiss MIV average size grew over this period from USD 94 million to USD 154 million. Also, compared to 2010, the smallest sized MIVs remained below USD 10 million, while the largest size ones grew significantly, resulting in assets under management above USD 1 billion in some cases.

In addition to the growth of existing funds, many new MIVs were launched, in parallel to others being extinguished. In particular most closed-ended structured debt vehicles⁷ setup before the global financial crisis came to their maturity; this includes BlueOrchard Loans for Development 2006 and 2007, and BlueOrchard Microfinance Securities for BlueOrchard and Microfinance Loan Obligations – Opportunity Eastern Europe, Local Currency and Sub Debt for Symbiotics. The main new MIVs and mandates which appeared on the landscape include the responsAbility Financial Inclusion Fund setup by Credit Suisse, the BlueOrchard Microfinance Initiative for Asia (MIFA) setup by the German development bank KfW, Capital Gestion Microfinance by the Bank of Luxembourg, Symbiotics – Emerging Sustainable Funds and the Global Microfinance Fund, The Small Enterprise Impact Investing Fund by Oxfam UK and the SEB Microfinance Funds setup by SEB Bank.

⁷ So-called Structured Debt Microfinance Funds in the CGAP MIV Disclosure Guidelines.

5.2

MARKET GROWTH

The Swiss MIV investment grew from USD 2.3 billion⁸ to USD 3.9 billion of assets under management (Figure 1) and represents a 15% annual compounded growth rate (CAGR), compared to a 5% CAGR for the global MIV market size (Figure 3).

Most of the acceleration of the Swiss MIV took place between 2012 and 2014. In 2011, the Swiss they actually experienced their first negative annual growth with –3%⁹, which contrasted heavily with the global MIV growth of 15% that year (Figure 4). While three closed-ended structured debt funds matured, some open-ended funds experienced a sharp decline as a consequence of the global financial crisis.

Swiss MIVs' self-reported forecast project an 11% growth for 2015, which is in line with global MIV perspectives.

Figure 3
Total Assets Under Management
CAGR 2010-2014

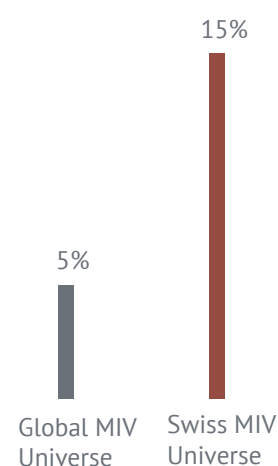
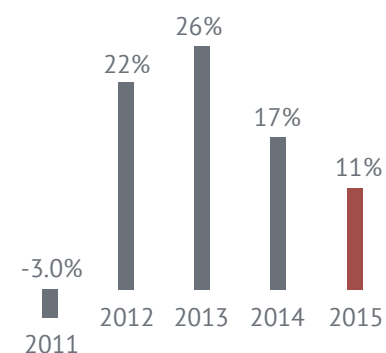


Figure 4
Growth of Swiss
Assets Under Management



⁸ The total asset size for 2010 differs from the previous Swiss Microfinance Investment Report published by Symbiotics (i.e. USD 2.3 billion) due to the exclusion of non-MIVs MIs in the 2015 edition.

⁹ Out of 27 funds' total assets data for 2011, there is only one missing observation.

5.3

SWISS MIV BREAKDOWN BY SIZE

Swiss MIVs can be split into three different categories based on their assets size. Large MIVs with more than USD 250 million in assets under management, mid-size MIVs with more than USD 50 million but less than USD 250 million and finally small with MIVs with less than USD 50 million assets. Since 2010, Switzerland has seen a proportional increase in the number of large and medium MIVs at the expense of smaller ones that constituted the majority of MIVs in 2010 (Figure 5). In parallel, there has been a similar shift in terms of assets under management (volume) towards the larger MIVs (Figure 6).

Figure 5
Swiss MIVs Concentration
(Number of MIVs)

