Report on the performance of LuxFLAG labelled MIVs

A study commissioned by LuxFLAG

LuxFLAG
November 2010

LUXFLAG microfinance

TABLE OF CONTENTS

EXECUTIVE SUMMARY

- Last year's LuxFLAG study supported the widely-held contention that MIVs had remained largely de-correlated from capital markets. This year's study demonstrates that the effects of the economic and food crises were nevertheless felt by MFIs, and consequently by MIVs, at a later stage during the second semester of 2009 and the first semester of 2010;

- However, the situation was certainly uneven across regions. The labelled MIVs that faced the most liquidity issues were mainly those investing in MFIs located in Central America, particularly in Nicaragua, and in Eastern and Central Europe, mainly in Bosnia. As result, provisions to anticipate potential defaults were made in these regions, and this had a negative impact on returns;

- Positive signs appeared in June 2010 as liquidity levels of all labelled MIVs started to decline, and monthly returns are expected to increase in the next 6 months;

- The study shows that investors remained committed to microfinance, as no major redemptions were made throughout 2009. This confirms investors' long-term commitment and willingness to pursue both a financial and social objective;

- The study demonstrates that the Net Asset Values (NAVs) per share of the LuxFLAG labelled funds have generally produced modest growth throughout the period of the financial crisis;

- The research undertaken in this study suggests that the Microfinance industry is reshaping. While MFIs are strengthening their risk management systems, investing in Customer Relationship management and developing new products, MIVs are seeking new ways of investing in untapped target MFIs (that may be Tier 2 or Tier 3), and in largely untapped regions, such as Africa.

1. Alleviation of poverty: where do we stand?

In order to set the background scene it is important to provide the reader with some macro and micro-economic elements, as they will give some keys to understanding the evolutions and trends of the Microfinance industry as a whole and of "Microfinance Investment Vehicles" (MIVs) in particular. Firstly, we identify the main long-term tendencies in terms of standards of living, income disparities and the evolution of poverty worldwide. To that end we use the indicators described below. Subsequently, we describe some specific events that may have impacted, in various ways and with different intensity levels, the Microfinance industry.

1.1. Long-term trends: worldwide overview

1.1.1. Standards of living of individuals

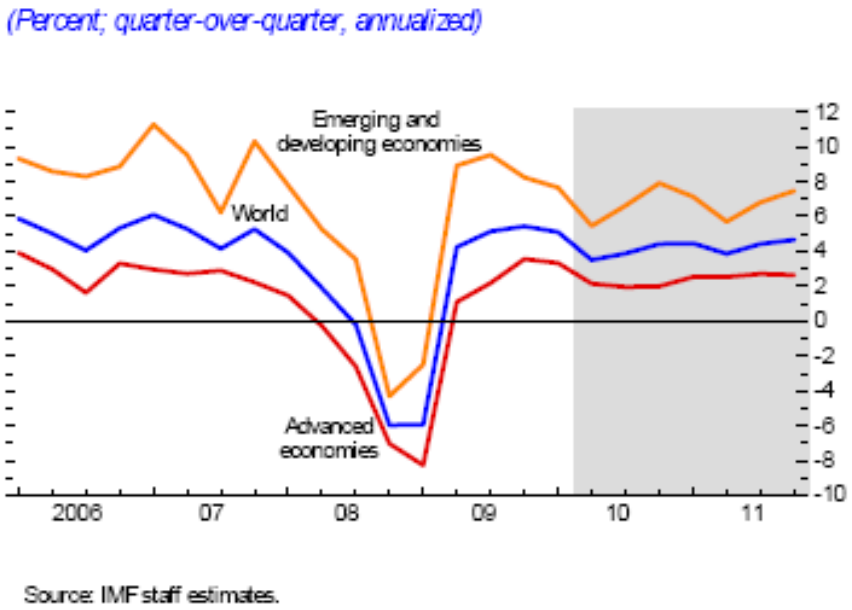
The following section is essentially based on the "World Economic Outlook" (WEO) published by the "International Monetary Fund" (IMF), dated July 2010, as it outlines projections of economic developments at the global level. We also use the Gross Domestic Product "GDP" indicator as a main indicator to measure the standard of living of individuals. This indicator reflects differences in the average cost of goods and services in each country.

