

Report on the performance of LuxFLAG-labelled MIVs during the financial crisis

A study commissioned by LuxFLAG



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1. EXECUTIVE SUMMARY

LuxFLAG has carried out a report to determine the effect of the recent financial crisis on the Microfinance Investment Vehicles (MIVs)¹ labelled by LuxFLAG by tracking the evolution of these MIVs over LuxFLAG's life (June 2006 to June 2009).

The main findings of the study are:

- Since LuxFLAG's creation, MIVs have experienced solid growth both in number and assets under management. Despite some growth deceleration during the financial crisis, the consistent rise in MIVs' total assets, has demonstrated the extraordinary expansion and continued investor interest in this sector;
- The results of the study support the contention that MIVs remain largely de-correlated from other sectors of the capital markets and provide an efficient diversification tool to the investor. Although demand for funding from the underlying MFIs slowed down, leading to a decrease in the Microfinance Portfolios and a increase in cash positions, the LuxFLAG labelled MIVs have demonstrated resilience, posting relatively lower but still positive monthly returns during the worst global financial crisis since the 1920s.
- LuxFLAG labelled MIVs did not face major redemptions during the crisis. Investors remained committed to the labelled MFIs, reinforcing the assumption that Microfinance investors are more willing to take a longer term and holistic approach.

LuxFLAG's directors and management believe that the financial crisis has highlighted the fundamental role of LuxFLAG in promoting greater transparency towards investors and confirmed that the LuxFLAG Microfinance Label is a powerful tool for decision-makers who wish to integrate social considerations into their investment policy and decision-making processes, with a view to creating a more responsible microfinance sector.

¹ For definitions of MIVs, please see Appendix 1

2. OBJECTIVE

This report aims to determine the effect of the recent financial crisis on the Microfinance MIVs labelled by LuxFLAG by tracking the evolution of these MIVs over LuxFLAG's life.

3. METHODOLOGY

Given the lack of standardisation in MIV reporting, cross-comparisons of MIV figures are difficult. Hence, this study is limited to an analysis of the variation of individual MIVs, without cross evaluation.

3.1 MIVs and Share classes








LuxFLAG has, as of June 2009, labelled 7 MIVs² including:

- Dexia Micro-Credit Fund- BlueOrchard Debt Sub-Fund;
- Dual Return Fund SICAV- Vision Microfinance Sub-fund;
- responsAbility Global Microfinance fund;
- responsAbility SICAV (Lux) Microfinance Leaders Fund;
- responsAbility SICAV (Lux) Mikrofinanz- Fonds and
- European Fund for Southeast Europe (EFSE) and
- Rural Impulse Fund (RIF).

These 7 MIVs are subdivided into multiple share classes as per the table below:

² For a short description of the objectives of each MIV, please see Appendix 2

Table 1: MIVs and Share classes of 7 LuxFLAG labelled MIVs.

Name of Fund		Inception date	Legal Structure	Fund domicile	Financial Year	Share-classes
Dexia Micro-Credit Fund- BlueOrchard Debt Sub-Fund (DMCF)		1998/09	SICAV- Part II	Luxembourg	June 30	CHF Cap EUR Cap USD Cap
Dual Return Fund SICAV- Vision Microfinance Sub-fund (DRF-VM)		2006/04	SICAV- Part II	Luxembourg	Dec 31	CHF Cap I-CHF Cap EUR Cap I-EUR Cap USD Cap I-USD Cap
responsAbility Global Microfinance Fund (rAGMF)		2003/11	FCP- Part II	Luxembourg	March 31	CHF-H Cap EUR-H Cap USD-H Cap
responsAbility SICAV (Lux) Microfinance Leaders (rAMLF)		2006/11	SICAV- Part II	Luxembourg	Dec 31	Q-Cap
responsAbility SICAV (Lux) Mikrofinanz- Fonds (rAMF)		2007/05	SICAV- Part II	Luxembourg	Dec 31	A Dis
European Fund for Southeast Europe (EFSE)		2005/12	SICAV-SIF	Luxembourg	Dec 31	Albania-C EUR cap Bosnia & H –C2 Cap Bosnia & H- FLC Cap Kosovo-C2 Cap Kosovo-C3 Cap Kosovo-FLC Cap Kosovo-KC4 TrIV Cap Montenegro- C2 Cap Montenegro- FLC Cap Regional A&B- A cap Regional A&B- B Tr2 8Yr Cap Regional A&B-Class A Tranche 2 Dis Regional A&B-Class A Tranche 3 Dis Regional A&B-Class A Tranche 4 Dis Regional A&B- Class B Tranche 3 Dis Regional A&B-Mezz B Cap Regional C- FLC Cap Regional Non-EU A&B- Mezzanine B Cap Regional Non-EU A&B-Notes Cap Regional Non-EU A&B- Senior A Cap Serbia-C2 Cap Serbia-FLC Cap Ukraine- UCI-EUR Cap Western Balkans C- C TrII Cap Western Balkans C- C1 Cap
Rural Impulse Fund (RIF)		2007/08	SICAV-SIF	Luxembourg	Dec 31	A-Dis B-Dis

3.2 Time Frame

To track MIVs' performance throughout LuxFLAG's existence, the following time frame was chosen: June 2006 to June 2009, with figures at 6-month intervals. The reasons for this were the following:

- Rather than simply studying figures within the time frame of the crisis (June 2008-June 2009), it was decided to critically assess values over a longer period, as trends and fluctuations can be tracked with greater ease;
- Although sufficiently spaced out to eliminate possible seasonal fluctuations, the 6-month data provides more detailed data than simply an annual analysis;
- As most MIVs update their data at least on a bi-annual basis (usually June and December), practically speaking, such a time frame was ideal;
- Nevertheless, it must be noted that certain MIVs or share classes were created post-June 2006 and hence data may only commence at a later date.

However, in order to place more focus on the period of the financial crisis, "liquidity" and "monthly return" were solely analysed over the time span June 2008 to June 2009. The shorter time intervals (every three months) and hence greater frequency, allows for a more detailed and meticulous analysis of the MIVs' performance in the midst of the economic crisis.

3.3 Indicators

To analyse the evolution of MIVs before, during and after the crisis, a variety of indicators were employed:

- Total Assets (TA): data for all 7 MIVs;
- MFPP (Microfinance Portfolios): data for all 7 MIVs;
- Liquidity: data for all 7 MIVs;
- Net Asset Value per share (NAV): data for 6 MIVs;
- Monthly return: data for 6 MIVs.

All values for the TA and MFPP are quoted in Euros. However, as different share classes are denominated in various currencies (EUR, USD, and CHF), these values have not been converted in order to observe, with greater accuracy, the progression of MIVs' share classes.

4. BACKGROUND

4.1 Microfinance Institutions (MFIs): potential risks inherent to the financial crisis

In order to better comprehend the analysis performed on LuxFLAG labelled MIVs, it is essential to give an outline of the potential impact of the financial crisis on MFIs. Although the elements exposed below may give clues to better understand the responses of the MFIs to the financial crisis, one must not forget to mitigate these statements taking into considerations specific regional and local differences as well as the specificities of the MFIs themselves.

According to Symbiotics³, the main potential risks identified by MFIs attributed to the global financial crisis, were:

- (1) liquidity shortages;
- (2) deterioration of the portfolio quality due to:
 - o economic slowdown,
 - o decrease of remittances and
 - o micro-credits which are indexed to foreign currencies.
- (3) increasing interest rates on borrowings;
- (4) increased currency risk due to foreign exchange volatility,

Liquidity shortages

According to the Consultative Group to Assist the Poor (CGAP) *"MFIs report that clients' purchasing power has gone down and cash needs have gone up, causing savings to be withdrawn and sometimes straining repayments⁴."* This observation highlights the liquidity risk that MFIs are facing. Indeed, as clients need to access their savings rapidly, some MFIs find themselves in the incapacity of both granting loans and giving back savings.

Deterioration of the portfolio quality

In addition, the repercussions of the financial crisis on micro-entrepreneurs have led to lower levels of remittances, over-indebtedness and in the worst cases unemployment. For all these reasons, the incapacity of some micro-entrepreneurs to repay their loans on time has led to a significant increase in the portfolio-at-risk at 30 days of the MFIs. As Symbiotics outlines in its July 2009 Quarterly newsletter, *"PAR>30 has increased significantly since the beginning of 2009, reaching 4,9% in May"*. This may however encourage MFIs to switch strategies by taking a more long term approach and put more emphasis on the quality of their portfolio rather than on the quantity and number of clients.

³ Microfinance Investments & Financial Markets, Quarterly Corporate Newsletter · Geneva · January 2009

⁴ The global Financial crisis and its impact on Microfinance, Focus Note No.52, Feb. 2009, Elisabeth Littlefield, CGAP

Increasing interest rates on borrowings

Initially, Development Financial Institutions (DFIs) and private donors were the primary sources of foreign funding for MFIs, but as they are increasingly turning to international markets, MIVs raising funds from social, commercial, private or institutional investors, have emerged. As a result, MFIs are finding themselves more closely linked to the capital markets than ever before. As a consequence, some MFIs were impacted by the credit crunch and started to see their cost of borrowing increasing. This recent increases in rates and premiums are confirmed by Symbiotics *“Rates continue their gradual increase; paired with the continued decrease of reference rates, they imply credit premiums much higher than in the past, recently around 7%.”*⁵

Increased currency risk due to foreign exchange volatility

In addition to the above, MFIs borrowing in foreign currency are also facing currency depreciation. As identified by CGAP *“Local currency exchange rates against the dollar have moved significantly down over the past two months in many countries”*⁶.