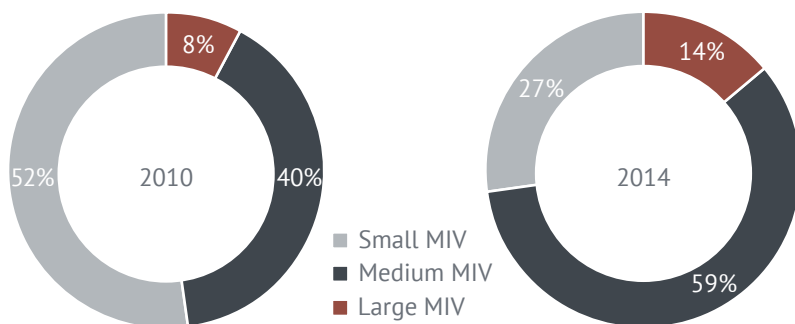
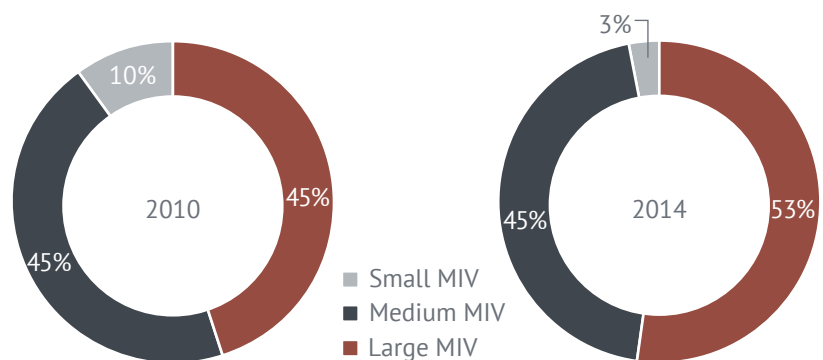


Figure 6
Swiss MIVs Concentration
(Volume)



5.4

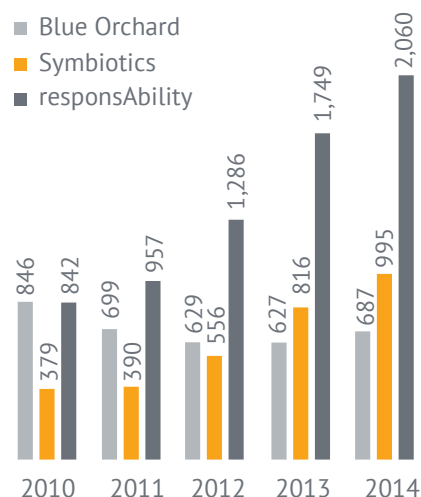
LARGEST PLAYERS

The Swiss microfinance market remained stable throughout the years with three main specialized Swiss MIV managers, respectively BlueOrchard, responsibility and Symbiotics, managing 96% of the Swiss MIVs' total assets, i.e. USD 3.7 billion (Figure 7).

These three investment managers also have a significant share of the global MIV assets under management, with 20% for responsAbility, followed by Symbiotics (10%) and BlueOrchard (7%), all belonging to the top ten global MIV Managers¹⁰. The latter shares relatively similar business models and includes Incofin (Belgium), Finance in Motion (Germany), Oikocredit, Triodos and Triple Jump (Netherlands), as well as Developing World Markets and MicroVest (United States). They all serve as the main portfolio construction and are monitoring agents, whether through investment advisory, portfolio management or a fund promotion agreement and each has a range of products, with a blend of investor typology and fund setups.

In Switzerland, BlueOrchard has in recent years acquired a growing number of public development bank fund mandates (for instance, the Microfinance Investment Fund for Asia in addition to the existing ones, i.e. Microfinance Enhancement Facility and Microfinance Growth Fund). Furthermore, in parallel to its eponym flagship product sold to private and institutional investors, it diversified beyond microfinance into climate change and education finance. responsAbility's main product – and incidentally its positioning in the market – benefits from a retail investor distribution license, in partnership with Credit Suisse; it has also grown beyond microfinance into fair trade, energy efficiency and private equity strategies. Symbiotics differentiates itself by customizing products for institutional investors, with over 20 different MIV mandates; it has also recently launched SME finance specific funds as well as issued over 30 listed bonds in various impact themes. In contrast to these three that are primarily Fixed Income MIV managers, the largest Equity MIV is managed by Bamboo Finance, a private equity asset manager in impact investing also launched and based in Switzerland. In parallel, the company also manages specialized products in social enterprise, solar energy and affordable housing.

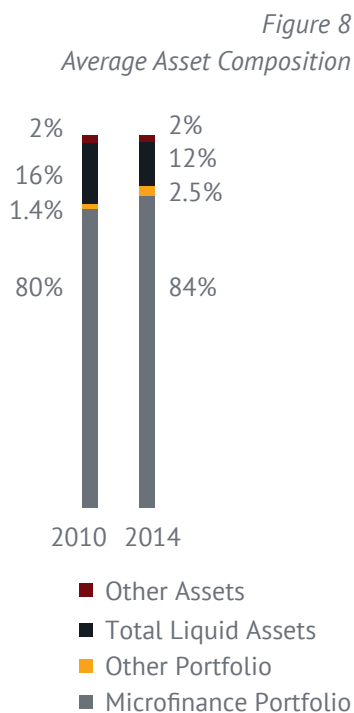
Figure 7
Top 3 Swiss Microfinance Players
Assets Under Management
(USD million)



¹⁰ Assets Under Management are strictly calculated as encompassing Global MIV Survey data, and exclude any other mandates these firms may have, which would for instance put responsAbility close to USD 3.0 billion and both BlueOrchard and Symbiotics above USD 1.0 billion, in aggregated total AUM.