The graph below, presenting the evolution of GDP since 2006, shows a significant decrease of GDP both in emerging and advanced economies at the end of 2008. In its WEO of 2009, the IMF observes that world economic growth has decelerated rapidly and substantially in 2008, and that it reached levels equivalent to that of the Great Depression of the 1930s. However, since the second quarter of 2009 the growth of GDP started to pick up again. The IMF expects the world average GDP growth to reach 4.5 percent in 2010 and 4.25 percent in 2011. That is half a percentage point higher than what was foreseen in the WEO of April 2010. Olivier Blanchard, IMF's chief economist, explains that a global recession has been avoided "*so that a gradual recovery of world economy is present*".[1] In fact the world appears to be recovering faster than was previously estimated.

> *"(…) Supported by accommodative monetary conditions, fiscal actions should be complemented by financial sector reform and structural reforms to enhance growth and competitiveness. Policies in emerging economies should also help rebalance global demand, including through structural reforms and, in some cases, greater exchange rate flexibility."*
>
> **WEO, IMF, July 2010**

[1] "World economic growth in year 2011", article, http://economy2011.org

Figure 1: Global GDP Growth



While the world economy as a whole shows positive signs of recovery in 2010, the GDP growth in emerging and advanced economies appear uneven. Indeed, the GDP growth of advanced economies for 2010-2011 is estimated to evolve at a much slower pace in Europe and the USA (between 1 and 3% of growth) than in Asia and some regions in Africa, where the GDP growth forecasts over the same period should be above 5% (source WEO July 2010).

MAIN TRENDS[2]

- *Crisis is a cause of significant change in the prospects of developing countries;*
- *Global recovery will continue, despite more financial turbulence;*
- *Downside risks to global growth are much greater;*
- *"Growth-friendly" medium-term fiscal consolidation plans are urgently needed;*
- *Monetary and exchange rate policies should support global demand rebalancing;*
- *Financial system reform needs to be accelerated;*
- *Global demand rebalancing and key structural reforms are essential to support future growth.*

[2] Main trends listed in the "World Economic Outlook Update, Restoring Confidence without Harming Recovery", International Monetary Fund, July 2010

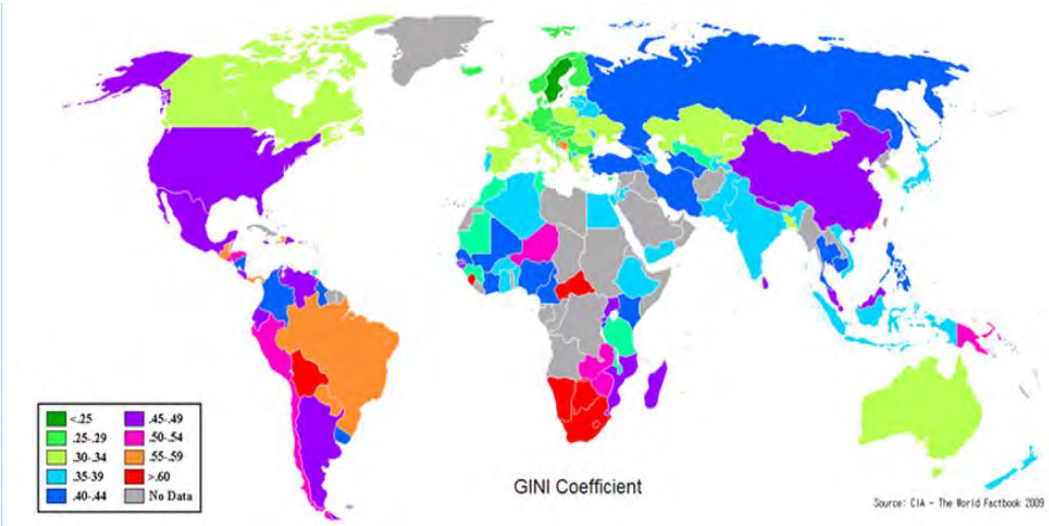
1.1.2. Global Income disparities

GDP data are not the absolute indicator of our economic well-being. Hence, we have decided to add to this Study an analysis of the Gini coefficient (see appendix N°4 "Glossary of terms and acronyms").

The Gini coefficient is one of most used indicators to measure income inequality and risks of poverty within countries. A value of 0 expresses total equality and a value of 1 (100%) represents maximal inequality. As reflected in the world map below, the Gini Coefficient for 2009 highlights high income inequalities especially in sub-Saharan Africa (notably South Africa, Botswana and Namibia) and Bolivia.

The income discrepancies between the rich and the poor appear to be rather significant in developing regions such as Latin America and Africa. These discrepancies, along with mismatched government measures can often lead to social inequalities, increased insecurity and political instability. In order to ease inequality and develop the economic sector, it is necessary to deal with such market failures. Microfinance, combined with other development measures, proves to be an essential tool in dealing with these issues and alleviating poverty.

