



MIV Overview

June 2009

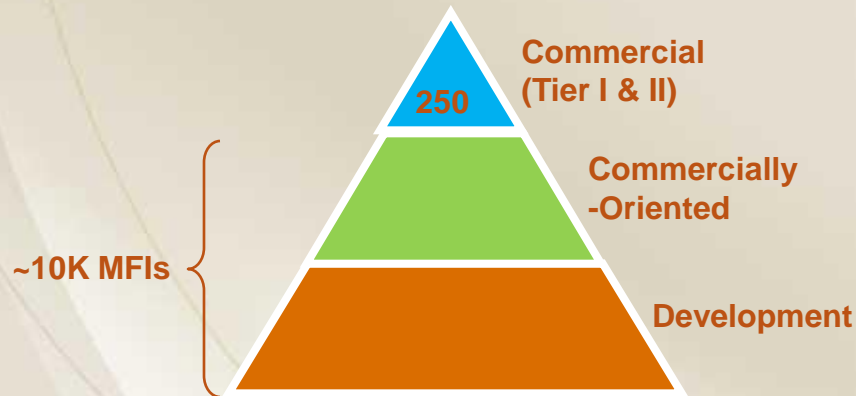
unitus | capital

MF Landscape Overview & Key Terms

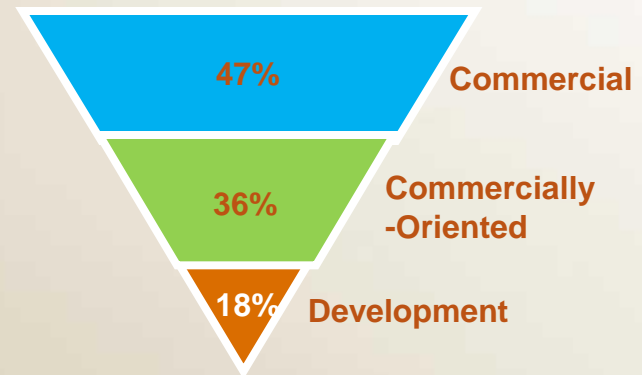
MF Players by Orientation

There is some movement in the microfinance industry toward more commercially-driven activities. Most of the industry remains development- and commercially-oriented

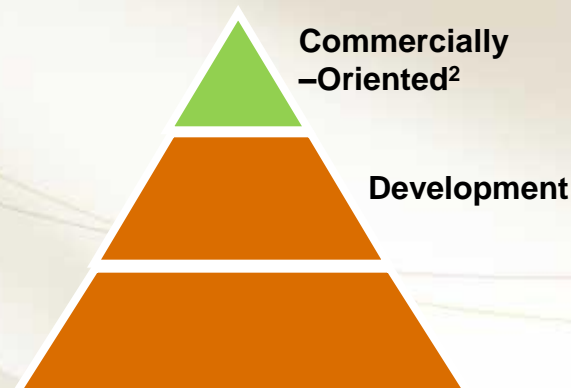
Retail Microfinance Institutions (MFIs)



\$1MM+ Microfinance Investment Vehicles (MIVs)¹



Networks (Not Viable Investments for Commercial Investors)



3 Types of MF Investment Vehicles (MIVs)

Commercial

- Aim to provide a financial return to socially responsible and commercial private and institutional investors while maintaining key social and development objectives. Commercial MIVs would be clearly targeted towards private and institutional investors

Commercially -Oriented

- Have clearly stated financial objectives, but are currently targeted to private donors, development agencies, and other such actors in the microfinance industry

Development

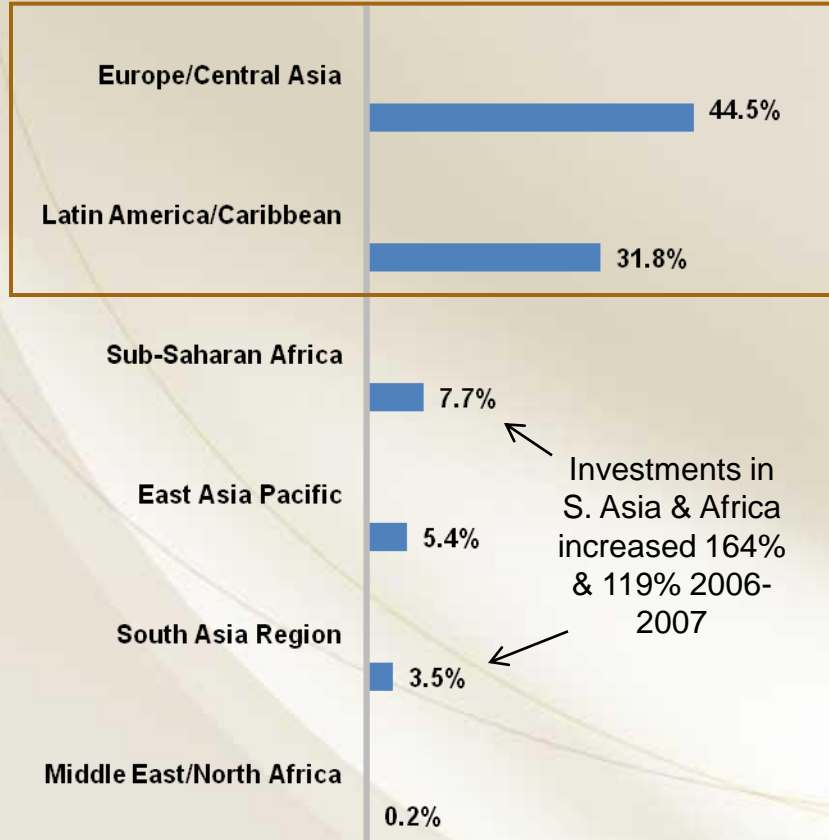
- Aim to make capital available to MFIs through sustainable mechanisms to support their development and their growth without necessarily generating financial return

MIV Snapshot

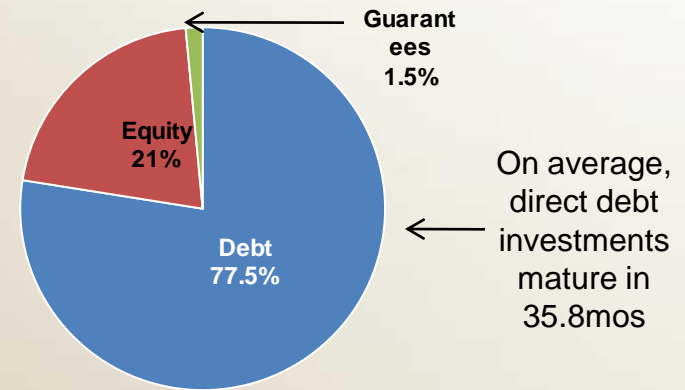
MIV: Regional & Asset Class Concentration