The market volatility experienced recently increased the cost of hedging foreign exchange risk. MFIs that tap the international capital markets will have to pay more for local currency loans. In their article *“ties to Capital Markets Challenge Microfinance Institutions”* Konstantin Andreev and Pamela Young from Cygma illustrate the example of Peru *“Three months ago, a microfinance investment vehicle (MIV) could charge an MFI roughly 11.3 percent for a one-year loan in PEN in order to achieve the equivalent of a 10 percent return in USD. Now, in order to achieve the same rate of USD return, the MIV would have to charge over 15 percent”*.

⁵ Quarterly Corporate Newsletter, Geneva, July 2009

⁶ The global Financial crisis and its impact on Microfinance, Focus Note No.52, Feb. 2009, Elisabeth Littlefield, CGAP

4.2 MIVs before, throughout and after the financial crisis

In considering the effects of the crisis on the microfinance sector, it is also critical to observe the impact of the credit crunch on MIVs, as they offer a significant portion of funding to Microfinance Institutions (MFIs)⁷. However, the buoyancy of MIVs is to a large extent correlated with their size. The experiences of MIVs are far from homogeneous. Although the consequences and reactions of MIVs to the crisis have varied widely, a few major points can be highlighted in the section below:

Slow down in growth of total assets

The “MIVs surveys” carried out every year by CGAP have regularly demonstrated the solid growth both in number and Assets Under Management of the MIVs. Indeed, as of December 2006, 64 MIVs were active worldwide representing AUM of USD 3 billion and representing a 68% increase from 2006⁸. Even more significant was the increase observed in December 2007 with 91 MIVs representing AUM of USD 5.4 billion, representing a notable 72% increase from 2006⁹.

Although AUM growth has slowed down in 2008, representing 31% from 2007, figures from the latest MIV Survey of 2009¹⁰, demonstrate that MIVs have shown resilience to the financial crisis. Asset managers seem to be confident in the market as they forecast a steady growth of 29% for 2009 as shown in the graph on page 10¹¹.

In addition, multiple sources have argued that the slightly more conservative growth rates seen in 2008 and the first semester of 2009 may in fact be an opportunity in disguise. Previous growth rates were, according to MicroRate, unsustainable. Indeed, excess liquidity and hence funding would have entailed either:

- Squandering of money or;
- Deterioration in portfolio quality¹².

⁷ For definitions of MFIs, please see Appendix 3

⁸ The % is calculated on the number of MIVs that have responded to the survey in 2007 (40 MIVs combining estimated AUM of USD 2.6 billion).

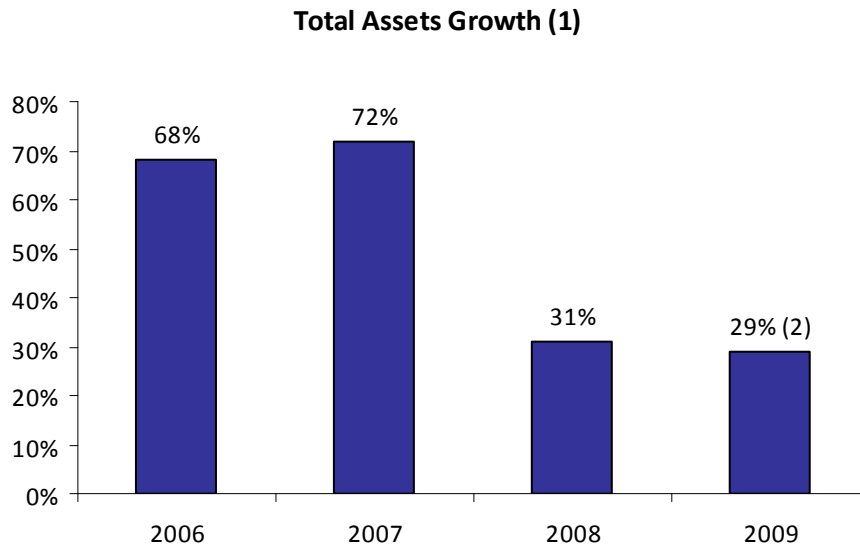
⁹ The % is calculated on the number of MIVs that have responded to the survey in 2008 (58 MIVs combining estimated AUM of USD 4.7 billion)

¹⁰ 103 MIVs identified worldwide gathering AUM of USD 6.6 billion

¹¹ CGAP 2009 MIV Survey, Market Data & Peer Group Analysis, August 2009, CGAP

¹² Will the Bottom of the pyramid hit Bottom? The Effects of the Global Credit Crisis on the Microfinance Sector, Report n. 150, March 2009, USAID

Graph 1: Total Asset Growth between 2006 and 2009



¹ Total Assets Growth rate base on data provided by participating MIVs

² Asset Managers' forecast for 2009

Source: CGAP 2009 MIV Survey, Market Data & Peer Group Analysis, August 2009, CGAP

Investors remain committed to MIVs

Another important point to consider in this analysis is the reaction of investors towards MIVs during the crisis. In its report "MIV Performance and Prospects: Highlights from the CGAP 2009 MIV benchmark survey", CGAP has outlined the attitude of investors toward MIVs during the crisis as such:

- MIVs have not reported significant redemptions as result of the crisis;
- Retail investors continued to invest in MIVs;
- Institutional investors, who account for 42 % of funding to MIVs, maintained stable asset allocation to microfinance;
- Public investors increased their microfinance commitments and launched two new MIVs providing liquidity for cash-strapped microfinance institutions (MFIs): the USD 250 million Microfinance Enhancement Facility¹³ created in February 2009 and the USD 100 million Microfinance Growth Fund¹⁴ announced by U.S. President Barack Obama at the summit of the Americas in April 2009.

These elements are important to highlight as they differ widely from the reaction of investors towards other asset classes who have suffered major redemptions during the crisis. This

¹³ Launched by two large development finance institutions: IFC and KfW.

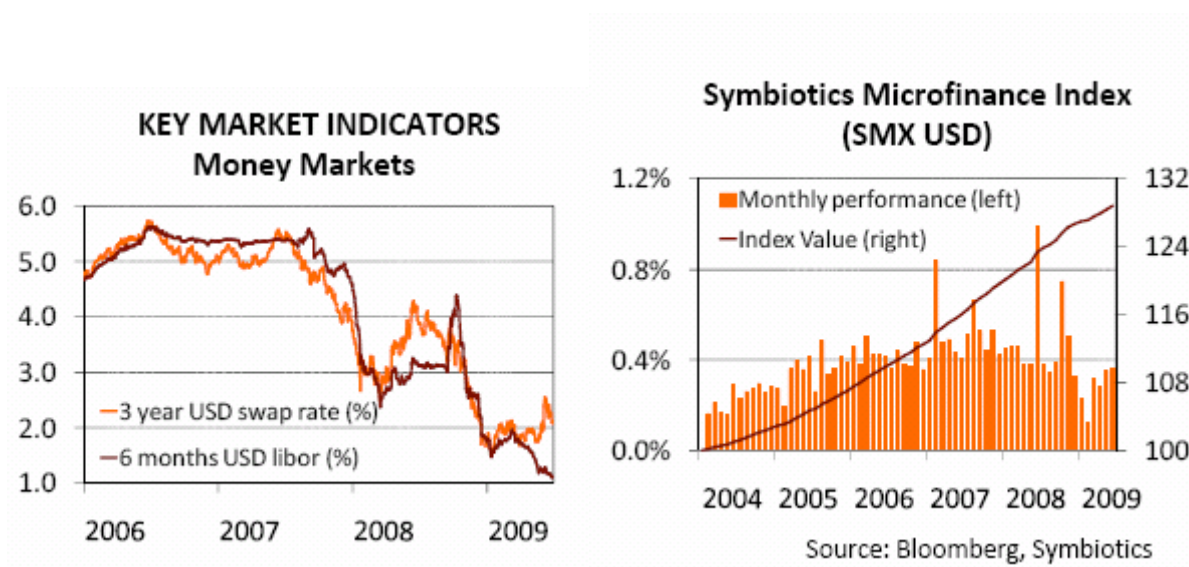
¹⁴ A partnership of the Multilateral Investment Fund at the Inter-American Development Bank, the U.S. Overseas Private Investment Corporation, and the inter-American Investment Corporation.

demonstrates the commitment of investors with a long term approach and looking for a “double bottom line”: a financial return as well as a social return on investments.