The Gini coefficient Indicator (percent), 2009



MAIN TRENDS

- *Developed economies, specifically European countries, Denmark, Finland, the Netherlands, and Slovenia, exhibit relatively low levels of inequality (Gini coefficient below 0.25, the lowest in the world);*
- *High income Inequalities in Sub-Sahara Africa and in Latin America, particularly in Bolivia, Botswana and South Africa where the Gini Coefficient was >60.*

1.1.3. Poverty trends

According to the World Bank, in 2005 around 1.4 billion people – or one quarter of the population of the developing world – lived on less than USD 1.25 a day. Although these figures have improved: 25 years earlier there were 1.9 billion people living in poverty (or one half of the world's population), progress has been uneven across regions.

In its 2010 "Millennium Development Goals" (MDG) report, the United Nations (UN)[3] gives an overview of the achievements made to meet the MDG five years from target. With regard to the first MDG: "Eradicate extreme poverty and hunger" this report highlights that prior to the crisis, poverty had diminished in almost every region of the world. The economic and financial crisis undeniably slowed down the trend. However the UN remains optimist and still expects this target to be met by 2015.

In terms of regions, Eastern Asia has recorded the fastest growth and sharpest reductions in poverty. Sub-Saharan Africa, Western Asia and parts of Eastern Europe and Central Asia are still lagging behind and their ability to meet the first MDG is questioned.

Progress on poverty reduction is still being made, despite significant setbacks due to the 2008-2009 economic downturn, and food and energy crises. The developing world as a whole remains on track to achieve the poverty reduction target by 2015.

MDG report, United Nations, 2010

MAIN TRENDS[4]

- *Despite a slow economic growth due to the crisis, the World is still on track to reduce poverty;*
- *Diminution in almost every region of the depth of poverty;*
- *Poverty rates in China are expected to fall to around 5 percent by 2015;*
- *India has contributed to a large reduction in global poverty;*
- *World Poverty rates are expected to fall from 51 percent in 1990 to 24 percent in 2015, and the number of people living in extreme poverty will likely decrease by 188 million.*

[3] The Millennium Development Goals Report, United Nations Department of Economic and Social Affairs (DESA) — June 2010
[4] Ibid

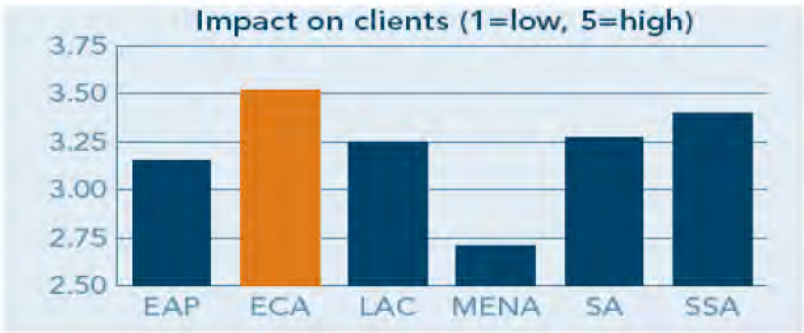
1.2. One-off events

In addition to the long-term macro-economic elements described above, one-off events also had an impact on poverty and de facto on the Microfinance industry. This next chapter will shed light on two major and inter-related crises: the financial crisis and the food and fuel crisis. Its aim is to identify to what extent these events may have impacted the Microfinance industry.

1.2.1. Financial and economic crisis

Microfinance, often presented as de-correlated from the financial markets, proved rather resilient during the East Asian crisis of 1997 and the Latin American crisis of 2000. The global economic recession of 2008 seems to have had a greater impact on Microfinance Institutions (MFIs). The Global Opinion Survey carried out by CGAP and dated March 2009[5], pinpoints that, in the opinion of MFI managers, "Europe and Central Asia" (ECA) is the region that has been most impacted by the crisis (with slightly more than 3.5 on a scale of 5).

Diagram 1: Impact of the Crisis on MFI Clients



Source: CGAP Global Opinion Survey, March 2009 (44 answers from Europe and Central Asia), and World Bank

Legend: EAP: East Asian and Pacific countries; ECA: European and Central Asia ; LAC: Latin American Countries; MENA: Middle East and North Africa; SA: South Africa; SSA: Sub-Saharan Africa.