Most MIVs are concentrated in ECA & LAC, and in debt direct MFI investments

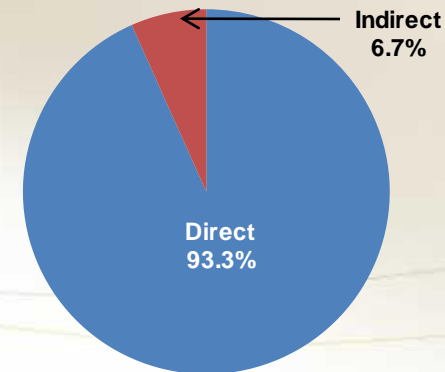
MIV Regional AUM Concentration



MIV Asset Class Concentration



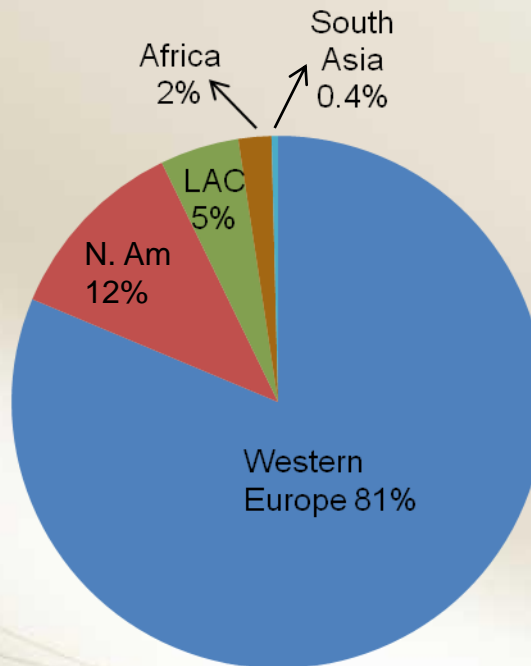
Direct MFI Investments vs Indirect (via MIVs)



MIV AUM by Jurisdiction & Sector/Asset Class

81% of MIV AUM is domiciled in Western Europe; 12% in North America

MIV AUM by Jurisdiction



MIV Segmentation by Structure

CGAP, the Consultative Group to Assist the Poorest, classifies MIVs into the following peer groups

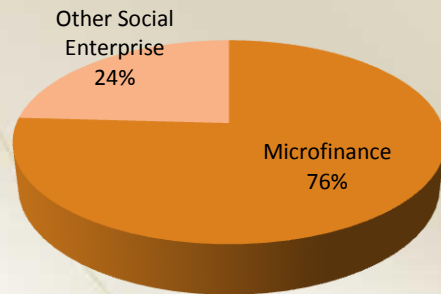
- Registered Fixed Income Mutual funds: generally subjected to standard compliance regulations (Luxembourg, the Netherlands and the U.S.); open through share subscriptions
- Commercial Fixed Income Investment funds: generally closed limited partnership funds
- Structured Finance Vehicles (active and passive): closed special purpose vehicles (ex. CLOs)
- Blended Value funds: foundations and limited liability companies
- Holding Companies of MFIs: invest only in MFI partners
- Private Equity funds: closed limited partnership funds

MIV Type	Objectives
Registered fixed income mutual funds	Primarily senior debt investing, money market returns
Commercial fixed income investment funds	Senior & sub debt, market returns, offered on private placement basis
Structured finance vehicles	Generally asset backed structures, offered on private placement basis
Blended value funds	Mission driven offering mix of social and financial returns
Holding companies of MFIs	Standard holding company structure with equity ownership of MFI partners
Private equity funds	Blend of equity and convertible debt, offered on private placement basis

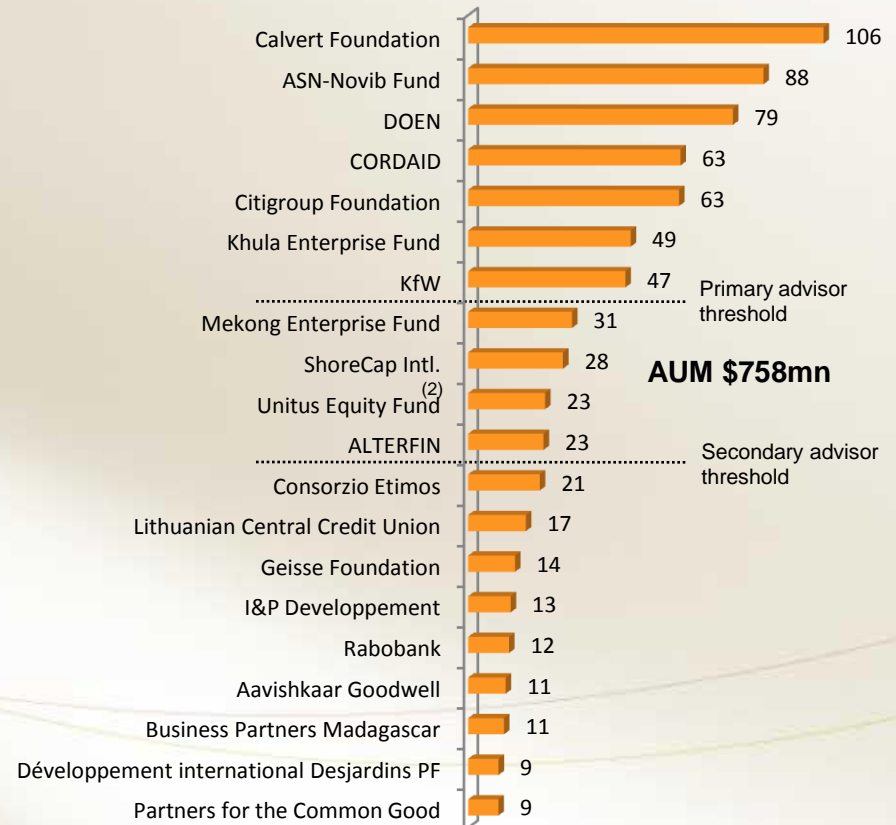
Industry Focus

Funds that focus on social enterprise broadly vs microfinance specifically are 24% of AUM

Social Enterprises vs. MF Focus



Top 20 Funds focusing on all Social Enterprises



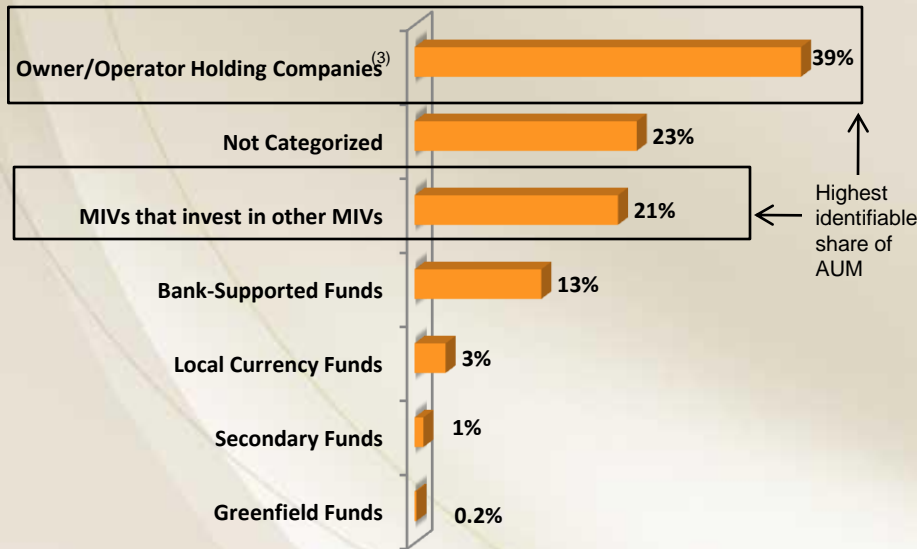
(1) Excludes government backed funds FMO, FINNFUND etc. and large scale funds like Oikocredit, Omidyar Network etc.; analysis concentrates on funds focusing on social enterprises broadly