Performances were slightly impacted

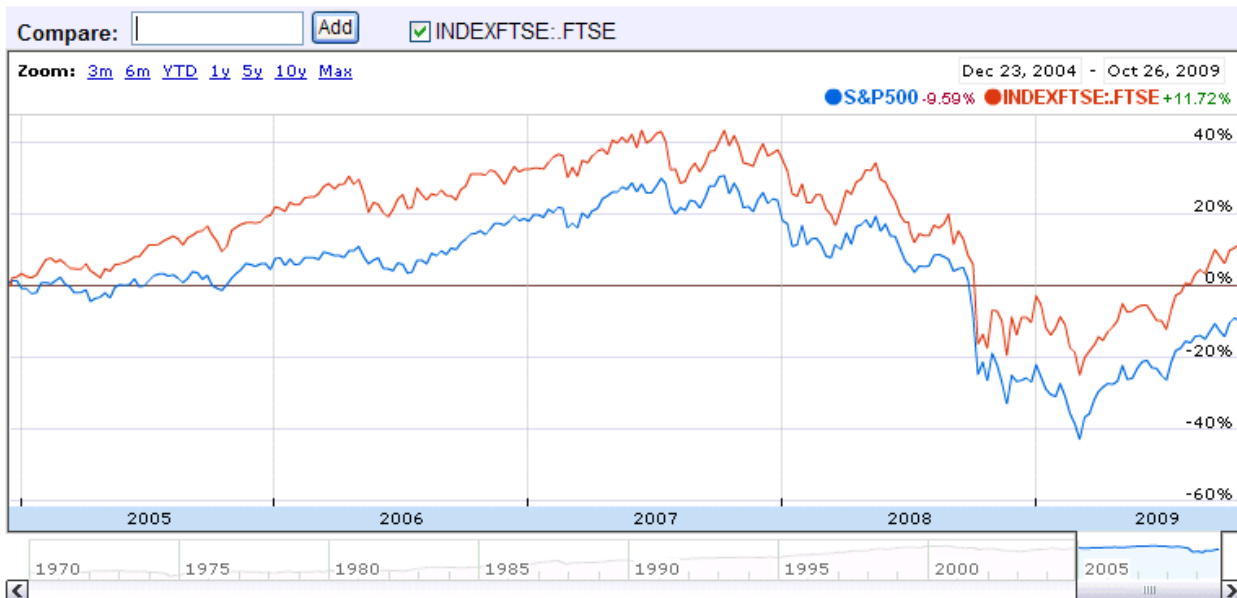
Symbiotics highlights that *“as an asset class, microfinance has continued to generate positive monthly returns with low volatility. However, during the first six months of the year, yields have decreased [...] These lower performances are explained by several combined factors, of which the most relevant are”*¹⁵:

- (1) currency volatility on the foreign exchange market, especially between USD and EUR;
- (2) the increased provision of MIVs to cover potential default risks;
- (3) the high level of liquidity generated by the shortage of demand for financing from MFIs.



¹⁵ Reaching out through investments, Quarterly corporate Newsletter, Geneva, July 2009

Evolution of the S&P 500 and the FTSE 100 over the period 2005-2009



Source: www.google.com/finance

Despite these observations, we may only be witnessing the tip of the iceberg: the effects of the crisis on MIVs may be much more pronounced than these initial figures and trends indicate and some experts warn that the performance of MIVs is likely to deteriorate during 2009. According to USAID, many MIV loans mature in the year 2009-2010. A similar scenario is occurring in MFIs, with “approximately 20% of loans in our investor survey participants’ portfolios [...] maturing in 2009”, and although “most are expected to be renewed upon maturity, [...] approximately 15% of loans are not”¹⁶. Such prospects will perhaps call for a revision of current estimations and predictions.

Within this backdrop, this report will now provide an analysis of the performance and resilience of LuxFLAG’s 7 labelled MIVs from June 2006 to June 2009. The labelling and standardisation provided by this organisation is already a forward step in the direction of sustainable microfinance. It is hence interesting to trace the development of these MIVs since June 2006.

¹⁶ “Will the Bottom of the pyramid hit Bottom? The Effects of the Global Credit Crisis on the Microfinance Sector, Report n. 150”

5. ANALYSIS

In order to gauge the extent of the impact of the financial crisis on these seven labelled MIVs, a systematic examination will be performed, considering each of the six indicators separately. Once again, one must note that the analysis will be made solely on the evolution of individual MIVs rather than a cross-comparison of MIV performance due to lack of data standardisation.

5.1 Total Assets

If one observes Table 2 below, it appears that all the concerned MIVs have experienced a consistent increase in AUM throughout the designated period, even in the more adverse economic context of 2008-2009. This is punctuated by one exception, that of the responsAbility Microfinance Leaders fund which saw slight decreases in AUM between December 2008 and June 2009 (-12.5%). However, if one eliminates seasonal fluctuations, and calculates the difference between June 2006 (or the date of establishment) and June 2009, all the MIVs have seen an increase in AUM, many of which have been quite remarkable. Excluding responsAbility Microfinance Leaders Fund which seems to be an outlier, the average of Total Asset growth (of the six remaining MIVs) over the three years was 361% or more than a five-fold increase.

However, a more attentive examination of the 6-month figures represented in Table 2 and illustrated in Graph 2, suggests that December 2008 saw a deceleration in AUM growth of six of the seven MIVs. This is clearly in line with the tendency observed in the first part of this report.

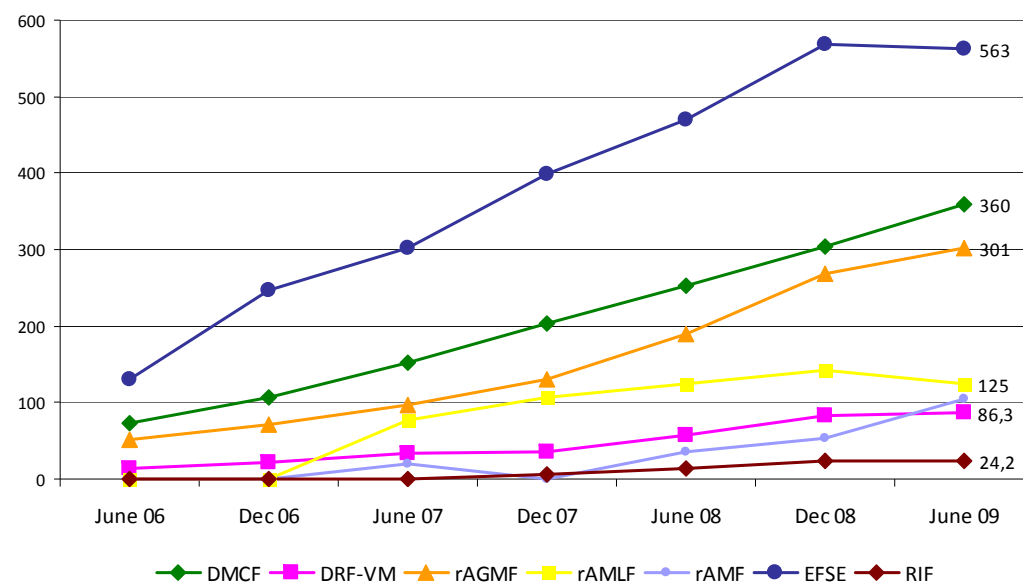
Despite some growth deceleration, the consistent rise in MIV total assets, demonstrates a continued expansion and potential in this sector, regardless of the turbulence currently experienced by international markets. This would suggest that, microfinance may be a niche for international investors seeking portfolio diversification. Moreover, as explained earlier in this report, this may reflect the fact that investors are seeking a double bottom line return based on financial and social return and therefore remain committed to MIVs despite the recent market turmoil.

Table 2: Evolution of TA of 7 MIVs over the period 2006-2009 (in EUR millions)[1]

	June 06	Dec 06	%	June 07	%	Dec 07	%	June 08	%	Dec 08	%	June 09	%	Total evolution June09-June06
DMCF	73,5	106	44,2%	151	42,5%	202,6	34,2%	252,9	24,8%	304,1	20,2%	360,2	18,4%	390%
DRF-VM	13,2	22,1	67,4%	33,9	53,4%	35	3,2%	56,4	61,1%	82	45,4%	86,3	5,2%	554%
rAGMF	50,8	71,3	40,4%	96,7	35,6%	131,1	35,6%	189,2	44,3%	268,1	41,7%	301,4	12,4%	493%
rAMLF	-	-	-	76,7	-	106,9	39,4%	123,7	15,7%	142,5	15,2%	124,7	-12,5%	63%
rAMF	-	-	-	20,0	-	28,9	44,5%	35,1	21,5%	53,5	52,4%	105,2	96,6%	426%
EFSE	152,9	247,3	61,7%	332,9	34,6%	398,7	-	468,6	17,5%	568	21,2%	624,4	9,9%	308%
RIF	-	-	-	-	-	6,6	-	14,4	118,2%	23,5	63,2%	24,2	3,0%	267%

Source: information from labelled MIVs

Graph 2: Evolution of TA of 7 MIVs over the period 2006-2009 (in EUR millions)[1]



5.2 Microfinance Portfolio (MFPP)

A general analysis of the MFPP figures over the June 2006-June 2009 period indicates that the last three years have witnessed a quite homogenous reaction among the seven MIVs. In fact six MIVs have experienced phenomenal growth in MFPP, Dexia Micro-Credit Fund seeing the highest growth in MFPP with almost a four-fold increase in the past three years (see Table 3).

Analysing the evolution of the individual MIVs, it appears that once again, December 2008 marks a turning point, (as seen in Graph 3). Following this date, MFPP values seem to stay rather stable and the growth of the MFPP decelerates from December 2008 to June 2009.