In this same survey, MFIs report that they are now facing repayment problems. Indeed, "*client purchasing power has gone down and cash needs have gone up causing savings to be withdrawn and sometimes straining repayments. This creates both liquidity and credit risks for MFIs*"[6] . Liquidity constraints and deterioration of the portfolio quality appear to be the two major issues that the MFIs had to face during the crisis.

[5] CGAP Global Opinion Survey, March 2009 (44 answers from Europe and Central Asia), and World Bank website

6 How Did the Microfinance Sector Perform in the Global Financial Crisis? International Research on its Impact, (This paper provides an overview of some of the research conducted throughout 2009 in order to measure the impact of the global financial crisis in the microfinance sector. It is based on several contributions published by international researchers, practitioners and information gateways).

"Microfinance will be more affected by economic cycles than it has been in the past"

Cautious Resilience: The Impact of the Global Financial Crisis on Microfinance in Latin America and the Caribbean" dated March 2009, MicroRate

Some experts such as Elizabeth Littlefield, former CEO of CGAP now agree to recognize that this crisis has impacted the Microfinance industry in a much greater way "*Microfinance is far more connected now. While it still has deeply shock-resistant roots, and many places seem unaffected today, there is little doubt that there will be impact*"[7].

The 2009 edition of the "Banana Skins" survey[8] corroborates this idea that the economic crisis has completely transformed perceptions of the microfinance risk landscape. Indeed credit risk ranges as the biggest risk according to survey respondents and liquidity appears in 2nd place (while it was number 20 in 2008).

Although it is obvious that the financial crisis had an impact on MFIs, CGAP qualifies that statement in its focus note[9], dated February 2010, by explaining that "*recent repayment troubles in four rapidly-growing microfinance markets do not stem from the financial crisis but from the way that microfinance operates in fast-growth markets*".

MAIN TRENDS

- *MFIs were impacted in a greater way by the global economic recession of 2008 than they have been in the past;*
- *MFIs that had no clear risk management policies and procedures in place suffered as a result of higher delinquencies, shrinking shares in the market and decline of profitability*[10].

[7] "The Global Financial Crisis: What does it mean for microfinance?" CGAP, December 2008
[8] Microfinance Banana Skins 2009: Confronting Crisis and Change", Centre for the Study of Financial Innovation (CSFI), June 2009.
[9] Focus note : Growth and Vulnerabilities in Microfinance, CGAP, February 2010
[10] Extract of Respondents in the Global Opinion Survey CGAP2009.

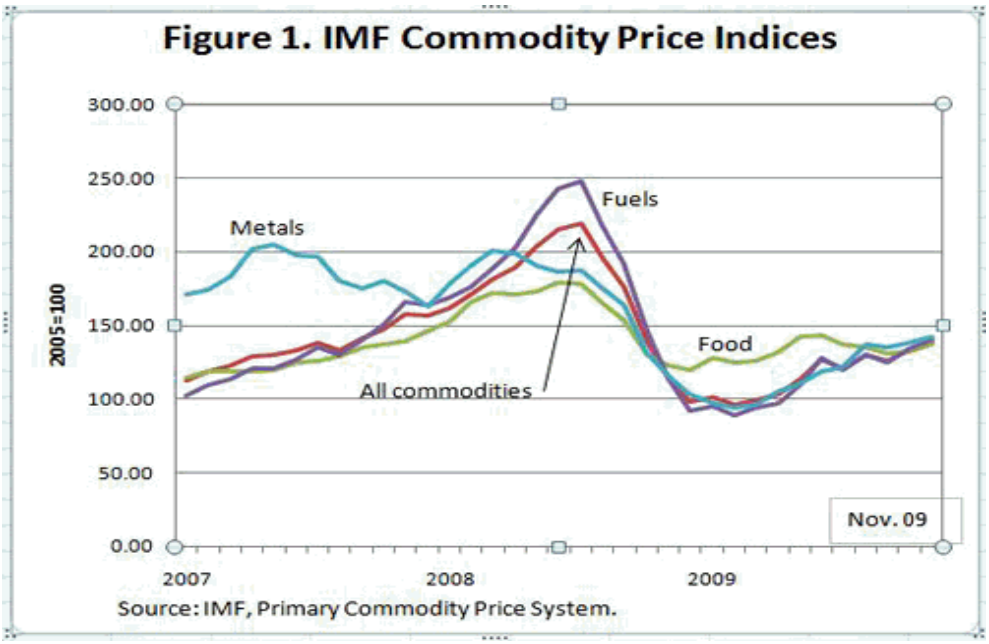
1.2.2. Food and fuel price crisis

The financial crisis, which peaked towards the end of 2008, was followed by a period of significant increases in food and fuel prices (cf. graph below). Although international food and fuel prices have since declined and are now returning to their 2007 levels, this was a burden for poor people.