(2) Going to raise \$100-120mn, of which \$70mn already raised – Sharu of UEF

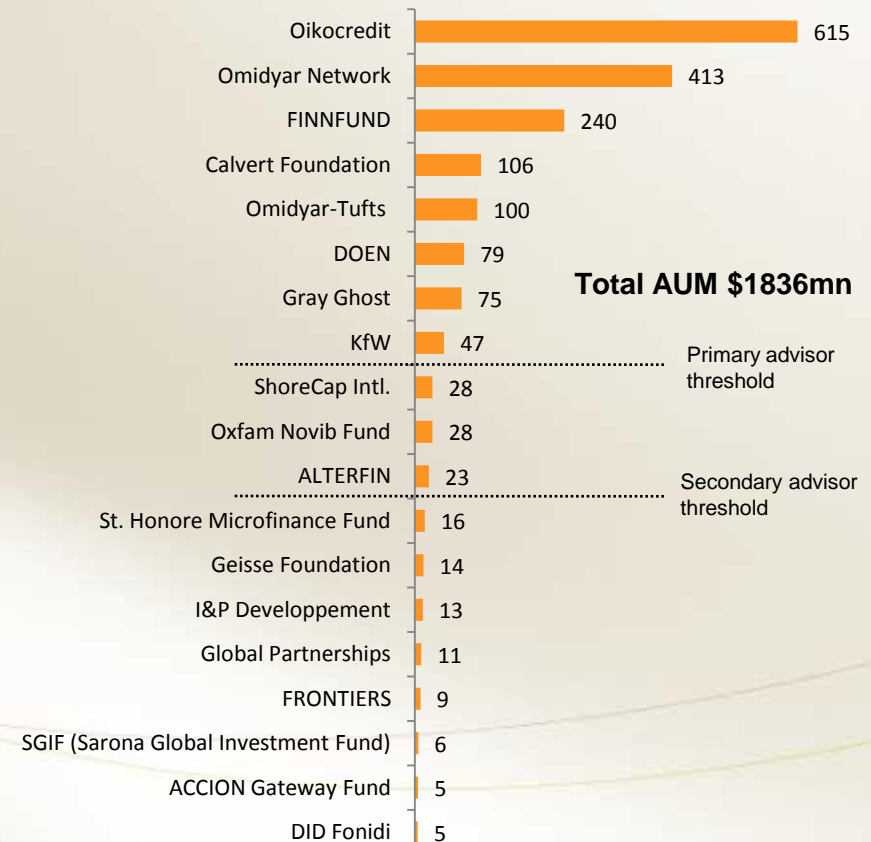
MIV Categories - I¹

Of the MIV categories “MIVs that invest in other MIVs” and “Owner/Operating Holding Companies” appear to have the highest share of AUM; however, 23% of AUM could not be categorized

MIV Categories



MIVs that invest in other MIVs⁽²⁾



(1) Source: MIX market, http://www.microfinanceforum.org/cm_data/MicroRate_2007_MIV_Survey_Presentation.pdf

(2) Bank-supported funds & MIVs which invest in other MIVs are easier to identify than other categories of MIVs

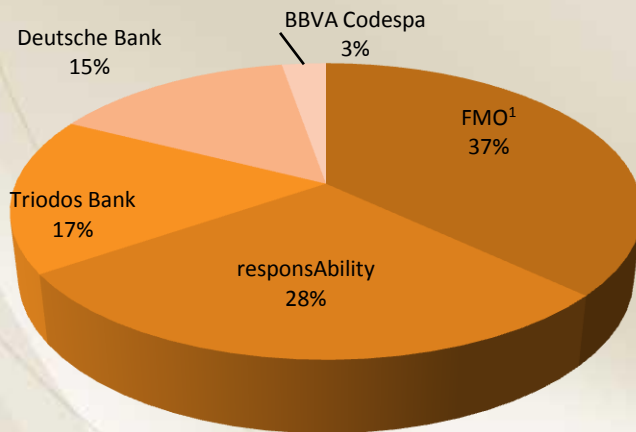
(3) Owner/Operating holdings companies include ProCredit (AUM \$3.43bn - GLP) and CMI (Catalyst Microfinance Investors) (AUM \$ 50mn)

MIV Categories - II

Bank-Supported funds are largely concentrated across 4 funds, whereas local currency funds are fragmented as they are more domestic in nature and have smaller AUMs

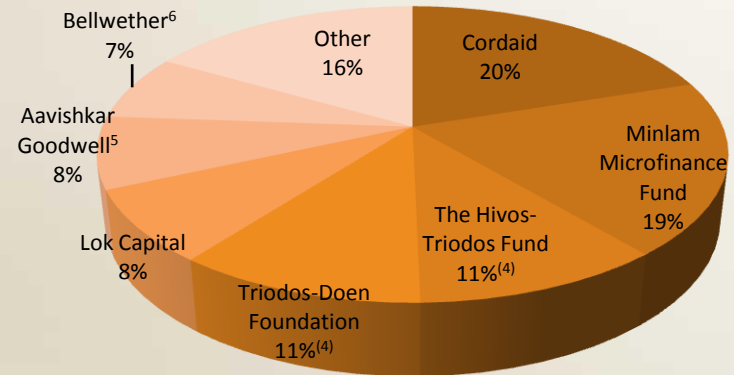
Bank-Supported Funds

Total AUM \$1142mn



Local Currency Funds^{(2) (3)}

Total AUM \$295mn



(1) Since March 14, 2008 FMO obtained a banking license from the Dutch Central Bank (DNB), consequently we have categorized it as a bank-supported fund - Also in FMO's case we have considered only the % of funds allocated for investment in Microfinance out of the total AUM.

(2) For local currency funds we have considered the latest available % of AUM in local currency from MIX Market

(3) Other local currency funds in descending order of AUM are Oxfam-Novib, SIDI, TFSF, I&P Developpement, LOCFUND, DID Fonidi, CSF

(4) Also Bank -Supported funds

(5) IFC, FMO, & Deutsche Bank invested an undisclosed additional sum in Aavishkar Goodwell earlier this year