5.5

ASSET COMPOSITION



In terms of asset composition, Swiss MIVs behaved very similarly to global MIVs, with their overall microfinance portfolio share growing from 80% to 84% between 2010 and 2014¹¹ (Figure 8). This increase in portfolio share, or decrease in cash positions, can probably be attributed to more difficult deal pipelines in 2010, after the financial crisis, as well as the opening of new markets in South Asia and Sub-Saharan Africa, over recent years, allowing MIV managers to better grow, diversify and manage their portfolios. In parallel, several MIVs have incorporated a small portion of other 'beyond microfinance' strategies, including agriculture, housing or energy – a category growing from 1.4% in 2010 to 2.5% in 2014. As a consequence, MIVs suffered less from the cash drag effect in 2014 than in 2010.

11 With money markets at ground level, a 10% cash level will dilute the portfolio yield of 0.50% to 0.60%, based on MIV gross yields.

5.6

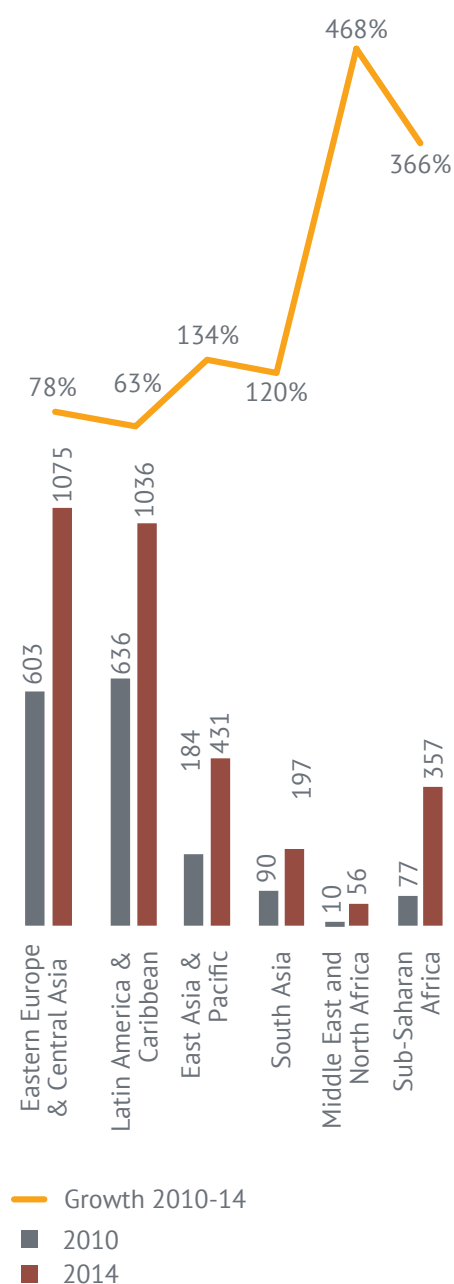
GEOGRAPHIC DIVERSIFICATION

The region of Latin America and the Caribbean (in particular Peru, Ecuador and Costa Rica), together with Eastern Europe and Central Asia (in particular Azerbaijan, Georgia and Armenia) continue to attract the bulk of microfinance investments not only for Swiss MIVs (Figure 9) but also for global MIVs. These two regions account for 30% and 38% respectively of microfinance portfolios for global MIVs in 2015¹². In terms of regional growth, the highest rates since 2010 are registered in the African regions (Sub-Saharan and Northern as well as the Middle East), with Kenya, Nigeria and Tanzania being among the most attractive countries. Both South and East Asia continue to also show fast growth (120% growth during last four years), with India and Cambodia being the countries absorbing the highest MIV investment in these regions.

Looking into the country investment distribution (Figure 10), Cambodia constitutes the top country exposure for Swiss MIVs. It attracts high levels of investments attributable to its well-regulated microfinance sector and multiple sound and competitive microfinance institutions offering a wide range of products and services, including housing improvement loans, education loans, agricultural loans and emergency loans. The country is also among the top 10 countries in terms of “most enabling environments for inclusive finance”¹³ in a study carried out by *The Economist*. That being said, its relatively small size and continued impressive growth, compared to other more populous countries, increasingly raises the question of market limits and risks of over-indebtedness¹⁴.