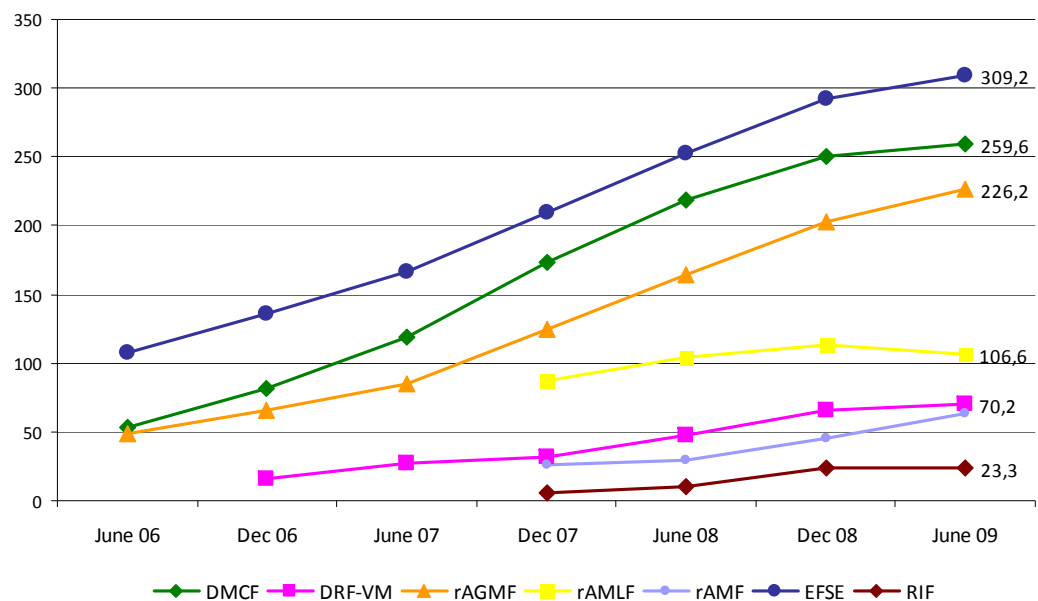
This is largely explained by the fact that some MFIs have switched strategies in reaction to the financial crisis by taking more conservative approaches. Hence, MFIs tend to limit their expansion plans and to put a greater focus on their portfolio quality. As a result, demand for funding from the MFIs was reduced and MIVs faced difficulties to make new investments. This of course led to a reduction of the MFPP and higher cash positions for most of the MIVs as explained by the “responsAbility Microfinance Leaders Fund” in its May 2009 factsheet *“Microfinance institutions (MFIs) have significantly scaled back their growth plans in the wake of the global economic crisis, and many MFIs are now seeing growth in their loan portfolios slow or even stagnate. Institutions are using the current situation to further enhance their business processes and risk management and maintain the quality of their loan portfolio at a high level. All this has resulted in reduced demand for new funding in recent weeks”*.

Table 3: Evolution of the MFPF for the 7 MIVs[2](all numbers in EUR millions)

	June 06	Dec 06	%	June 07	%	Dec 07	%	June 08	%	Dec 08	%	June 09	%	Total evolution June09-June06
DMCF	53,2	81,4	53,0%	118,6	45,7%	173,3	46,1%	218,8	26,3%	250,4	14,4%	259,6	3,7%	388%
DRF-VM		15,8	-	27,6	74,7%	31,8	15,2%	47,1	48,1%	65,4	38,9%	70,2	7,3%	344%
rAGMF	48,2	65,3	35,5%	85,2	30,5%	124,9	46,6%	164,2	31,5%	202,9	23,6%	226,2	11,5%	369%
rAMLF	-	-	-	-	-	87,4	-	104,7	19,8%	113,7	8,6%	106,6	-6,2%	22%
rAMF	-	-	-	-	-	26,1	-	29,7	13,8%	45,1	51,9%	63,6	41,0%	144%
EFSE	107,3	136,3	27,0%	166,1	21,9%	209,1	25,9%	252,2	20,6%	292,2	15,9%	309,2	5,8%	188%
RIF	-	-	-	-	-	6,1	-	10,6	73,8%	23,3	119,8%	23,3	0,0%	282%

Source: information from labelled MIVs

Graph 3: Evolution of the MFPF for the 7 MIVs[2](all numbers in EUR millions)



5.3 Liquidity

Throughout the crisis, and in particular since September 2008, liquidity has been one of MIVs' prime concerns. In June 2008, all MIVs maintained their liquidity provisions within the range of 10 to 16% of AUM, except for the Rural Impulse Fund (26%). A year later, a wide disparity has appeared, with liquidity proportions ranging between 10 and 40% (see Table 4 and Graph 4). Many mention increases in cash provisions in their monthly factsheets and despite most attestations that these provisions remain "temporary", increases in liquidity continued for most the MIVs until March 2009 (see Table 4 and Graph 4), except for the responsAbility Global Microfinance Fund who kept its liquidity level around 23%.

June 2009, marks as a turning point as most of the MIVs have eventually been able to process some investments. responsAbility Microfinance Leaders Fund has even returned to its June 2008 proportion of liquidity. This seems to concur with investment managers' comments asserting that investment activity is recovering "*The investment pipeline has been enlarged accordingly, which will lead to a significant reduction in the cash positions*"¹⁷.

Nevertheless, some estimates have seemed overly optimistic. For instance, in March 2009, reponsAbility Mikrofinanz-Fonds estimated that "*Investment activity was massively extended and we therefore assume that [...] liquidity can thereby be reduced to less than 15% in the next 1-2 months*"¹⁸. Three months later, liquidity remained at 40% (see Table 4).

This may be linked to two main factors:

- 1) Firstly, as indicated before, despite hints of an economic recovery on the investor side, MFIs are proceeding with caution. As a result, there is a noticeable decrease in financing demands from MFIs. Hence changes in investment may be tempered by MFI's more conservative approach to portfolio growth and expansion.
- 2) Secondly, most MIVs have seen their cash positions increased due to currency volatility on the foreign exchange market, especially between EUR and USD.

These two elements seem to concur with the labelled MIVs' declarations:

Dexia Micro-Credit Fund in its June 2009 factsheet "*More time for placement is required primarily because of declining demand from microfinance institutions (MFIs) in recent periods, in line with their lower portfolio growth as they position themselves more conservatively in response to the global financial crisis. Furthermore, the strength of the EUR versus the USD has increased the EUR share class' value and therefore the fund's overall net asset value in USD terms, leading to a larger cash position*".

¹⁷ responsAbility Global Microfinance Fund, Factsheet March 2009

¹⁸ Ibid.

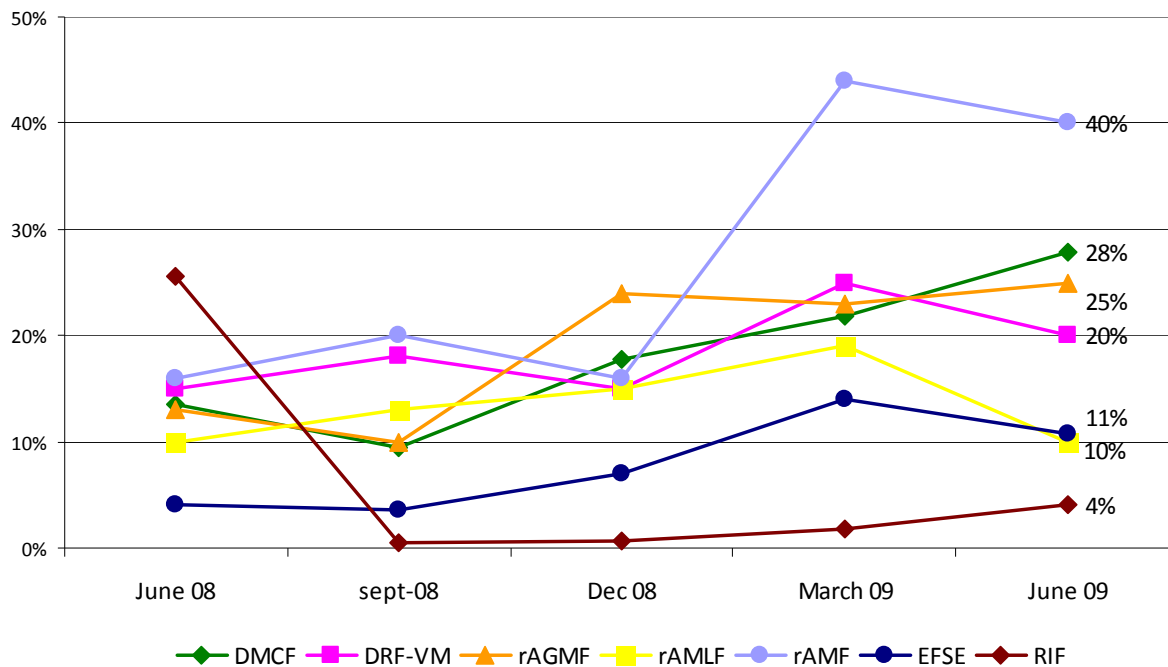
Dual Return Fund - Vision Microfinance, May 2009. “For the time being there are no active signs on the demand side in the market, as MFIs have slowed down their growth plans and partly secured their financing from local sources. Therefore, placing sizeable liquidity, arising from fast movements in EUR/USD rate as well as from scheduled repayments of loans from the MFIs, and keeping the Fund invested in microfinance are seen as major challenges for the next few months”.