The 2010 Food Crisis Means Financial Armageddon "Prices of wheat, rice and corn rose to records last year, sparking riots from Haiti to Ivory Coast. World food production may drop in the next crop year as falling prices and the recession prompt farmers to lower investment and cut plantings"

the United Nations said this month (February 2009).

CGAP in its presentation "The impacts and implications of the food crisis on Microfinance", November 2008[11], explains that in many cases clients decided to cut back on non-food expenses and in some cases used savings to buy food. In addition, farmers could not buy seeds and fertilizers and this particularly impacted MFIs targeting rural areas.



MAIN TRENDS

- *The economic effects of food scarcity and higher commodity prices were particularly acute for the world's poorest billion people;*
- *Food price inflation exacerbated food security concerns around the world;*
- *As a result households cut back on non-food expenses and in some cases used savings to buy food.*

[11] Impact and Implications of the Food Crisis on Microfinance, Eric Duflos and Barbara Gähwiler, CGAP

1.3. Impact of macro and micro-economic events on MFIs

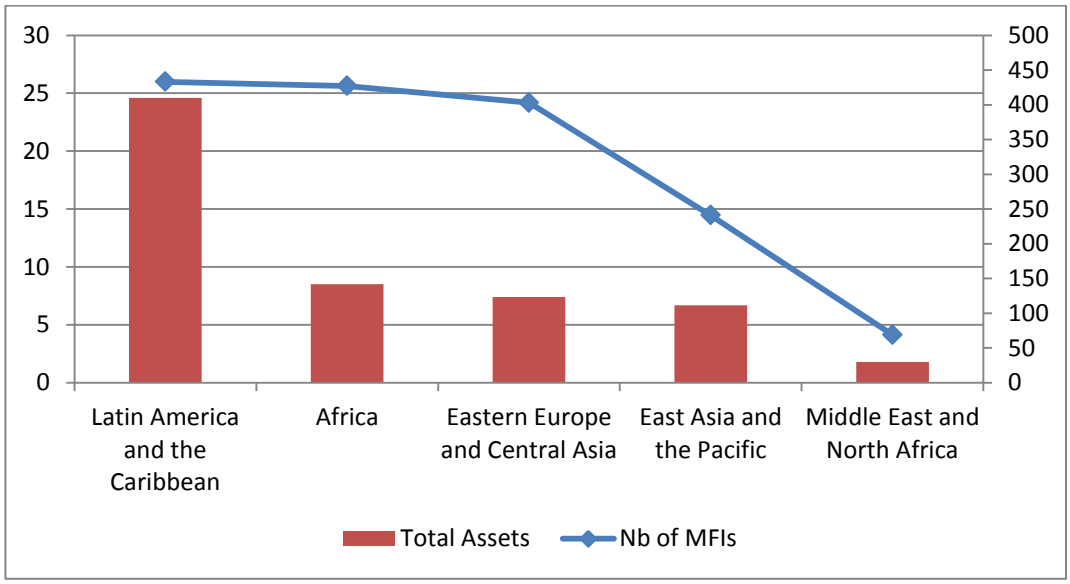
In view of the events described earlier in this study, the section below aims to give a brief overview of the evolution of MFIs worldwide and to identify a non-exhaustive list of challenges and developments that the MFIs may have to face in the future.

1.3.1. MFIs overview worldwide

2008 represents a turning point and a challenging period for the microfinance industry as a whole and for MFIs in particular. It is however not easy to obtain the data necessary to present an overview of the number of MFIs worldwide and the total amount of assets that they represent.

We have therefore decided to use the data from the MIX Market, which has an index of over 1,400 MFIs across 6 regions: Africa, East Asia, Eastern Europe and Central Asia, Latin America, Middle East and North Africa and South Asia. Although this study may not be statistically representative of the MFI landscape worldwide, it still gives an indication of their geographic breakdown.

As shown in the graph hereafter[12], Latin America ranks in first place in terms of number and assets with 433 MFIs identified in 2009 representing USD 24.6 billion. Africa ranks in second place (427 MFIs gathering USD 8.5 billion), followed by Eastern Europe and Central Asia (403 MFIs for USD 7.4 billion).