Figure 9

Regional Breakdown – Size in USD million and Growth (%)



12 Symbiotics 2015 MIV Survey, September 2015

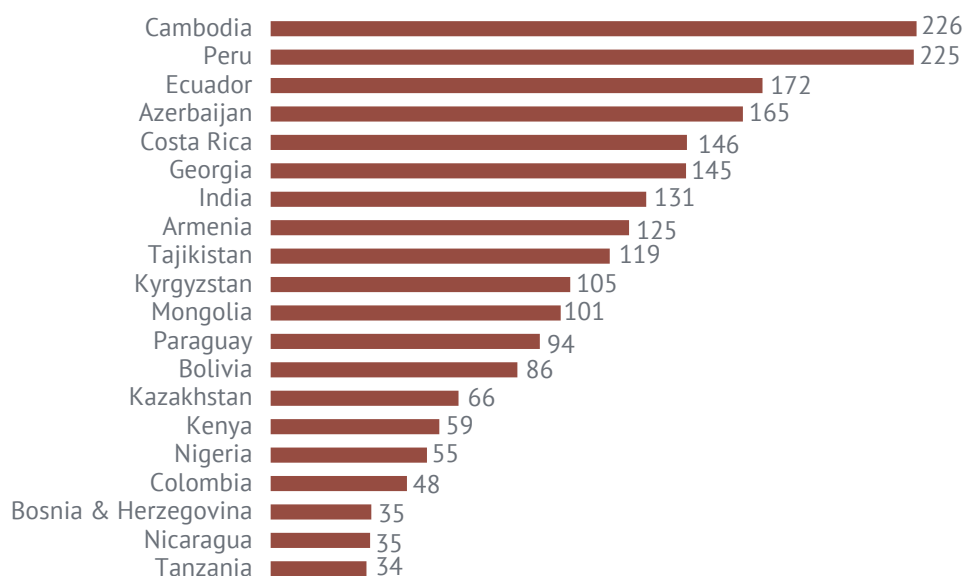
13 *The Economist*, Global Microscope 2014

14 Based on Symbiotics' in-house expertise.

Peru comes in second place in terms of Swiss MIVs' investment selection, historically number one on the list. The Peruvian market has thrived for years, thanks to several factors: a favorable economic environment, a reference regulatory framework, and an extremely dense and deep population of MFIs throughout the country, thus triggering healthy competition and innovation. A recent signal of this alchemy is the introduction of a new law, aiming to facilitate the unbanked population's access to electronic money¹⁵.

Azerbaijan, the top country from the Eastern Europe and Central Asia region, is another example of a favorable economic situation with enabling regulation and a multiplicity of financial institutions benefiting from and contributing to a striving micro-enterprise and SME sector. That being said, recent credit events in the sector have downgraded the outlook for foreign investors, a perception reinforced by the decreasing oil prices and the depreciation of the national currency¹⁶.

Figure 10
Top 20 Country Allocation
in 2014 (USD million)



¹⁵ *The Economist*, Idem

¹⁶ Based on Symbiotics' in-house expertise.

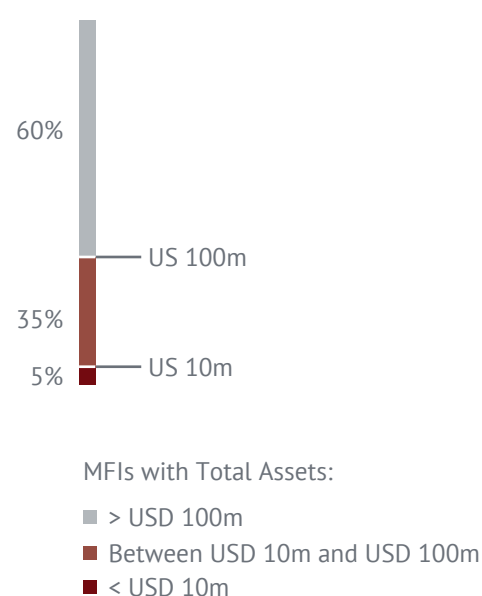
5.7

INVESTEES SIZE

The majority of Swiss MIV investments are concentrated in large microfinance institutions (60% in large institutions, with total asset size of more than USD 100 million) while only 5% of the Swiss MIV portfolios are invested in small microfinance institutions with total assets of less than USD 10 million (Figure 11)¹⁷.

When looking at MIV investees by size of MIVs, it appears that the smallest MIVs are investing more in large to mid-size investees (respectively 64% and 48% of their microfinance portfolio) and only 11% into the smallest MFIs; as for medium size MIVs, they invest only 12% of their assets in the smallest MFIs. This points to the fact that, it is the largest MIVs who invest the most in the smallest MFIs in absolute terms (representing in relative terms only a small portion of their assets). Their size allows them to take higher risk on the margins and requires them to grow deeper into the sector.