Table 4: Evolution of liquidity as a percentage of TA (June 2008- June 2009)

	June 08	sept-08		Dec 08		March 09		June 09	
DMCF	14%	10%	-4	18%	+8	22%	+4	28%	+6
DRF-VM	15%	18%	+3	15%	-3	25%	+10	20%	-5
rAGMF	13%	10%	-3	24%	+14	23%	-1	25%	+2
rAMLF	10%	13%	+3	15%	+2	19%	+4	10%	-19
rAMF	16%	20%	+4	16%	-4	44%	+28	40%	-4
EFSE	4%	4%	+0	7%	+3	14%	+7	11%	-3
RIF	26%	1%	-25	1%	+0	2%	+1	4%	+2

Source: information from labelled MIVs

Graph 4: Evolution of liquidity as a percentage of TA (June 2008- June 2009)[3]



5.4 Net Asset Value per share class

Over the period June 2006 to June 2009, the six MIVs¹⁹ and their share classes, without exception, demonstrate a clear rise in NAV. Most even display 10 to 20% increases (see Table 8). Throughout the last three years (or less depending on the MIV's creation), there has been a constant, regular increase in NAV in all six MIVs. Looking at the December 2008-June 2009 period, there have been no dips in NAV, with the exception of Dual Return Fund's USD share class and responsAbility Mikrofinanz-Fonds.

As with almost all the indicators, December 2008 acts as a decisive moment showing a slow down in the growth of NAVs for most of the MIVs. Dual Return Fund's USD share class's and responsAbility Mikrofinanz-Fonds's NAVs have decreased during that period; however RIF's NAV increased at a faster pace (see Graph 13).

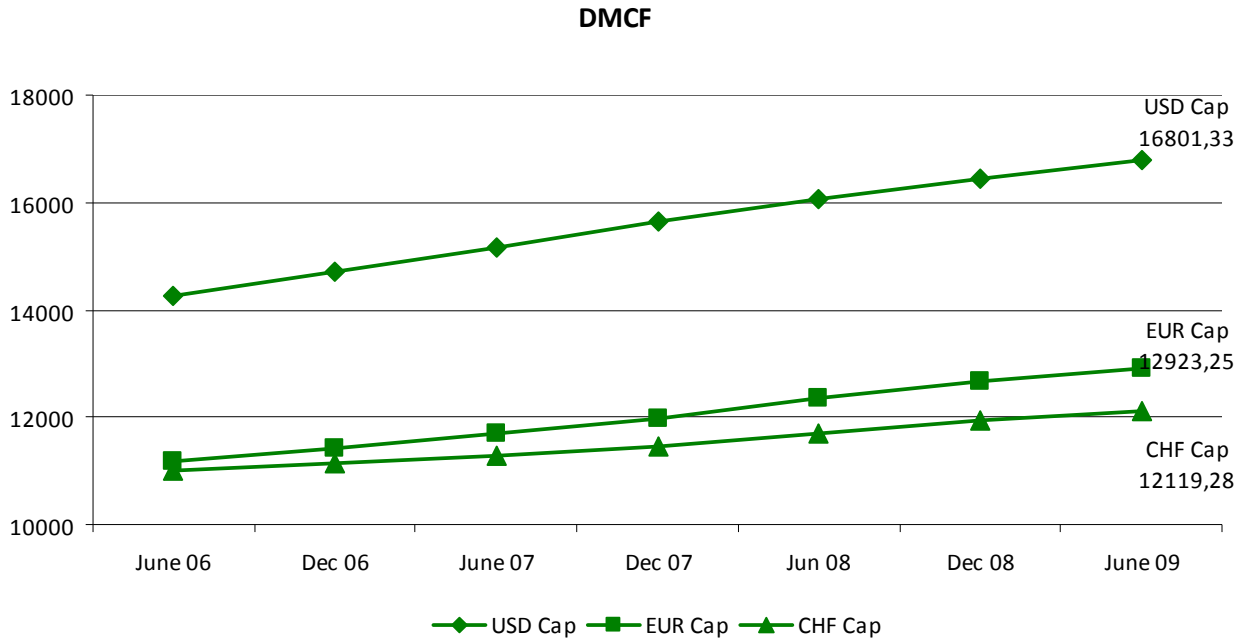
Table 8: Total Net Asset Value per share 6 MIVs between the period June 2006 to June 2009 (figures according to designated currencies)

	Name of Share class	Currency	June 06	Dec 06	June 07	Dec 07	Jun 08	Dec 08	June 09	Total evolution
DMCF	USD Cap	USD	14242,95	14711,85	15154,47	15639,98	16049,75	16450,82	16801,33	18%
	EUR Cap	EUR	11182,31	11428,3	11688,52	11980,79	12339,21	12666	12923,25	16%
	CHF Cap	CHF	10993,28	11141,31	11289,21	11468,71	11691,17	11925,68	12119,28	10%
DRF-VM	USD Cap	USD	1003,68	1018,79	1039,92	1074,91	1094,02	1121,24	1085,96	8%
	EUR Cap	EUR	1000,31	1004,51	1017,61	1035,8	1061,67	1093,85	1114,49	11%
	CHF Cap	CHF	998,17	993,94	999,31	1007,48	1022,74	1043		-
rAGMF	US-Dollar Cap	USD	108,06	110,84	116,25	119,37	123,43	127,06	128,12	19%
	EUR-H Cap	EUR	103,89	105,37	105,81	107,02	115,97	119,73	120,81	16%
	CHF-H Cap	CHF	101,87	102,55	109,62	112,02	110,05	112,99	112,91	11%
rAMLF	Q Cap - USD	USD	-	100,51	103,29	106,57	111,23	114,57	115,48	15%
rAMF	A Dis-EUR	EUR	-	102,15	100,16	102,15	103,02	105,87	102,94	1%
RIF	A Dis-USD	USD				95,03	98,41	99,78	106,38	

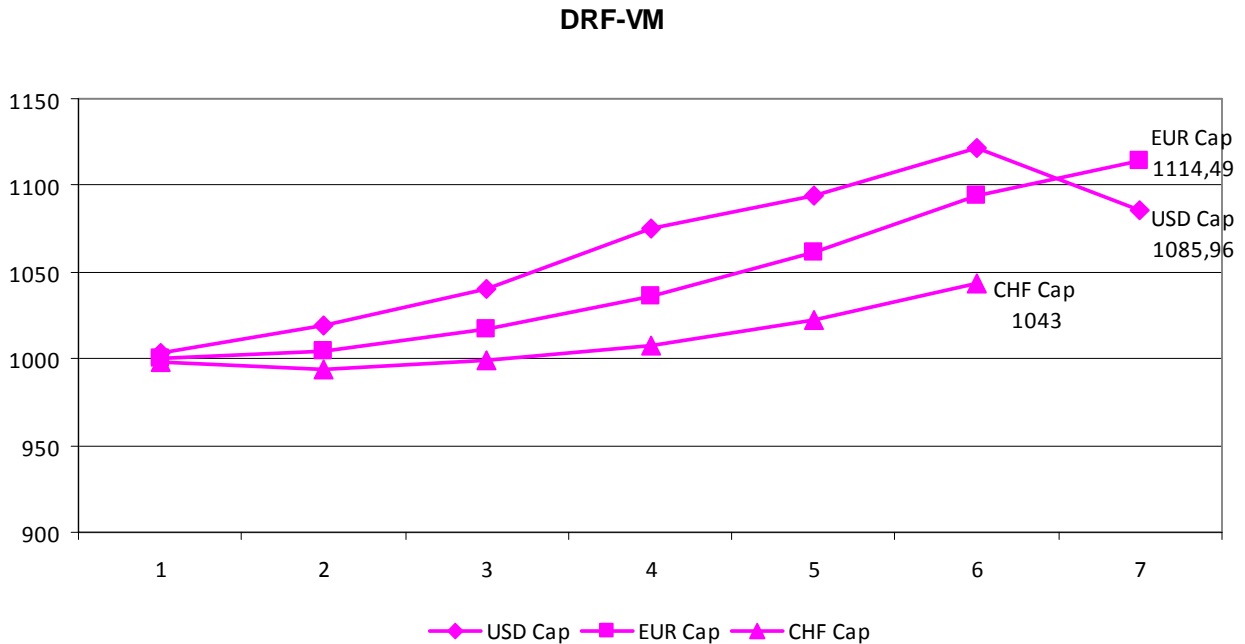
Source: information from labelled MIVs/Finesti

¹⁹ EFSE does not appear in this section due to unavailability of data

Graph 8: Total Net Asset Value per share for Dexia Micro-Credit Fund between the period June 2006 to June 2009