(6) Has raised a new \$100mn fund; additional data unavailable

Other MIV Categories III

Greenfield Funds/Greenfield Holding Companies⁽¹⁾

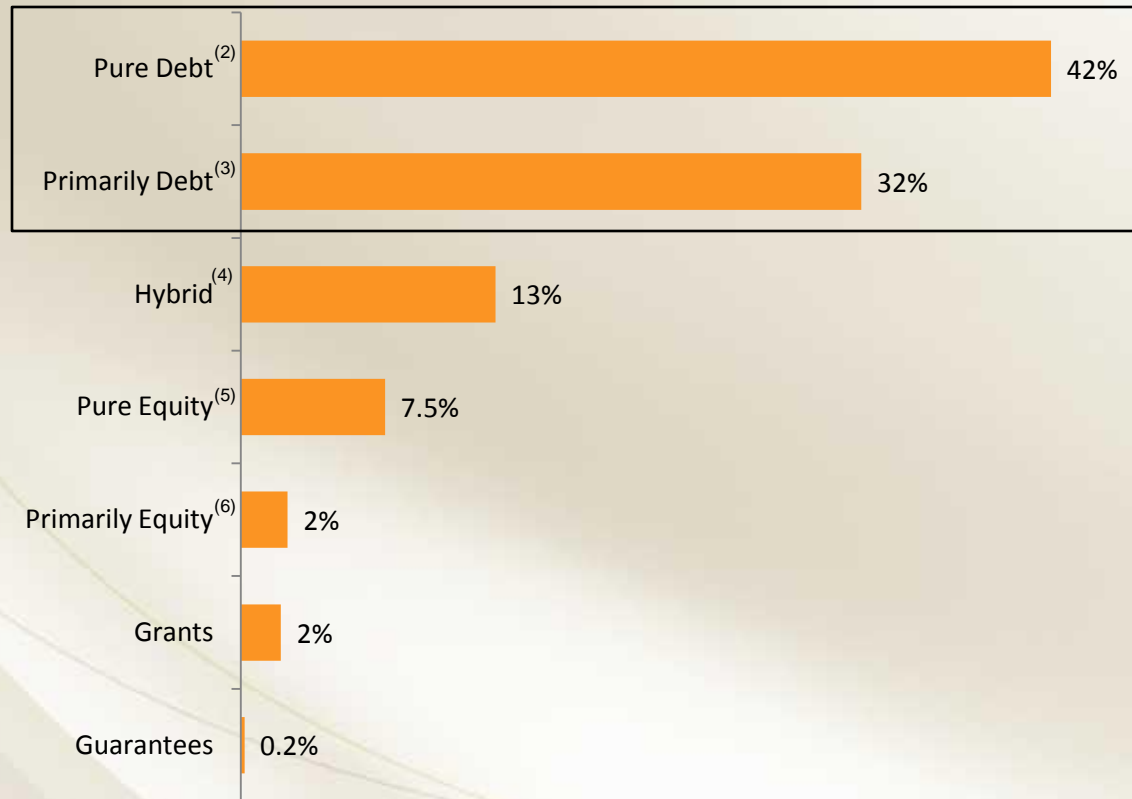
- Greenfield Fund examples: Advans SA (AUM \$13mn), MicroCred
- Greenfield Holding Company example: Access Holding (AUM \$3.7mn)

Secondary Funds

- Example: Antares (AUM \$5mn)
- Gray Ghost (AUM \$75mn) has done at least 1 secondary transaction
- Minlam has done some opportunistic secondary market purchases during the credit crisis

MIV Instruments - All

Pure debt & primarily debt MIVs constitute 74% of MIV AUM⁽¹⁾



(1) Excluding ProCredit from pure equity

(2) Funds that provide only debt funding or debt/guarantee funding are classified as pure debt funds

(3) Funds that have more than 60% of their AUMs as debt funding are classified as primarily debt funds

(4) Funds that have less than a 60:40 ratio of any one particular instrument are classified as hybrid

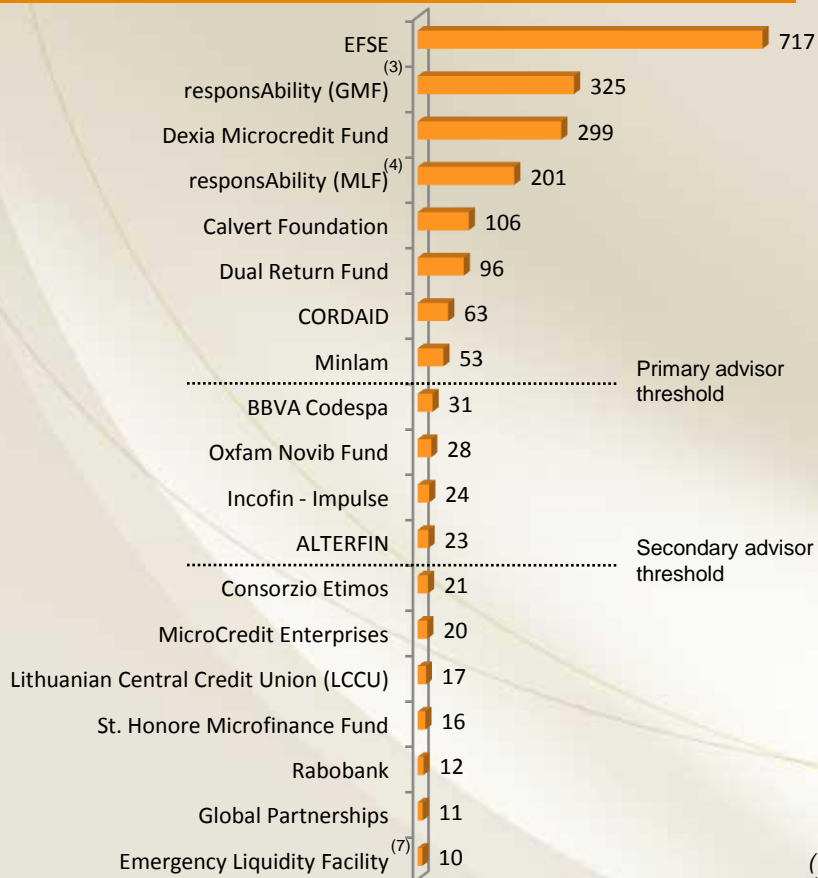
(5) Funds that provide only equity funding are classified as pure equity funds

(6) Funds that have more than 60% of their AUMs as equity funding are classified as primarily equity funds

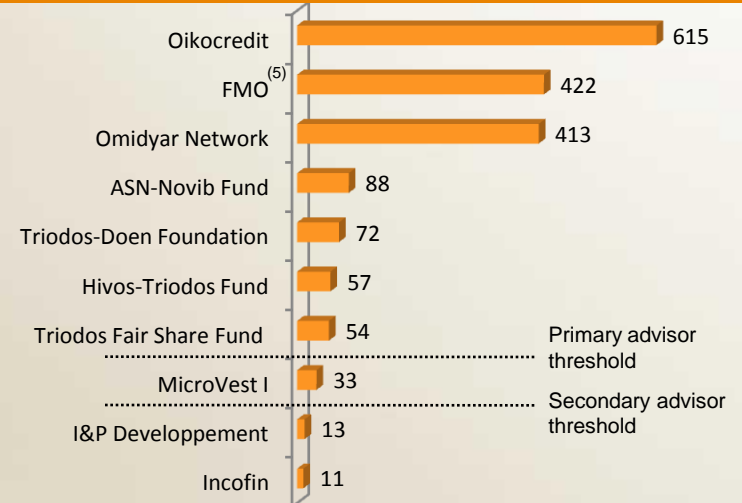
MIV Instruments - Debt

The top 5 funds constitute 79% of pure debt MIV AUM & 90% of primarily debt MIV AUM