Figure 11
Investee Size



17 Symbiotics, *Microfinance Investment Vehicles Disclosure Guidelines: Additional Indicators*, 2015

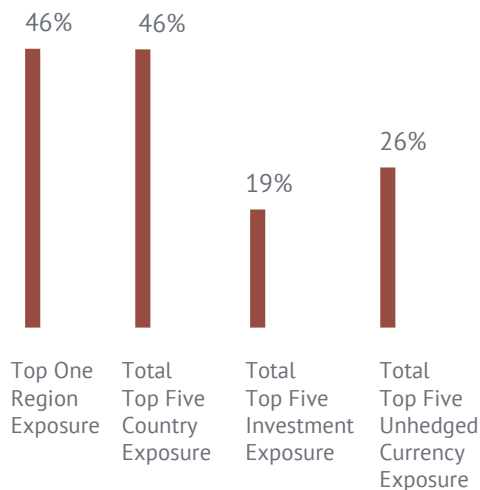
5.8

RISK CONCENTRATION

Compared to 2010, Swiss MIVs have improved the risk concentration of their portfolios. For instance, the top one region exposure decreased from 49% to 46%. Moreover, MIV managers have continued opening up new markets and thus decreased their top five country concentration, from 56% in 2010 to 46% in 2014 (Figure 12).

Risk diversification varies by MIV size. Larger MIVs show lower exposure in the five top countries and five top investments of their portfolios – even if all MIV sizes share a top one region exposure of about half their portfolio. In terms of unhedged currency risk, it is the mid-size MIVs which engage the most in relative terms in such strategy.

Figure 12
Swiss Microfinance Fund Portfolio
Concentration as of December 2014



On average, Swiss MIVs diversify their portfolios through 58 different MFIs. This number varies largely though, with some small funds investing in as few as 8 MFIs while the largest MIVs count more than 200 investees in their portfolios.

5.9

DIRECT DEBT CHARACTERISTICS

The direct debt characteristics for Fixed Income MIVs remain relatively stable overall, with a slight decrease in the average number of investees (from 63 to 57) – signaling most likely the creation of smaller new MIVs in the period (Table 1). Swiss MIVs nevertheless remain better diversified than global MIVs' whose average number of investees is only 35, this may be mainly due to their larger average portfolio sizes.

Remaining debt maturities are gradually increasing (from an average of 17 months in 2010 to 20 months in 2014), eventually putting Swiss MIVs closer in line with global MIVs debt maturities (22 months).

Currency denomination remains relatively stable. Over two thirds of debt contracts are in hard currency (USD, EUR), irrespective of the investment date and market segment. However, a notable shift in practice has occurred over the period, (from 1% to 9% for Swiss MIVs, vs. 16% for global MIVs), with an increasing number of MIVs (3 out of 15 reported on this indicator) lending almost entirely in local currency without hedging themselves.

Finally, and logically given the recovery time lapse after the financial crisis, provisions for bad loans have decreased, from 4% to 2% for Swiss MIVs (vs. 3% for global MIVs).

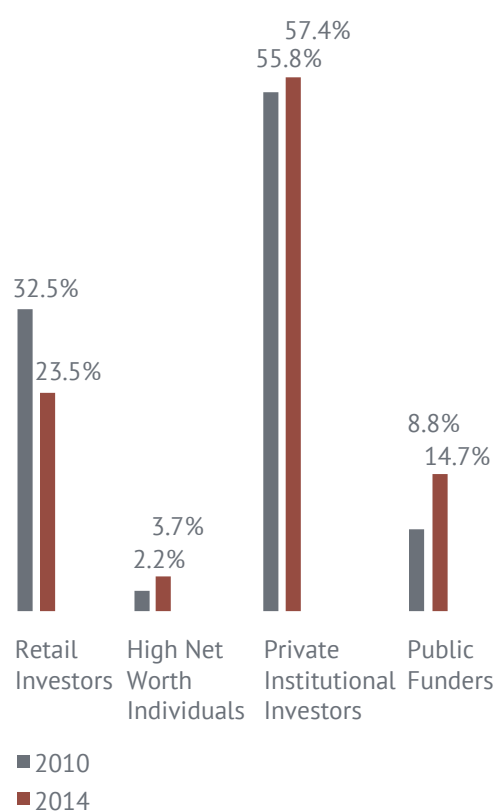
	Swiss MIV 2010	Swiss MIV 2014	Global MIV 2014
Average Debt Investment Size	USD 2.1 million	USD 2.2 million	USD 2 million
Average Number of Investees	62.9	56.7	34.5
Average Remaining Maturity	16.8 months	20.2 months	22 months
Share of Local Currency	30.5%	31.00%	31%
Unhedged Portion	0.5%	8.90%	16%
Outstdg. Loan Loss Provisions	4%	1.60%	3%
Loans Written-off	0.6%	0.0%	0.10%