Source: www.mixmarket.org

[12] Data gathered from www.mixmarket.org

1.3.2. Trends and evolutions

A number of studies have tried to identify the new tendencies and challenges that MFIs will have to face in the upcoming years. The most recurrent ones appear hereafter, although this should not be taken as an exhaustive list:

Competition: increased competition among MFIs

The latest CGAP study attributed this increased competition among MFIs as partly due to the fact that in some countries, MFIs were targeting the same population (mainly for economic activity and population density reasons).

> *In Pakistan and Morocco it had been a common practice among some MFIs to follow other MFIs into local markets so that they can lend to the same borrower groups. Early entrants are the first to screen and train new borrowers whereas later arrivals can skip over these up-front preparatory steps.*
>
> **Source: Growth and Vulnerabilities in Microfinance, CGAP, February 2010**

An article[13] dated October 2009 and available on MicroCapital's website explains that many theoretical studies claimed that competition has adverse impacts on profitability and cross-subsidization of socially-motivated MFIs. These studies state that "*competition causes a decrease in dynamic incentive, which refers to the event where clients are able to obtain loans from other lenders without paying back their original loans to their initial lender, thus decreasing their payback incentives*"[14].

Clients: from an aggressive client policy to customer relationship management

According to a survey performed by CGAP and published in March 2009, on "Changes in Microfinance Institutions", in the past, MFIs were more concerned about their market share in terms of number of clients than about trying to implement an efficient customer relationship management based on client loyalty. Increased competition in some markets combined with higher client desertion during the crisis, forced MFIs to move from a "one-size-fits-all" strategy to a more customized approach. MFIs have started realizing that i) clients are beginning to ask for a greater variety of products and services, especially as markets mature, and that ii) they need to put clients' needs at the core of their strategy if they want to reach both a financial and social objective and to achieve sustained and healthy growth.

[13] "*Microfinance Paper Wrap-up: Competition and Wide Outreach of Microfinance Institutions*", by Hisako Kai, October 1, 2009

[14] www.microcapital.org/ August 2010

Products: diversification of the product offer

Before the financial crisis, MFIs had already started to design and develop new financial products and services for poor clients. "*In recent years, microfinance products developed in the international scene have increased in complexity and sophistication. As microfinance institutions mature and learn about the needs and demands of the poor, microfinance products and systems become more complex, though more flexible such that they are able to provide custom-made service*", as Interchurch Organization for Development Co-operation "ICCO" explains in its integrative report "Documentation of Product Development Processes in Selected MFIs" in 2001.

More recently, MFIs have started to realize that they need to differentiate from the competition by developing competitive advantages. For instance, the industry is witnessing the emergence of new products such as micro-savings, micro-insurance and micro-pensions. Some pro-active MFIs have even started developing new insurance products to deal specifically with climate change risks.

> *"In the future, MFIs will have to develop new insurance products specifically to deal withclimate change. Several organizations are field-testing new types of insurance products" "Climate Change and Microfinance",*
>
> **Grameen Foundation and Oxfam America in November 2009.**

Transparency: From withholding information to greater transparency

The near collapse of the global financial markets has highlighted that a lack of transparency is a major market imperfection. In order to become more efficient and effective, microfinance practitioners at all levels of the financing chain rapidly recognized that, among other elements, transparency about costs was a prerequisite.

The "Global Transparent Pricing Initiative" launched in October by Chuck Waterfield of MFTransparency, is a fitting illustration of this new tendency. MFTransparency is a global initiative for fair and transparent pricing in the Microfinance industry.

> *"Our desire is to be the venue for the Microfinance industry to publicly demonstrate its commitment to pricing transparency, integrity and poverty alleviation. Our vision is a Microfinance industry operating with healthy free market conditions where consumers and other stakeholders can make informed decisions."*
>
> **Source: www.mftransparency.org**

Operating models: increased focus on risk management

Risk management appears to be a growing concern for MFIs. The deterioration of their portfolio observed lately, may have been one of the reasons why MFIs have started to take a closer look at their risk management strategies. In its "Microfinance Institutions: Changing Strategies For Changing Times" dated November 2008, Standard & Poor's recognizes that "*correctly correlating and measuring an MFI's credit, operating, and market risks are also crucial tasks for MFI management going forward*".
In terms of changing in operating models, it is also worth mentioning the case of SKS Microfinance, the largest Indian's MFI which proceeded with an IPO in July 2010. Despite the success of this IPO, skepticism and criticism from various actors of the industry multiplied. Some say that the objective of Microfinance is irreconcilable with being at the mercy of shareholders that are only looking for financial profits. Others argue that it is possible to pursue a dual financial and social objective simultaneously, even if listed on stock markets and hope that these inflows of money will be positive for the industry as a whole. Either way, SKS's IPO is likely to set a trend. Other Indian microfinance lenders are watching and waiting to see whether they too should tap capital markets.