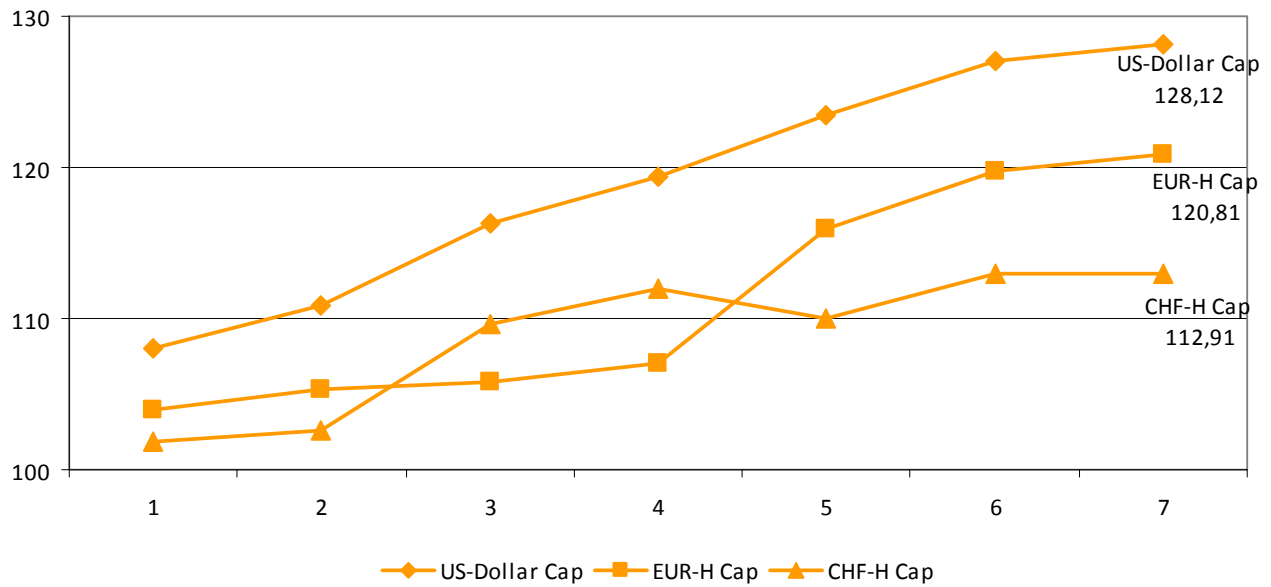


Graph 9: Total Net Asset Value per share for Dual Return Fund – Visions Microfinance between the period June 2006 to June 2009



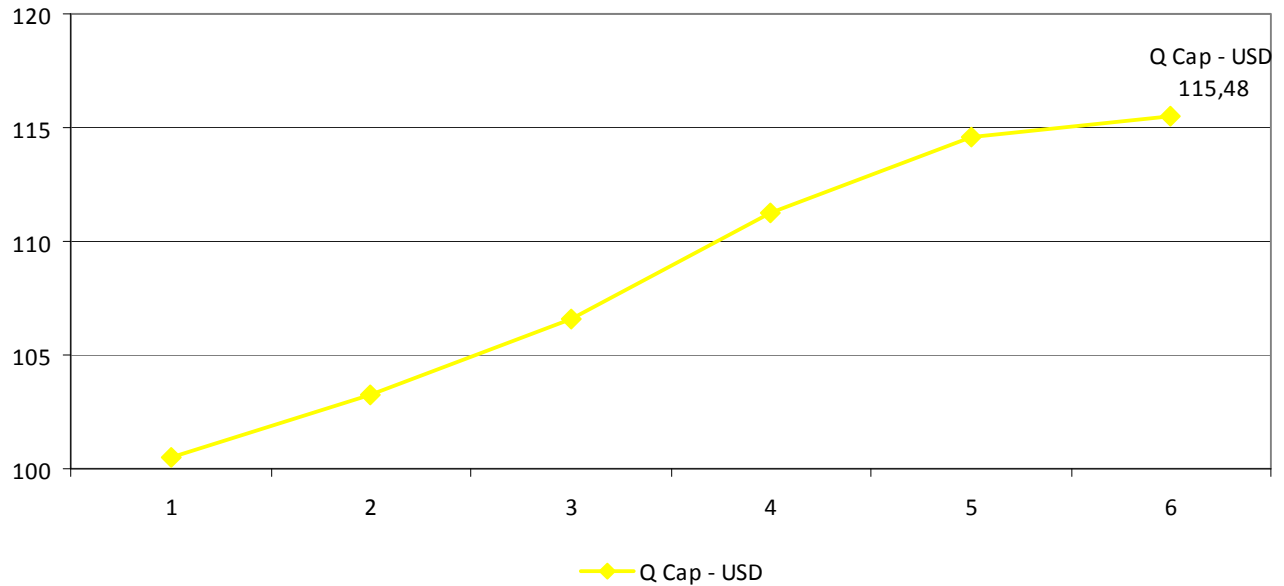
Graph 10: Total Net Asset Value per share for responsAbility Global Microfinance Fund between the period June 2006 to June 2009

rAGMF



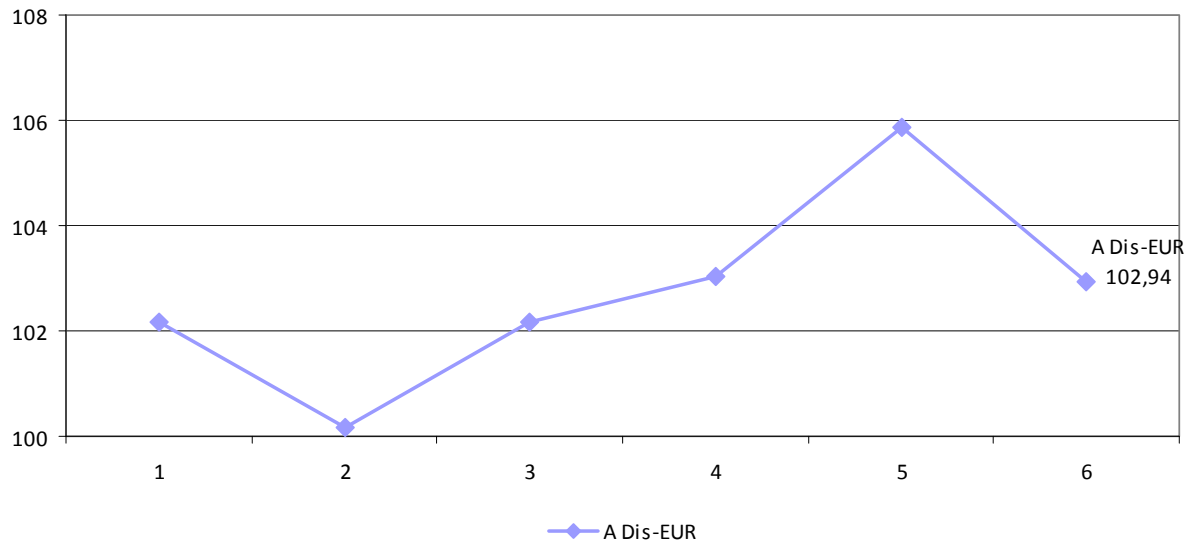
Graph 11: Total Net Asset Value per share for responsAbility Microfinance Leaders Fund between the period June 2006 to June 2009

rAMLF



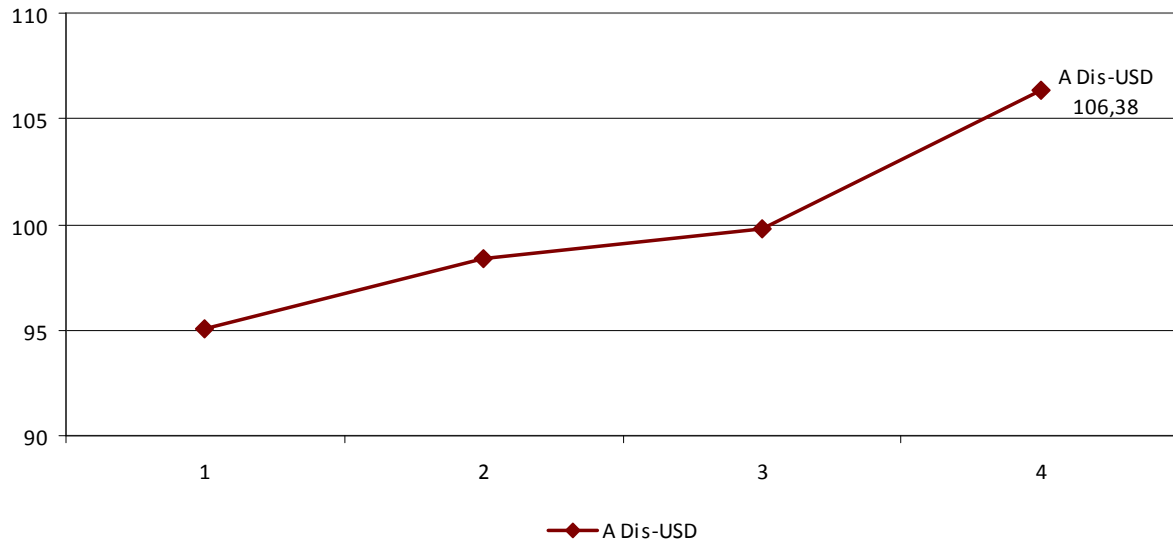
Graph 12: Total Net Asset Value per share for responsAbility Microfinanz-fonds between the period June 2006 to June 2009

rAMF



Graph 13: Total Net Asset Value per share for Rural Impulse Fund between the period June 2006 to June 2009

RIF



5.5 Monthly return

Symbiotics keeps record of the monthly performances of some MIVs with its Symbiotics Microfinance Index (SMX). The SMX is made up of publicly listed global fixed income funds that invest primarily in microfinance. Interestingly the majority of the MIVs listed in the SMX indices are labelled by LuxFLAG²⁰.

In its “Quarterly Corporate Newsletter” dated July 2009, Symbiotics describes the evolution of monthly returns observed during the first six months of year 2009 as follows: *“As an asset class, microfinance has continued to generate positive monthly returns with low volatility. However, during the first six months of the year, yields have decreased, with six months returns reaching 1.66% for the SMX USD and 1.74% for the SMX EUR. Compared to the previous semester, this represents for each currency class a yield decrease of more than 100 bps”*.