Table 1
Direct Debt Characteristics

5.10

INVESTOR TYPOLOGY

Figure 13
Investor Typology¹⁹



Private institutional investors¹⁸ (Figure 13¹⁹) remain the main investor audience of Swiss MIVs, growing from 56% to 57% of MIV volumes. This mimics the global MIV data (with a share above 50%). The second category of Swiss MIV investors is the retail investors, which nevertheless have recorded a decrease in volume of almost 9%. This is probably due to some shifting public perceptions following the global financial crisis and more so, due to the fact that most new funds have been targeting primarily private institutional investors and public funders, rather than retail investors. That being said, retail investors represent still 23.5% of Swiss MIVs vs. 12.5% globally, giving the Swiss MIVs a certain edge in terms of investor diversification. The third category, and fastest growing one, is indeed public funders, (with a 5.9% increase in relative terms), is public funders (mostly European development banks), active in the public-private-partnerships where their capital is blended with private sector investors. Lastly, the number of high net worth individuals remain low in proportion to all other investor types, but still represent about USD 140 million in investment volume and are often catalyst in MIV setup and launch phases.

18 This category includes mainly pension funds, insurance companies, asset management companies, and other specialized or mainstream wealth managers.

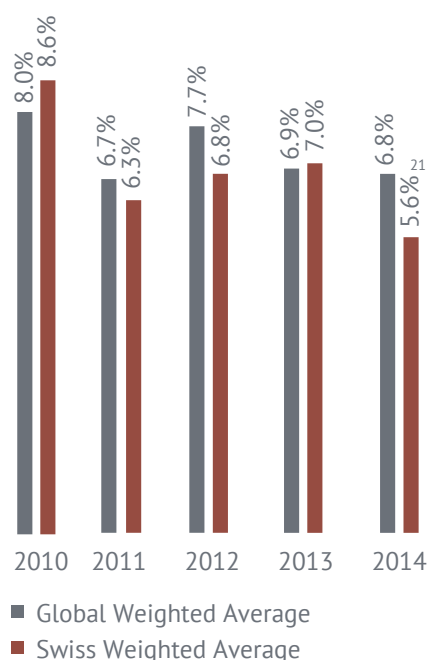
19 The sum of the respective percentages is not equal to 100% due to minor discrepancies in data reported.

5.11

PORTFOLIO YIELD

Throughout the last five years, the average yield on the direct debt microfinance portfolios²⁰ of Swiss MIVs appears to be following the global trend, whether increasing or decreasing (Figure 14). However, Swiss MIV portfolio yields have been slightly lower than global MIVs' average yields – in 2011, 2012 and 2014. This may be linked to their larger size, signaling a higher positioning in the MFI markets, targeting better credit risks with lower funding costs. It could also reflect the fact that Swiss MIVs have a larger proportion of retail investors than global MIVs, which may allow for lower coupon transactions than in institutional investor mandates – a pattern seen when compared net yields of retail vs. institutional funds.

Figure 14
Portfolio Yield for Swiss and
Global MIVs (2010-2014)



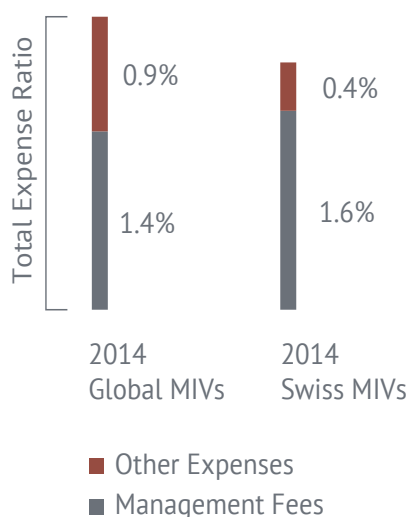
20 The average Net Yield on the Direct Debt Microfinance Portfolio (CGAP Guidelines) refers to all interest and fees paid by microfinance service providers to the MIV minus the hedging cost and the realized and unrealized foreign exchange gains & losses against the MIV's accounting currency from the direct microfinance portfolio's direct debt.