Conclusion

From 2004 to 2008 microfinance enjoyed unprecedented growth and may have been looked at by some through rose-tinted glasses. The financial and food crises, although not identified as the primary causes of the repayment crisis by CGAP, have undeniably had an impact on MFIs. Other elements, such as the recent situation observed in the region of Andhra Pradesh in India, have recently been the subject of close attention by industry stakeholders, media and politicians, to the extent that some experts and journalists seriously question the credibility of Microfinance and the way some MFIs operate. Although this situation is so far limited to Andhra Pradesh, MFIs are now in a phase where it is clear that a readjustment of their client/product/risk and operating strategies is essential to permit them to become sustainable in the long term.

"A more pressing problem is likely to be overindebteness, fuelled by rapid growth in a sector with no formal credit bureaus. Big Indian MFIs are now sharing information, pledging not to lend to a person who has already borrowed from three others and to keep total lending to a limit. But smaller lenders have fewer qualms." Mary Ellen Iskenderian of Women's World Banking

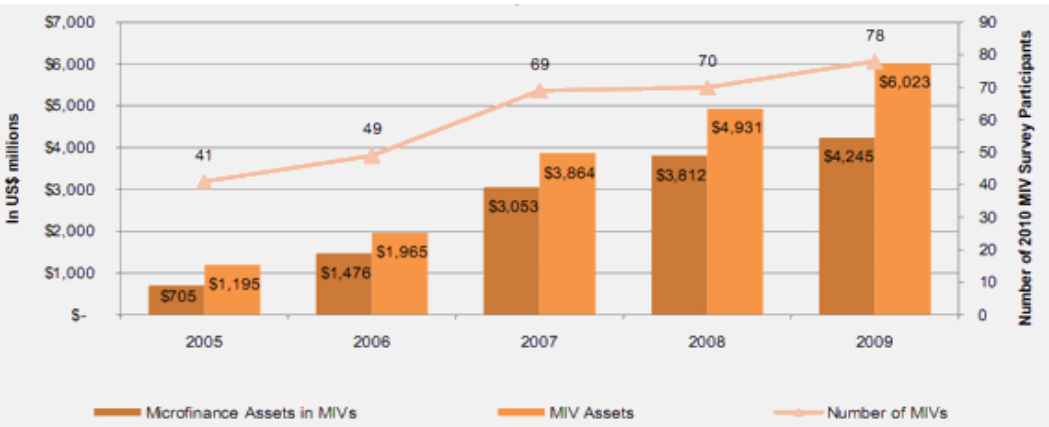
Source: "Microfinance in India discredited: a string of suicides puts micro-lending under the spotlight", The Economist, 4 November 2010

2. MIVs' Landscape overview and analysis of the performance of LuxFLAG labelled MIVs

By way of background, it was essential to present briefly above the impacts of the economic and food crises on MFIs, as they obviously had a subsequent impact on MIVs. These elements also assist in the analysis of the performance of LuxFLAG labelled MIVs later in this study.
The chapter below firstly provides a brief overview of the MIV landscape and evolution. We then take a closer look at LuxFLAG's labelled MIVs to understand how these reacted through and post-crisis.

2.1. Overview of the MIVs' landscape[15]

This Report is based on data from "The MicroRate 2010 Microfinance Investment Vehicle survey", powered by Symbiotics, which comprises 78 MIV participants.
According to MicroRate, MIVs' assets under management grew by USD 1.2 billion to USD 6 billion from 2008 to 2009. Despite the World recession this study shows that investor interest in MIVs is stable and continues to develop. Another notable trend is the substantial deceleration in assets' growth between the adverse economic context of 2008 and 2009. Indeed, while Microfinance assets had increased by 96% between 2006 and 2007, they have grown by "only" 31%[16] in 2008 and 22% in 2009. This is actually the slowest growth pace since MicroRate started its MIV surveys in 2005.



In terms of type of investments, debt remains the favoured choice, representing approximately 82% of Microfinance assets, as has been the case for the last five years. As for the share of equity investments, it has increased slightly from 12.8% in 2008 to 17.6% in 2009; guarantees stand at 0.5% and other microfinance assets at 0.3%.