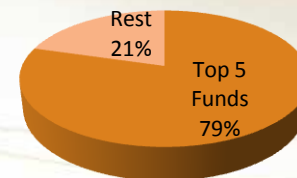
Pure Debt Funds AUM (\$mn) ⁽¹⁾



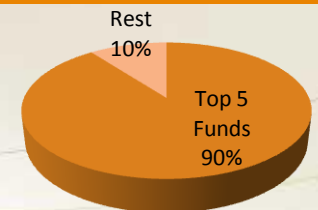
Primarily Debt Funds AUM (\$mn)⁽²⁾



Pure Debt Funds Breakdown



Primarily Debt Funds Breakdown



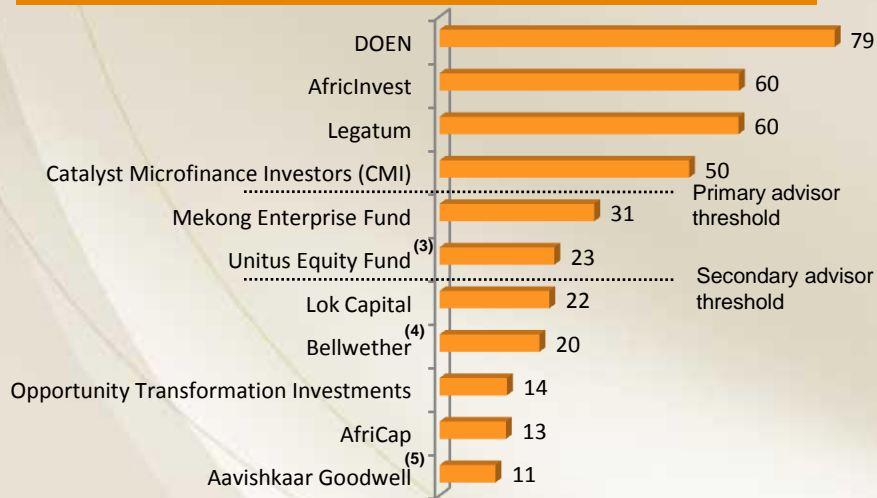
(1) Funds that provide only debt funding or debt/guarantee funding are classified as pure debt funds
 (2) Funds that have more than 60% of their AUMs as debt funding are classified as primarily debt funds
 (3) responsAbility (GMF) - General Microfinance Fund
 (4) responsAbility (MLF) - Microfinance Leaders Fund
 (5) Includes ~10% of funds allocated towards microfinance of the total AUM
 (6) BOLD 2006-1 and BOMS1 are CDO funds and hence have been excluded from pure debt funds
 (7) Promoted by IADB

MIV Instruments - Equity

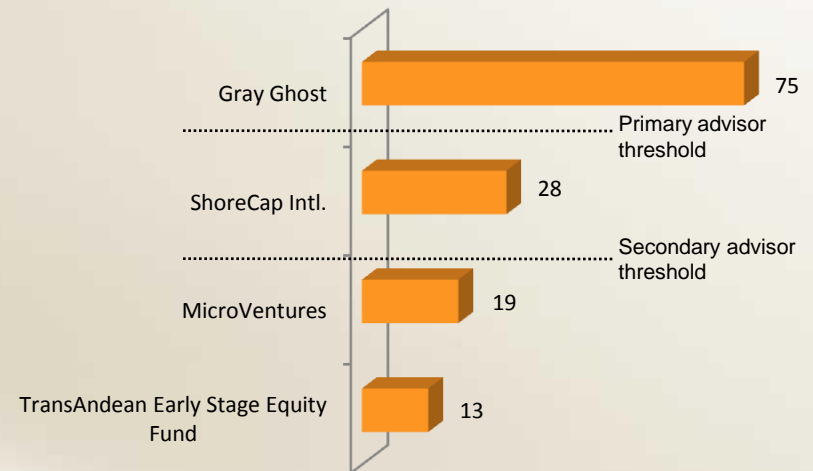
Pure Equity & Primarily Equity MIVs are much smaller than Pure Debt & Primarily Debt MIVs

- The largest Pure Equity MIV's AUM is 11% that of the largest Pure Debt MIV
- The largest Primarily Equity MIV's AUM is 12% that of the largest Primarily Debt MIV

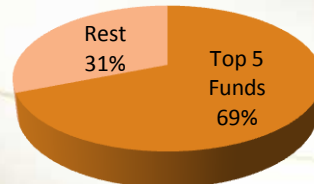
Pure Equity Funds AUM (\$mn) ⁽¹⁾



Primarily Equity Funds AUM (\$mn) ⁽²⁾



Pure Equity Funds Breakdown



(1) Funds which provide only equity funding are classified as pure equity funds – excludes ProCredit

(2) Funds which have more than 60% of their AUMs as equity funding are classified as primarily equity funds

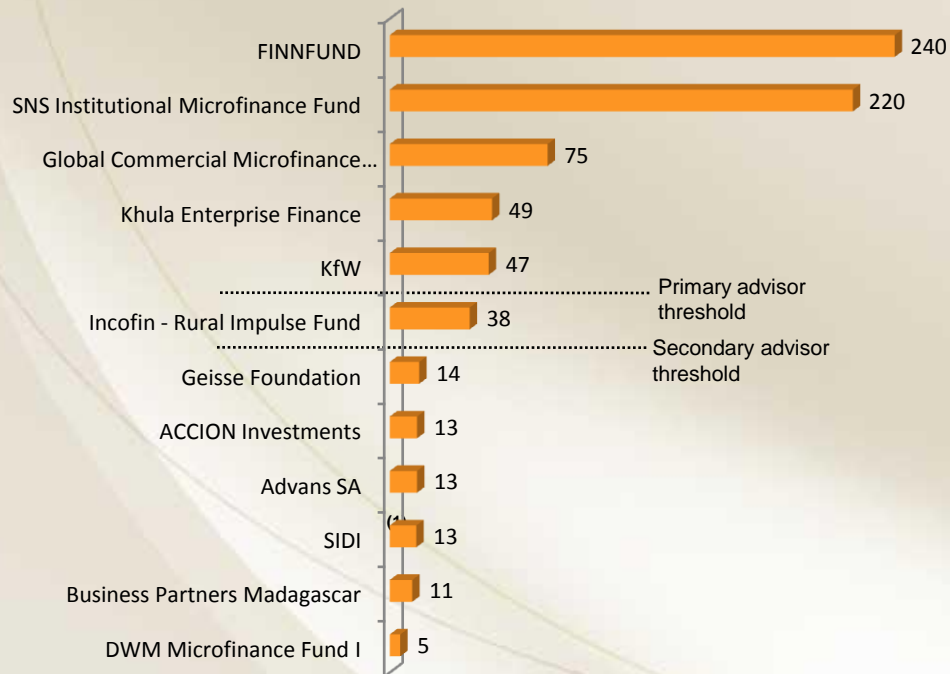
(3) Going to raise \$100-120mn, of which \$70mn already raised – Sharu of UEF

(4) Has raised a new \$100mn fund; additional data unavailable

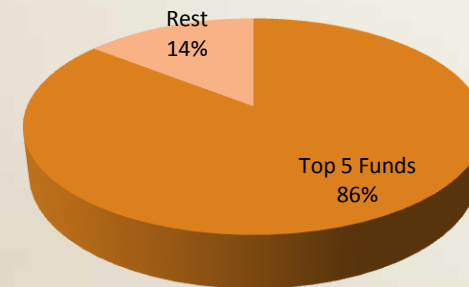
(5) IFC, FMO, & Deutsche Bank invested an undisclosed additional sum in Aavishkar Goodwell earlier this year

MIV Instruments - Hybrid

Hybrid Funds AUM (\$mn)