According to Symbiotics, these lower performances can be explained by several combined factors:

- 1) Currency volatility on the foreign exchange market, especially between the EUR and the USD. This seems to concur with declarations of the asset managers, notably the Dual Return Fund, which comments on the impact of the currency volatility on its monthly performance in its May 2009 factsheet: *“The Fund’s microfinance investment portfolio remained fully hedged. Though depreciation of USD during the month resulted in a decrease in market value (in Euro terms) of the Fund’s USD microfinance portfolio and an increase in Fund’s EUR cash position, an excess in Fund’s liquidity portfolio had its downward impact on the monthly performance”*.
- 2) The increased provision of MIVs to cover potential default risks. Here again this has been mentioned by some labelled MIVs such as the “responsAbility Global Microfinance Fund” in its September 2009 factsheet: *“A conservative revaluation of a number of private equity positions, and the formation of risk-adequate provisions for certain investments in Nicaragua, led to a negative monthly return. The provisions for Nicaragua were necessitated by the difficult economic and political situation in that country”*.
- 3) The high level of liquidity generated by the shortage of demand for financing from MFIs. This was already commented widely in the analysis of the liquidity page 17.

²⁰ More information on these indices can be found on www.syminvest.com

Despite these lower performances, it appears that the March to June 2009 was marked by a slight improvement in performance, a trend already noted in previous indicators. Those MIVs with a negative slope in monthly return have seen these slopes' steepness reduced (in comparison to the previous December 2008-March 2009 interval).

This may be an indication that performance prospects are improving, as the effects of the crisis start to wane. The MIVs' monthly reports seem to support this argument. By June 2009, almost all MIVs intended to exploit significant opportunities for investment: *"During June we were looking for new investment opportunities in microfinance"*²¹ or yet still *"we can expect to see a significant increase in investment opportunities after the summer months"*²². In parallel to this, March monthly reports indicate efforts of geographic diversification of funding *"considered opening new countries and MFIs for our fund"*²³, or *"focusing on a broad geographical diversification of high quality"*²⁴. Hence, the comments of the respective investment managers confirm figures portraying slight improvements in performance.

²¹ Dual Return- Vision Microfinance, Monthly Report, June 2009

²² reponsAbility Global Microfinance Fund, Monthly report June 2009

²³ Dual Return- Vision Microfinance Fund, Monthly Report, March 2009

²⁴ Dexia Micro-Credit Fund, Monthly report, March 2009

Table 9: Evolution of monthly returns for the 6 MIVs between June 2008 and June 2009

	June 08			sept-08			Dec 08			March 09			June 09			Total Evolution from June 08 to June 09		
	USD	EUR	CH	USD	EUR	CH	USD	EUR	CH	USD	EUR	CH	USD	EUR	CH	USD	EUR	CH
DMCF	0,42	0,54	0,41	0,27	0,42	0,24	0,52	0,3	0,31	0,23	0,23	0,17	0,13	0,15	0,1	-69%	-72%	-76%
DRF-VM	-	0,47	-	-	0,49	-	-	0,52	-	-	0,3	-	-	0,24	-	-	-49%	-
rAGMF	1,42	1,51	1,31	0,46	0,63	0,43	0,07	0,23	0,03	0,28	0,31	0,2	0,39	0,43	0,4	-73%	-72%	-69%
rAMLF	2,14	-	-	0,4	-	-	0,04	-	-	0,19	-	-	0,42	-	-	-80%	-	-
rAMF	-	0,52	-	-	0,61	-	-	0,24	-	-	0,2	-	-	0,38	-	-	-27%	-
RIF	0,11	-	-	1,61	-	-	0,17	-	-	0,88	-	-	1,07	-	-	873%	-	-

Source: information from labelled MIVs

6. CONCLUSION

Throughout this recent economic crisis, MIVs have proved relatively resilient to the pressures of the triple threat of food, fuel and financial crises. It is one of the only asset classes which has not seen negative returns and continues to exhibit a great deal of stability and high repayment rates.

Analysing these seven LuxFLAG-labelled MIVs, reflects just this trend. AUM continue to rise (albeit at a slower pace in the last 6 months) MFPF continue to increase or have remained fairly stable, while NAVs continue to climb. This seems to confirm the findings of a paper released in early 2009 by New York University²⁵, defending microfinance as an ideal opportunity for portfolio diversification, thanks to its lack of market correlation.

However, despite these assertions, it is evident that MIVs have not remained entirely immune to the financial turmoil. In the seven analysed MIVs, this impact appears to have been delayed, with December 2008 acting as a turning point for most indicators. Among the most important impacts, the following should be highlighted:

- Slow down of AUM growth;
- Decreases of the proportion of the MFPF compared to AUM;
- Increases in liquidity provision;
- Lower but still positive monthly returns;
- A flight to quality, and lending to Tier 1 Microfinance institutions;
- Efforts at geographic diversification of loans.

It appears however, that to a large extent many of these are pre-meditated, precautionary measures intended to mitigate the effects of the crisis, rather than the direct consequences of the financial downturn.

- These results need not be perceived as risks or losses, but may be transformed into a unique opportunity for MIVs to consolidate their position, review their portfolios at risk, their monitoring systems and information transparency, while increasing the profile of social performance, steps which it seems all five labelled MIVs are already undertaking.

²⁵ Can Microfinance Reduce Portfolio Volatility?, Feb. 2008, Nicolas Krauss and Ingo Walter

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Acknowledgements:

LuxFLAG would like to express its gratitude to the labelled MIVs for their assistance in collecting the data and for their most valuable input.

We would also like to thank Mr Thomas Seale, CEO of European Fund Administration, for his precious help in reviewing this study.

7. APPENDICES

APPENDIX 1: DEFINITIONS OF MIVs

CGAP²⁶

A Microfinance Investment Vehicle (MIV) is an investment entity that has microfinance as a core investment objective and mandate. It is either self-managed or managed by an investment management firm or by trustees. It receives money from investors through the issuance of shares, units, bonds, or other financial instruments. It provides debt, equity, or guarantees to MFIs and non-specialized financial intermediaries.

TOTAL MIVs identified in 2009: 103

MICRORATE²⁷

MicroRate defines an MIV as an independent investment vehicle which satisfies the following three criteria:


- The vehicle must be an independent legal entity for raising and investing funds (i.e. independent of the MFIs being funded).
- There must be a presence of multiple private investors or the vehicle must be open to such investors.
- MIVs which are only sponsored by development agencies or government bodies and are not set up collectively with private investors or open to them are excluded.
- An investment vehicle supported only by donors does not qualify as a MIV.
- The investment vehicle must focus on investing in microfinance.


TOTAL MIVs identified in 2009: 74

²⁶ Source: CGAP Microfinance Investment Vehicles Disclosure Guideline for Reporting on Performance Indicators, 2008

²⁷ Source: MIV Survey 2009 presentation appendix

APPENDIX 2: LABELLED MIVS GENERAL INFORMATION

	<h3>Dual Return - Vision Microfinance Fund</h3>
MIV GENERAL INFORMATION	
Inception	25 April 2006
ISIN	LU0236782842 EUR Class P LU0306115196 EUR Class I LU0236783659 USD Class P
Min. Investment	20.000 € (P) 1.000.000 € (I) 25.000 \$ (P)
Financial Year	December 31st
Domicile	Luxembourg
Legal Form	SICAV Part II
INVESTMENT POLICY	
<p>The mission of the Vision Microfinance Fund is to offer exposure to investors interested in microfinance. The fund has a double bottom line strategy, on the one hand maximizing its risk return profile for the benefit of the investor, and on the other hand maximizing the social outreach in breadth and depth to micro, small and medium enterprises in emerging and least developed economies. Through an investment in the Vision Microfinance Fund, loans to carefully selected microfinance institutions (MFIs) are financed, the MFI's in turn lend it on in the form of small credits to poor people locally.</p>	
THIRD PARTIES	
Investment Manager	Absolute Portfolio Management, GmbH, Vienna
Investment Advisor	Symbiotics, S.A., Geneva
Sponsor & Sales Agent	PEH Wertpapier AG, Germany
Custodian & Paying Agent	UBS AG, Luxembourg
Domiciliary Agent	Axxion S.A., Luxembourg
Auditor	KPMG

 BlueOrchard Microfinance Investment Managers	Dexia Micro-Credit Fund
MIV GENERAL INFORMATION	
Inception	September 1998
ISIN	LU0091117944 USD share class LU0136928586 CHF share class LU0164081316 EUR share class
Min. Investment	USD 10,000 CHF 15,000 EUR 10,000
Financial year	June 30th
Domicile	Luxembourg
Legal Form	SICAV Part II
INVESTMENT POLICY	
<p>The Dexia Micro Credit Fund (DMCF) invests in debt instruments of up to 3 years in maturity issued by microfinance institutions (MFIs) located in Africa, Asia, Eastern and Central Europe and Latin America. The MFIs provide small loans and other financial services to micro-entrepreneurs who lack access to traditional banking services. With the capital provided by these loans, micro-entrepreneurs are able to develop and grow productive businesses and improve their families' standard of living. Thus, the DMCF seeks to achieve an attractive return for investors while providing important social impacts, including poverty alleviation, empowerment of the working poor and the strengthening of inclusive financial systems. The target annual return of the fund is 6-month Libor plus 1-2%.</p>	
THIRD PARTIES	
Investment Manager	BlueOrchard Finance S.A. Dexia Asset Management
Investment Advisor	Dexia Asset Management
Sponsor & Sales Agent	Dexia BIL
Custodian & Paying Agent	RBC Dexia
Domiciliary Agent	RBC Dexia
Auditor	PricewaterhouseCoopers