21 The sample calculation for 2014 is based only on 10 observations.

5.12

COST STRUCTURE

Figure 15
Total Expense Ratio
(Weighted Average)



Similar to 2010, the total expense ratio of Swiss MIVs is lower than the global average calculated on both simple and weighted bases²², with 2.2% and 1.9% respectively for Swiss MIVs in 2014 vs. 3.2% and 2.3% for the Global MIVs in 2014. Furthermore, it actually slightly improved for Swiss MIVs by 10 basis points (2.0% in 2010 vs. 1.9% in 2014 on a weighted average basis). These differences may again be explained by MIV average size, of USD 154 million for Swiss MIVs compared to the global average of USD 119 million. This allows for better relative economies of scales on other expenses such as accounting, custodian, legal and distribution costs. The slightly higher management fee level for Swiss MIVs may occur either because global MIV outsource more of certain tasks than Swiss MIVs managers or because of the higher share of retail investors in Swiss MIVs, which tend to be more costly to serve, or possibly a blend of both.

22 Management fees and TER weighted by total assets under management

5.13

FINANCIAL PERFORMANCE

Swiss and global Fixed Income MIVs denominated in USD have had very similar returns over the years²³. In EUR terms, the lower Swiss MIV yields (compared to the USD funds) most likely reflect Euro and US dollar interest rate differentials. The higher volatility of global MIV yields for EUR funds may be skewed by some funds partially investing in equity in addition to debt, or also due to volatility in EUR/USD hedging costs.

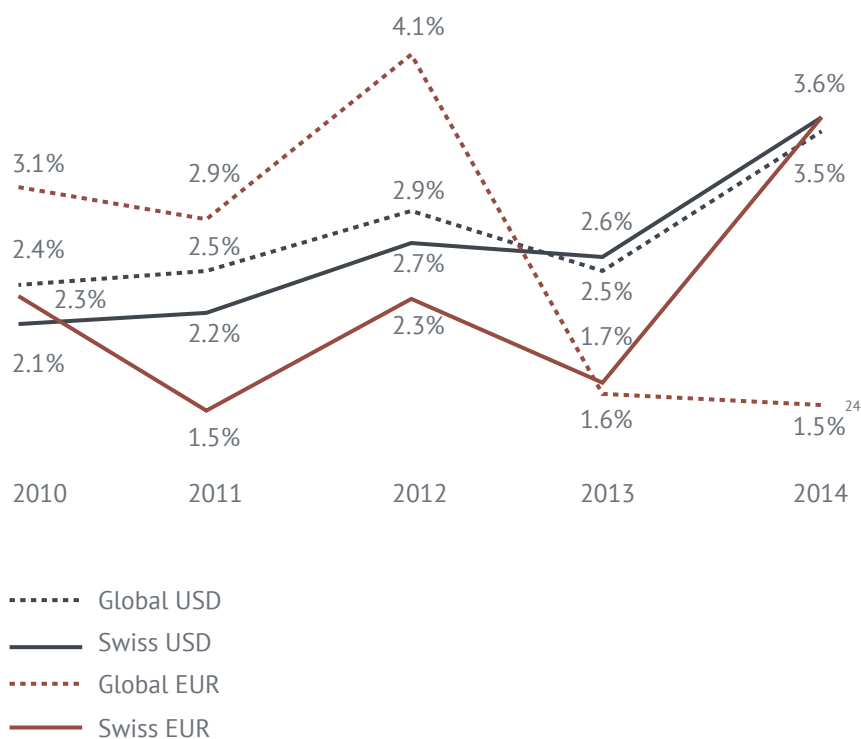


Figure 16
Swiss and Global Fixed
Income MIV Returns

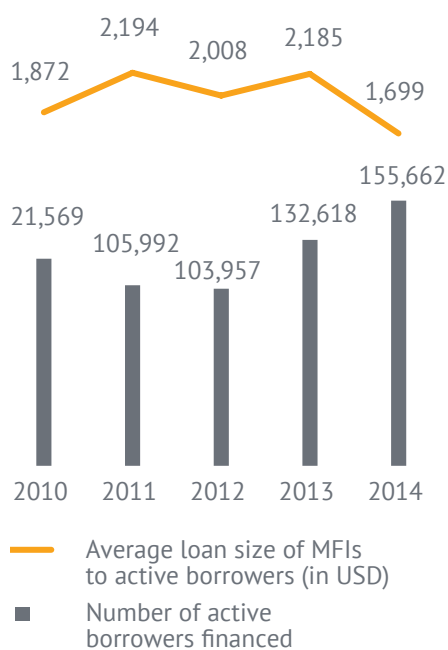
²³ Two outliers were removed from the Swiss and global MIV benchmarks

²⁴ Out of 12 Fixed-income MIVs in 2014, two had a negative performance in EUR. The average return for the rest was 2.9% in EUR.