Hybrid funds Breakdown



MIV Features

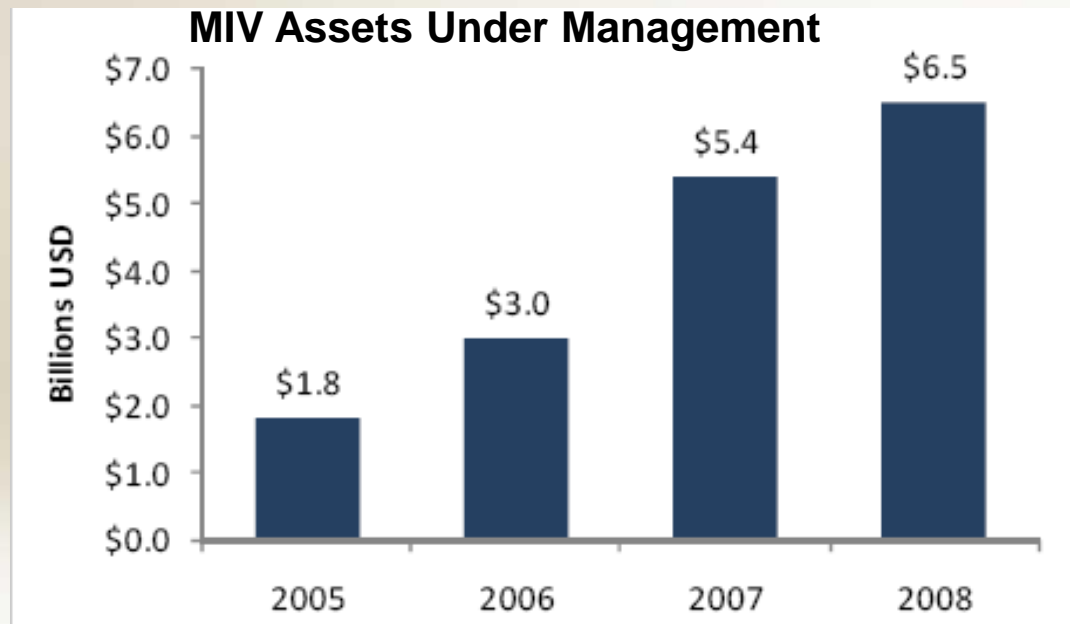
- Liquidity: Most MIVs are not liquid unless they are registered mutual funds
- Foreign Currency Risk: Level of Exposure
- Total Expense Ratio (TER): Should vary from < 2% for structured finance vehicles to 6.8% for holding companies
- Fund manager's track record & performance. In some cases, a fund manager will manage 2+ MIVs. BlueOrchard Finance, as an example, manages:
 - Dexia MicroCredit Fund
 - St. Honore Microfinance
 - BBVA Codespa Microfinance Fund
 - BlueOrchard Microfinance Securities 1 (BOMS)
 - BlueOrchard Loans for Development (BOLD 2006 and BOLD 2007)

MIV Growth

MIV Growth

MIV Growth

- Total MIV AUM increased 80% to \$5.4B in 2007 from \$3.0B in 2006
 - Euro appreciation in 2007 partly contributed to MIV AUM growth
- MIV Equity investments grew 149% between 2006 & 2007
 - MIV Equity continues to represent a relatively small % of MIV AUM

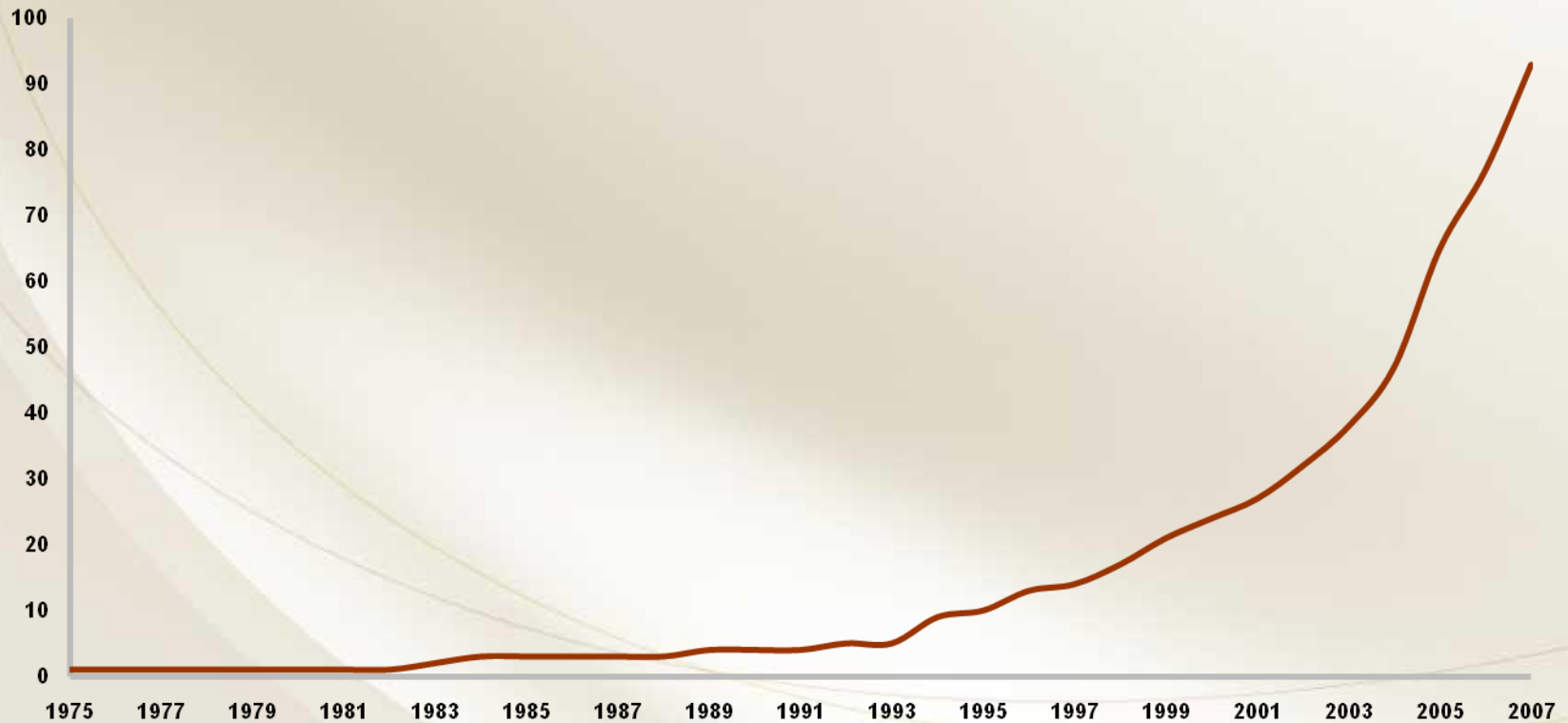


Microfinance Investment Vehicles¹

There were 96 MIVs at FYE 2007;² half had been created in 3 years (2005 - 2007)

Microfinance Investment Vehicle Growth

No. of funds



MIV Growth Drivers

- Active distribution (e.g., responsAbility)
- Financial innovation (e.g., Blue Orchard)
- High involvement from International Financial Institutions (IFIs) & the private sector
- Increased transparency
 - Increased MFI & MIV data via MIXMarket CGAP, *inter alia*
 - Increased MIV oversight via Luxembourg Fund Labelling Agency (LuxFLAG)¹ – independent association that labels MIVs that actually invest, directly or indirectly, in the microfinance sector
- Investors seeking relatively uncorrelated assets

