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Monthly Client Memo
17 February 2020

Dear Clients and Partners,

This message follows our last memos, which you can all consult here: symbioticsgroup.com/covid-19/

The month of January was relatively calm. As usual in our target markets, origination was subdued, reaching USD 55 million for the month across 15 institutions. Asia was responsible for almost half of this amount, followed by Africa (23%) and Central Asia (19%). We expect to disburse a similar amount in February.
As 2020 has illustrated the resilience of our asset class, we remain cautiously optimistic for 2021, and would like to share below our outlook for the rest of the year.

MACRO OVERVIEW

- The fourth quarter of 2020 saw a clear pick-up in activity, with Asia ahead of the curve. Although the outlook remains uncertain, this may mean that 2021 demand will be more developed in other parts of the world. However, we do not have a clear-cut investment stance on a regional basis but prefer investing on a country-by-country basis, based on local fundamentals. Strong diversification of our portfolios in terms of countries and institutions remains a key element of our investment philosophy.
- Microloan portfolios have been bouncing back faster from the Covid crisis than SME portfolios, as maturities are shorter for micro loans and as the effect of external shocks is often slower in the SME sector. Therefore, we expect that our issuance in 2021 will be slightly geared to smaller loans compared to 2020.
- Sectors catering to fundamental needs (agriculture and solar) have been more resilient than those focusing on other expenses such as schooling or tourism. Although most frontiers and developed countries are recovering quickly as life has to get back to normal, the effects of the pandemic will persist in 2021 across our target markets, as international trade remained affected.
- As liquidity remains abundant across international and local markets, we expect that pressure on yields will remain, so returns may be lower than the historical average. However, private impact debt continues to provide additional yield compared to the risk-free rate and play its role as a portfolio diversifier, thanks to its low correlation with traditional asset classes.
- We are closely monitoring the situation in Myanmar (with 9 investees in the country), although it is too early to assess the exact impact of the coup on both the microfinance sector and the economy as a whole.

DEMAND

- Overall, we expect 2021 origination to be around USD 1.1 billion, which is slightly higher than in 2020 (USD 991 million). This is driven by asset growth from new clients' investments, but also by lower expected cash holdings in our funds, as the prudent liquidity levels from last year move back to normal.
- Demand from end-borrowers is likely to be strong in 2021, as microentrepreneurs and SMEs rebound post-crisis and economies are recovering. However, financial institutions may not fulfill 100% of this demand, as they continue their focus on profitability and solvability, and the risk of over-indebtedness of end-borrowers increases. Yet, our partners have a crucial role to play in the relaunch of local economies, even more so for entrepreneurs at the bottom of the pyramid.
- We expect demand to be stronger in countries like India, Costa Rica, Ecuador, Colombia, and Uzbekistan, with around 1/3 of projected demand concentrated in these countries.
- As travel restrictions may be loosened in the second half of the year, we will be able to reconnect to our markets. This will help in particular to build relationships with new partner institutions.

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MFI PORTFOLIO QUALITY

- The overall risk of our portfolio has increased in 2020, although solvency levels have remained stable over the last months and liquidity is sufficient. The proportion of loans that were restructured due to Covid-19 has come down in recent months but remains high at around 30%.
- Given the fragmented structure of the industry (regulation, moratoria) it is hard to make strong predictions about the outlook for restructured loans. However, a worst-case stress test we conducted illustrates that the risk of default remains in check (4% of institutions).
- We remain confident about the stability of our asset class: most of our investees have navigated through the crisis much better than we expected at the beginning of the pandemic. Also, shareholders have shown strong support and resilience, and we expect most institutions to maintain required equity levels.
- In January 2021, the number of open Covid-19 liquidity cases decreased further over the last month. 13 cases are still open, for a total amount of USD 90 million, or 4% of the total outstanding portfolio.
- Symbiotics' non-performing loans grew from 3% to 6% over the last year. This has led to a provisioning level of around 100 basis points of the outstanding disbursements done before 2020 in our mandates and funds.

CURRENCIES & INTEREST RATES

- Most emerging and frontier currencies depreciated in 2020, except for Central Europe and Southeast Asia, thanks to their strong ties to the EU and China respectively. Africa was resilient thanks to the currency peg of the CFA franc and massive support from the IMF. Central Asia suffered from a volatile geopolitical context. Interest rates decreased across the board, due to massive injections of liquidity to fight the economic effects of the Covid-19 pandemic.
- In 2021, the development of the pandemic will continue to have a major effect on the global economy: how fast will vaccines arrive? What will be the impact of new mutations on lockdowns and travel? And how do we return to growth in the new normal? Across the globe, quantitative easing will persist and liquidity will remain abundant for now, but at some point, the transition back to a more orthodox monetary policy will have to take place.
- In emerging and frontier markets, we think that quantitative easing will drive continuing capital flows, as investors' appetite for yield supersedes their aversion to risk. As the IMF will continue its assistance to financially distressed countries, sound governance and transparency will become more important conditions for assistance and rescue packages.
- Overall, we think that geopolitics linked to a few large emerging countries (China, Russia and Turkey) will continue to weigh on overall sentiment on emerging markets currencies. However, we think this view is overly generalist. Strategically, we prefer frontier market currencies over emerging ones, while maintaining a broad diversification to protect our portfolios from single country risk. In particular, we favor Latin America (Colombia, Mexico); Central Asia (Georgia, Uzbekistan, Kazakhstan), Asia (China, Vietnam, Indonesia, Philippines) and Africa (CFA franc zone). However, investment decisions will also depend on available opportunities in these countries and credit risk.

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FUNDRAISING

- Demand for impactful investments financing the real economy remains strong in Europe and has increased with the Covid-19 crisis. We perceive the new EU regulation for sustainability-based investments (SFDR) as an opportunity to position our sector more clearly. All our funds qualify for art. 9 classification under SFDR rules and prospectus adaptations are underway.
- Investors remain confident in our company and funds, and we expect to raise additional funds from both our historical clients as well as our more recent new partners.
- Our assets under management increased by 10 % in 2020, reaching close to USD 2.5 billion. We forecast similar growth in 2021 (USD 200 million) for our private debt funds, in line with pipeline growth described previously.

You can contact your relationship manager for portfolio specific questions and perspectives. We will send you the next Monthly Client Memo in March.

Sincerely,

Symbiotics