5.14

SOCIAL PERFORMANCE

Figure 17
Client Profile



The outreach of Swiss MIVs remains quite stable. In 2014, Fixed Income and Mixed MIVs served on average 155'615 active borrowers²⁵ or a total of over 3 million active borrowers (Figure 17)²⁶. This constitutes 51% of the global outreach of MIVs. The end-borrowers' average loan size of Swiss MIVs has always been higher than that of global MIVs which is in part due to the Swiss MIVs' concentration in larger MFIs. In terms of client profiles, the share of female borrowers declined slightly while the portion of rural end-clients registered a slight increase during the period (Figure 18).

Figure 18
Swiss MIV Outreach



25 Active borrowers refer to individuals who currently have an outstanding loan balance with the microfinance service provider or are primarily responsible for repaying any portion of the gross loan portfolio. Individuals who have multiple loans with a microfinance service provider should be counted as a single borrower.

26 The number refers only to fixed-income MIVs outreach. However, the figure 17 reflects the average outreach of all Swiss MIVs.

6

OUTLOOK

In the past five years a consolidation of the Swiss MIV leadership practice has taken place, with faster growth and funds reaching larger sizes. The number of mandates has also increased for the top three players with various fund setups growing at different rates with responsAbility's retail fund experiencing strong growth; Symbiotics specializing in the customization of institutional mandates; and BlueOrchard engaging in several development bank mandates. All three MIV managers have increased their outreach in terms of countries and financial institutions, with a gradual shift of portfolios from the regions of Latin America and Eastern Europe & Central Asia towards that of Africa & Asia. All have furthermore engaged in strategies moving 'beyond microfinance', whether within their existing portfolios or through the launch of new funds. The market place has also become a place of choice for private equity strategies in microfinance, with Bamboo and responsAbility leading this strategy.

Overall, the market place is vibrant and flourishing, having rebounded extremely well after the global financial crisis downturn, with an ever-growing number of domestic and international investors attracted to Swiss MIV managers. Today the overall outlook seems very positive for the industry.

However, several areas of scrutiny will require close attention:

- Despite the steady growth of the MIV industry, the MFI industry is now surpassing it. A gradual shift of funding sources is taking place from MIVs channeling investments to emerging markets to more domestic funding. This is clearly strengthening the MFI sector globally but as a consequence puts more competitive pressure on the MIV manager landscape.
- The market definition of MFIs is evolving, from micro-credit operators to inclusive finance institutions with a much wider range of business models and offerings. This is also obviously strengthening the MFI sector and similarly putting pressure on MIVs to adapt to an evolving market.

-
- Increasing currency market fluctuations that result in higher hedging costs for both ends of the value chain, are creating a negative impact on MIV yields. This trend is being paralleled by a continued appreciation of the Swiss franc, putting slightly more pressure on Swiss based business models in the sector.
 - A densification of both domestic and foreign regulatory regimes, are impacting Switzerland's leader position both in terms of access and penetration in European markets as well as in other investor jurisdictions.

7

APPENDIX – LIST OF MIVS

<i>MIV Managers & Fund names</i>	<i>Other Promoter / Manager</i>	<i>Start Date</i>	<i>Fund Type</i>
Bamboo Finance			
Bamboo Financial Inclusion Fund	–	2007	Equity
BlueOrchard Finance			
BlueOrchard Microfinance Fund	–	1998	Debt
Microfinance Growth Fund	IADB	2010	Debt
Microfinance Initiative for Asia	KfW	2012	Debt
Microfinance Enhancement Facility	KfW	2009	Debt
Dfe Partners			
Balkan Financial Sector Equity Fund	–	2005	Equity
Fonds International de Garantie	Rafad	1996	Guarantee
responsAbility			
Microfinance Enhancement Facility	KfW		Debt
responsAbility Global Microfinance Fund	Credit Suisse	2003	Debt
responsAbility Microfinance Leaders	–	2006	Debt/Equity
responsAbility Mikrofinanz-Fonds	–	2007	Debt
responsAbility Financial Inclusion Fund	Credit Suisse	2011	Debt
Symbiotics			
BDL Microfinance Funds (multiple)	BLI	2009	Debt
Dual Return – Vision Microfinance	C-Quadrat	2005	Debt
Dual Return – Vision Microfinance Local Currency	C-Quadrat	2010	Debt
Emerging Sustainable Funds	–	2012	Debt
Enabling Microfinance Fund	LLB	2008	Debt
Finethic Microfinance Fund	Fundo	2006	Debt
Global Microfinance Fund	–	2013	Debt
SEB Microfinance Funds (multiple)	SEB Bank	2013	Debt
The Regional MSME Fund for Sub-Saharan Africa	KfW	2010	Debt
The Small Enterprise Impact Investing Fund	Oxfam	2012	Debt
Wallberg Global Microfinance Fund	Wallberg	2008	Debt

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