Sources: MicroRate's "Microfinance Investment Vehicles: An Emerging Asset Class" November 2006 & LuxFLAG website (www.luxflag.org)

1. Funds with a LuxFLAG Microfinance Label: Dexia Micro-Credit Fund, Dual Return Fund – Vision Microfinance, European Fund for Southeast Europe, Incofin (Belgium), responsAbility Global Microfinance Fund, responsAbility SICAV (Lux)

MIV Performance

Debt MIV Performance¹

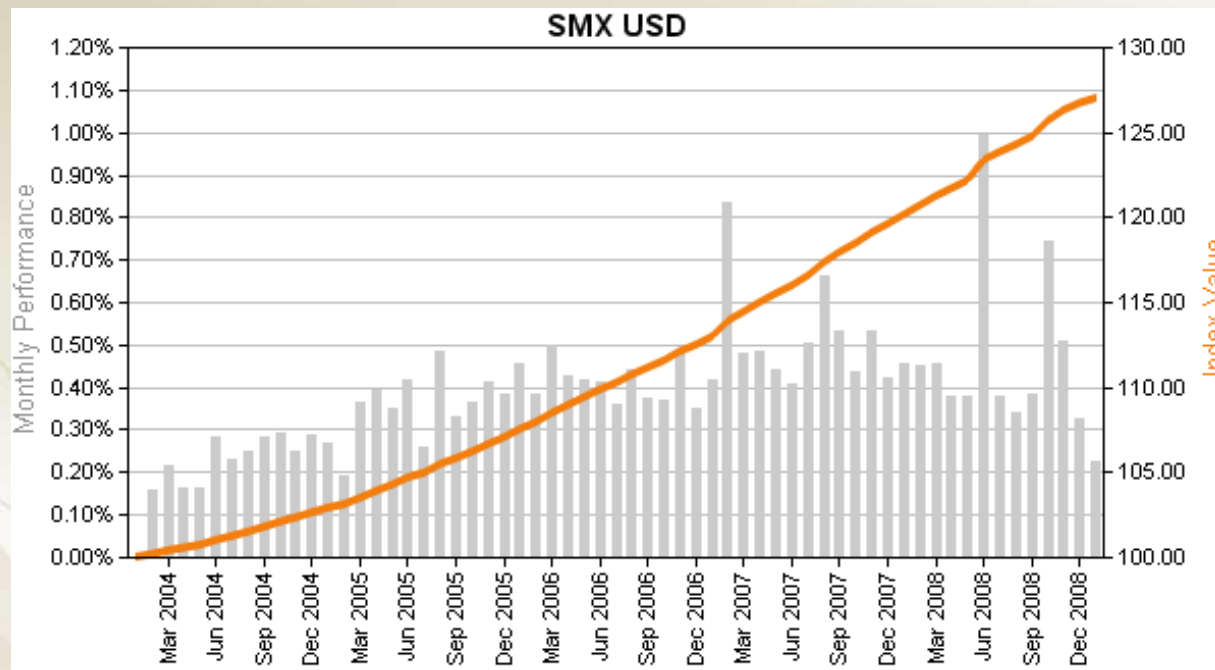
Aggregate data on debt MIV returns range from 4.9% to 6.3% in USD

- (i) CGAP benchmark: average net return for FI instruments was 6.3% in USD or close to money market rates for the corresponding time period
- (ii) Largely debt MIV index: Symbiotics Microfinance Index (SMX) of regulated MIVs - up ~27% in USD since its inception in January 2004 – a 4.9% 5-year CAGR
- (iii) Local currency debt funds, such as Minlam, are able to target higher returns, but must employ more complex currency strategies

(ii) Largely Debt MIV Index: SMX¹

The SMX index is up ~27% in USD since its inception in January 2004 – a 4.9% 5-year CAGR

- Symbiotics Microfinance (SMX USD)² Index, which tracks the performance of regulated MIVs had a December 2008 annualized yield of 5.95% in USD terms, 5.55% in EUR terms and 4.63% in CHF



1. Source: www.symbiotics.ch/en/smx/smx_usd.asp

2. SMX USD Components: Dual Return Fund Vision Microfinance USD Cap, responsAbility Global Microfinance Fund B Cap, Dexia Micro-Credit Fd, Sicav BlueOrchard Debt USD Cap, Finethic Microfinance SCA SICAR USD, responsAbility Microfinance Leaders Fund

Equity MIV Performance

Average returns for Equity MIVs were 12.5%; average returns for synthetic MIVs based on MFIs raising multiple rounds of financing were often in excess of 100%

(i) CGAP 2008 benchmark: Average returns for PE funds were 12.5% (gross IRR for 2002/2003 vintage years)¹

(ii) Synthetic MIV performance

(a) Indian MFI Synthetic MIV Performance: Very significant price increases have been achieved in multiple fundings for a number of Indian MFIs, although very few exits have taken place

- SKS Microfinance Ltd
- Spandana Sphoorty Financial Limited
- Equitas Micro Finance India
- Ujjivan Financial Services Pvt. Ltd

(b) Compartamos IPO Synthetic MIV Performance: 121% 7-year CAGR

(iii) Publicly traded MFI Index Performance: 101% 7-year CAGR

(ii.b) Synthetic Eq MIV Returns - Compartamos IPO¹

An MIV investing in Compartamos (the only MFI IPO about which most information is available) pre-IPO would have earned a 121% CAGR

Investor	% held before IPO	% sold in IPO	Implied purchase cost (\$mn)	# of shares sold (mn)	Sale value (\$mn)	Implied return (CAGR)
Compartamos A.C.	39%	7%	0.4	25	106	118%
ACCION	18%	9%	0.5	39	162	126%
IFC	11%	3%	0.2	11	47	125%
Individual investors	32%	11%	0.7	36	153	118%
Total	100%	30%	1.8	112²	468	121%
Purchase price (\$mn)	6					
Sales price (\$mn)	468					

MFI	Ticker Symbol	Country	IPO Date	Data Availability
Capitec Bank	CPI.ZA	South Africa	2/18/2002	N
Bank Rakyat Indonesia	BBRI.JK	Indonesia	11/10/2003	N
Equity Bank	EBL.KE	Kenya	8/9/2006	N
Banco Compartamos	COMPARTO.MX	Mexico	4/23/2007	Y
Financiera Independencia	FINDEP.MEX	Mexico	11/1/2007	N