	EUROPEAN FUND FOR SOUTHEAST EUROPE
MIV GENERAL INFORMATION	
Inception	December 2005
ISIN	Notes – Private Investors A-Shares – Mainly IFIs B-Shares – Mainly IFIs C-Shares – Public Investors
Min. Investment	-
Financial Year	December 31st
Domicile	Luxembourg
Legal Form	SICAV SIF
INVESTMENT POLICY	
<p>The objective of the Fund is to provide development finance in the Southeast Europe region, through the local financial sector, notably focusing on the needs of MSEs and private households. Through its investment activities, the Fund will thus contribute to strengthening the financial sector serving those development needs, including the non-banking sector. It will deliver MSE, rural, housing and other development finance products in the Southeast Europe region as long as they remain additional. The Fund aims to provide financial support additional to the resources provided by the local financial sector and/or by development finance institutions ("DFIs") active in the Southeast Europe region. The Fund will continue to expand its geographical reach in the Southeast Europe region as well as develop its product offering through CO-financing and leveraging. The Fund also aims to attract additional investors to the Southeast Europe region and to offer them an attractive financial return in line with market expectations.</p>	
THIRD PARTIES	
Investment Manager	Oppenheim Asset Management Services S.à r.l.
Investment Advisor	ConCap Connective Capital GmbH
Sponsor & Sales Agent	Oppenheim Asset Management Services S.a r.l.
Custodian & Paying Agent	Citibank International plc
Auditor	Ernst & Young

responsAbility	responsAbility Global Microfinance Fund
MIV GENERAL INFORMATION	
Inception	25 November 2003
ISIN	USD LU0180189770 EUR LU0180190273 CHF LU0180190604
Min. Investment	USD 1,000 CHF 1,000 EUR 1,000
Financial Year	March 31st
Domicile	Luxembourg
Legal Form	FCP Part II
INVESTMENT POLICY	
<p>The fund invests worldwide on a broadly diversified basis in a short-term income-bearing debt securities of microfinance institutions (MFIs). It can also invest up to 10 percent of its assets in the equity of MFIs and in Fair Trade. The fund pursues a conservative investment strategy with the aim of generating returns in excess of money markets rates. The addition of equity investments creates additional upside potential without noticeable impact on the fund's low volatility. (source: www.responsibility.com)</p>	
THIRD PARTIES	
Investment Manager	Crédit Suisse Microfinance Fund Management Company, Luxembourg
Investment Advisor	responsAbility Social Investments AG, Zurich
Sponsor & Sales Agent	Credit Suisse Asset Management Fund Service (Luxembourg) S.A.
Custodian & Paying Agent	Credit Suisse Asset Management Fund Service (Luxembourg) S.A. <i>In Liechtenstein</i> LGT Bank in Liechtenstein Aktiengesellschaft, Herrengasse 12, FL-9490 Vaduz <i>In Switzerland</i> Credit Suisse, Paradeplatz 8, CH-8001 Zurich
Domiciliary Agent	Credit Suisse Asset Management Fund Service (Luxembourg) S.A.
Auditor	KPMG

responsAbility	responsAbility Microfinance Leaders Fund
MIV GENERAL INFORMATION	
Inception	15. November 2006
ISIN	LU0274396679
Min. Investment	USD 1,000,000
Financial Year	December 31st
Domicile	Luxembourg
Legal Form	SICAV Part II
INVESTMENT POLICY	
<p>The fund invests worldwide on a broadly diversified basis in short medium-term income-bearing debt securities issued by microfinance Institutions (MFIs). It can also invest up to 25 percent of its assets in the equity of MFIs. By pursuing this strategy, the fund aims to generate stable returns, creating additional upside potential through the addition of equity investments. (source: www.responsibility.com)</p>	
THIRD PARTIES	
Investment Manager	Crédit Suisse Management Company
Investment Advisor	responsAbility Social Investment Services AG
Sponsor & Sales Agent	Credit Suisse Asset Management Fund Service (Luxembourg) S.A.
Custodian & Paying Agent	Credit Suisse (Luxemburg) S.A., Luxemburg
Auditor	KPMG

responsAbility	responsAbility Mikrofinanz-Fonds
MIV GENERAL INFORMATION	
Inception	29. Mai 2007
ISIN	EUR LU0302153209
Min. Investment	EUR 1,000
Financial Year	December 31st
Domicile	Luxembourg
Legal Form	SICAV Part II
INVESTMENT POLICY	
<p>The fund invests worldwide on a broadly diversified basis in short medium-term income-bearing debt securities of microfinance institutions (MFIs). The fund pursues a conservative investment strategy with the aim of generating returns in excess of 3-month Euribor money market rates. The investment strategy is geared to achieving steady, positive appreciation. The goal is to make an annual income distribution equivalent to the 3-month Euribor rate. (source: www.responsibility.com)</p>	
THIRD PARTIES	
Investment Manager	Crédit Suisse Management Company
Investment Advisor	responsAbility Social Investment Services AG
Sponsor & Sales Agent	Credit Suisse Asset Management Fund Service (Luxembourg) S.A.
Custodian & Paying Agent	Credit Suisse (Luxemburg) S.A., Luxemburg
Auditor	KPMG

Rural Impulse Fund	
MIV GENERAL INFORMATION	
Inception	August 2007
ISIN	A Dis - LU0320358681 B Dis - LU0320358848
Min. Investment	A Dis - USD 250,000 B Dis - USD 500,000
Financial Year	December 31 st
Domicile	Luxembourg
Legal Form	SICAV SIF
INVESTMENT POLICY	
The Fund aims at contributing to the alleviation of poverty in rural areas underserved by the microfinance industry by making debt and/or equity investments in MFIs, which provide financial services to the rural poor. (source: prospectus of RIF)	
THIRD PARTIES	
Investment Manager	Incofin Investment Management
Investment Advisor	Incofin Investment Management
Custodian & Paying Agent	Kredietbank S.A. Luxembourgeoise
Domiciliary Agent	Kredietrust Luxembourg S.A.
Auditor	Deloitte SA

APPENDIX 3: GLOSSARY OF TERMS AND ACRONYMS

Microfinance Institutions (MFIs): offer financial services to low-income clients. MFIs receive funding by gathering local deposits and by accessing domestic and international capital markets²⁸.

Microfinance Investment Vehicles (MIVs): raise funds from public, institutional and private investors to support MFIs worldwide. MIVs can take the form of Collective Investment Schemes (e.g. mutual funds) or other dedicated investment vehicles. MIVs loan money to MFIs or alternatively purchase their debt or equity instruments²⁹.

Total Assets (TA): the total assets represent the total amount of money which a fund manages.

Share class: The division of a company's equity into different classes.

Net Asset Value per share: total assets per share class

Microfinance Portfolio (MFPF): Amount of the portfolio invested in Microfinance. "A microfinance portfolio can be invested directly or indirectly:

Direct Microfinance Portfolio: Direct investments into MFIs or loans to nonspecialized financial intermediaries specifically used to fund microloans directly.

Indirect Microfinance Portfolio: Investments in other MIVs or loans to nonspecialized financial intermediaries specifically used to fund MFIs³⁰

Subscriptions: An agreement to purchase a certain amount of securities, such as stocks.

Redemptions: paying back an investor's principle in the form of bonds, mutual funds or others, before the loan reaches maturity.

Foreign Exchange Risk in Microfinance: Many MFIs fund a portion of their portfolio by accessing loans or lines of credit in hard currency. In doing so, MFIs incur foreign exchange risk, which is defined as the possibility of a loss or a gain from varying exchange rates between currencies. If not properly managed, foreign exchange risk can result in losses. Taking on exposure to foreign exchange risk makes an MFI vulnerable to factors that are beyond its control. In addition to the risk in changing rates, incurring foreign exchange risk

²⁸ « Microfinance, center of excellence for Microfinance Investment Vehicles », brochure ALFI, Sept.2009

²⁹ ibid

³⁰ "Microfinance Investment Vehicles Disclosure Guidelines for Reporting on Performance Indicators - Microfinance Consensus Guidelines", 2008, CGAP

also includes the danger that it might become impossible to carry out currency transactions because of government interventions or a market disruption.³¹

Libor: London Inter-Bank Offer Rate. The interest rate that the banks charge each other for loans (usually in Eurodollars). This rate is applicable to the short-term international interbank market, and applies to very large loans borrowed for anywhere from one day to five years. This market allows banks with liquidity requirements to borrow quickly from other banks with surpluses, enabling banks to avoid holding excessively large amounts of their asset base as liquid assets. The LIBOR is officially fixed once a day by a small group of large London banks, but the rate changes throughout the day³².

Euribor: European Interbank Offered Rate. European Banking Federation's euro-denominated alternative to dollar-denominated LIBOR³³.

³¹ Foreign Exchange Risk Management in Microfinance, ww

³² www.investorwords.com

³³ *ibid*