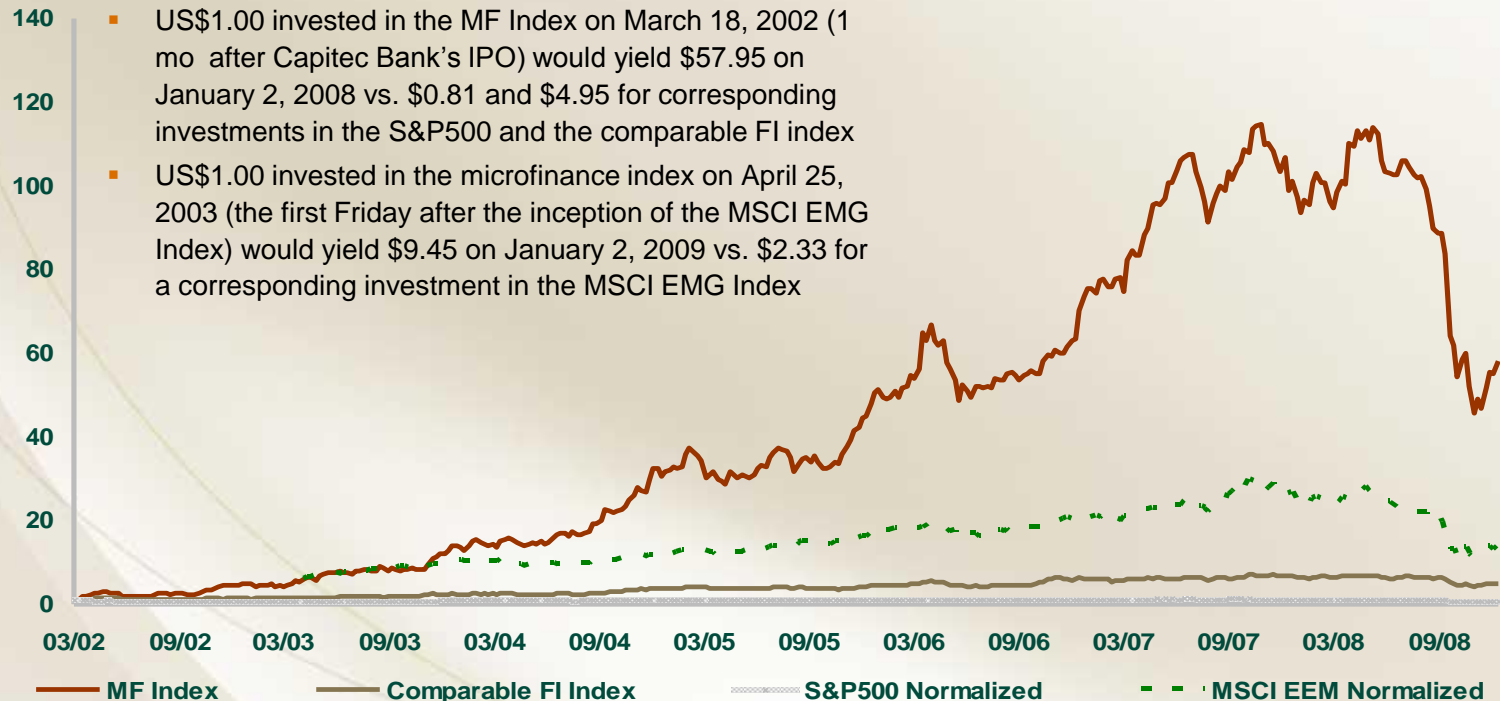
(1) Source: ACCION Insight - The Banco Compartamos Initial Public Offering

(2) Sum total of shares sold falls short of the number of shares purchased by new investors (~128mn) in the ACCION paper by ~17mn shares. This disparity represents the exercise of the greenshoe over-allotment option

(iii) Publicly Traded MFI Index Performance

An MIV investing in an equally dollar weighted index of publicly traded MFIs would have a 101% CAGR

MF Index vs S&P500, MSCI EMG (EEM), & FI Composite Indices



- The microfinance equity index is a weighted composite of the stock prices of five of the seven publicly traded MFIs worldwide. The index is equally weighted by stock dollar value so that each \$1.00 invested in the index is a \$0.20 investment in each of the five index components. The index is rebalanced on the last day of each calendar quarter, and MFIs are added to the index one month post-IPO. Index Components: Capitec Bank (South Africa), Bank Rakyat Indonesia (Indonesia), Equity Bank (Kenya), Banco Compartamos (Mexico), and Financiera Independencia (Mexico). Arman Financial Services Ltd and S. E. Investments Ltd (both India) are excluded because they transitioned to microfinance after their IPOs – the former in 2008 vs. 2002; the latter in 2005 vs. 1996.
- The comparable FI index is a composite of the stock prices of the largest mainstream financial institution (FI) by market capitalization in each of South Africa, Indonesia, Kenya, and Mexico and the second largest FI in Mexico (corresponding to Capitec Bank, Bank Rakyat Indonesia, Equity Bank, Banco Compartamos, and Financiera Independencia). Specifically, these component FIs are Standard Bank Group Ltd (SBK.SJ), Bank of Central Asia (BBCA.IJ), Barclays Bank of Kenya (BCBL.KN), Grupo Financiero Santander SA (SANMEXB.MM) and Grupo Financiero Inbursa SA (GFINBURO.MM). FIs only entered the comparable index once their corresponding MFIs entered the microfinance index—once their countries were relevant to the microfinance index's performance. Like the microfinance index, the comparable index is equally weighted by stock dollar value and rebalanced quarterly.

MIV Trends

Current and Future Trends for MIVs

Current

- The overall growth of MIVs slowed during 2008 due to the deterioration in financial markets. During 2007 institutional investors were the first providers of capital with a 41% share followed by retail investors (30%) and DFIs (19%). This composition changed during 2008
- Local currency solutions are still underway with implementation expected in 2009
- MicroPlace was launched last year in order to provide U.S. retail investors with an opportunity to invest in MIVs that are registered in the U.S. Growth has been slower than expected

Future

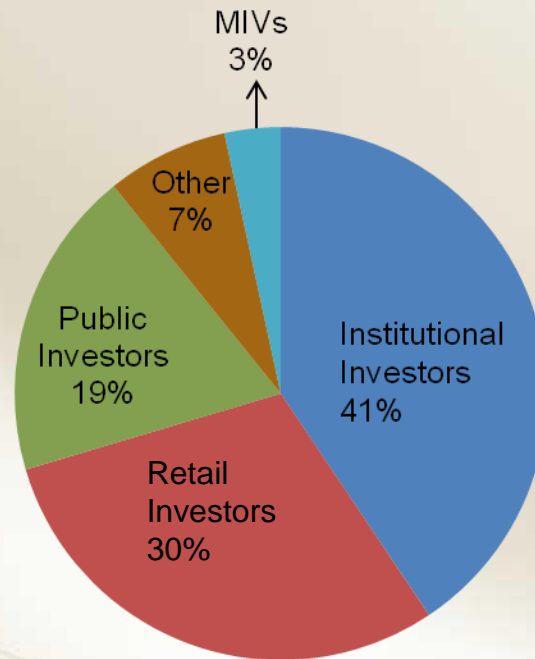
- Increasing transparency
- Larger, sustainable MFIs have turned to MIVs to counteract reduced financing in local markets
- To date, MFI defaults have been minimal. There is a possibility that more defaults will emerge as portfolio growth slows
- Growth in equity MIVs will eventually outpace growth in fixed income MIVs

MIV Investors

MIV Investor Types

Institutional investors are the first providers of capital with 41% share

MIV AUM by Investor Type



Thank You & Contact Information

Thank you for your time & attention

Contact Information

Bhakti Mirchandani

Unitus Capital

bmirchandani@unituscapital.com

91-974-220-1224

Skype ID: bhakti.mirchandani

No 9/3 Kaiser-E-Hind Richmond
Road, Second Floor

Bangalore, India 560 025