[15] For timing reasons, the results of the CGAP MIV Survey 2010 could not be included in this study. However, a special box listing the main findings of this survey has been included on page 15
[16] The MicroRate 2009 Microfinance Investment Vehicle survey", MicroRate, August 2009

In 2009, the top ten MIVs accounted for 59% of total microfinance assets. Among these 10 MIVs, four are currently labelled by LuxFLAG.

In terms of geographic distribution, Latin America and the Caribbean attracted the majority of the investments in 2009 (37% in 2009 against 35% in 2008), followed by Eastern Europe and Central Asia (35% in 2009 against 43% in 2008). This reversed the position in 2008. South Asia did not experience any increase over 2008, whereas investments in Sub-Saharan Africa (SSA), representing 6% of total microfinance assets, grew significantly by 45% in 2009. According to MicroRate "*The large growth of investment in SSA during 2009 can in part be attributed to Oikocredit's increase in investments in the region by approximately 300%".*

Finally, investor demand remained strong in 2009, despite the effects of the global recession. The main investors are Private institutions (47%), followed by "Development Finance Institutions" (DFIs) (27.3%).

Highlights from the CGAP 2010 MIV Survey:

- Ninety MIIs (compared to 80 in 2009) with combined assets under management of $7.7 billion as of December 2009 responded to the survey. They represent 93% of the MII market asset base, estimated at $8.2 billion.
- MIV asset growth slowed for the third consecutive year to 25% in 2009 (against 86% in 2007 and 34% in 2008), and survey respondents forecast a growth of only 15% for 2010.
- Private equity funds are growing faster (75% growth in assets) fueled by new commitments from institutional investors. Their investments are concentrated in India.
- Local currency investments jumped by 54% in 2009 and now account for 31% of all direct debt investments. The continuing impact of the credit crisis in several large microfinance markets translated into new loan-loss provisions representing 2% of the MIV direct debt microfinance portfolio as of December 2009.
- The average net portfolio yield reached an historical low of 7.9% at the end of 2009. The liquidity level jumped to a new high (17% of Assets). In this context, the average net return for fixed income funds in Euros has dropped to 3.2% against 5.9% in 2008.
- MIVs are increasingly committed to report on their ESG practices, 40% are using an environmental exclusion list; 81% have endorsed the Client Protection Principles; and 69% report on ESG issues to their investors.

MIVs: trends and evolutions

2.1.1. Increased liquidity positions

If one compares the liquidity levels between 2008 and 2009, MIVs held over USD 1 billion in liquid assets (17% of MIV assets in 2009) compared to USD 459 million in 2008[17]. The demand for loan funding from MFIs was weak. Indeed, during the financial crisis, many MFIs became more risk-averse and favoured a more conservative approach.

2.1.2. New interest for equity investments

The microfinance assets held by MIVs are primarily debt (81.6%) followed by equities (17.6%). Although investments in equities remain marginal, the microfinance equity assets as a percentage of total microfinance assets increased from 12.8% in 2008 to 17.6% in 2009. MicroRate, in its 2009 MIVs survey also observes that "of the 14 new participants to the survey, five were pure equity funds. As loan demand slowed in 2009, MIV managers were increasingly attracted to equity investments and their upside potential". The CGAP MIV survey 2010 confirms the tendency "*Private equity funds are growing faster (75% growth in assets) fueled by new commitments from institutional investors. Their investments are concentrated in India"*.

2.1.3. Continued commitment of investors

Despite an excess in MIV liquidity and a deterioration of the portfolio quality, investors' interest in MIVs remains strong. They stayed optimistic about microfinance compared to other investments. Actually MIVs raised more money from investors than they were able to place with MFIs. As another clear sign of commitment from investors, one can note that eight MIVs were created in 2009, and three new ones have been launched so far in 2010.

2.1.4. Diversification of investments to Tier 2 and Tier 3 MFIs

There is at the moment a common view that too many funds are being allocated to too few MFIs. Indeed, many small and medium sized MFIs are considered too risky and are therefore excluded from the financing of the capital markets. However the current crisis has confronted MIVs with a paradox situation. The opportunities for MIVs to invest in Tier 1 MFIs defined as being mature, regulated and financially sustainable is diminishing. The trend is to invest in Tier 2 MFIs which are near profitability. Steven Evers, Director of Triple Jump said in the "Microfinance Focus": "*Tier 3 Microfinance Institutions perform as well as Tier 1. Tier 2 institutions are maturing […] and have overcome most of the main challenges of their early stages*" June 11, 2010.

[17] The MicroRate 2010 Microfinance Investment Vehicles survey", MicroRate, August 2010

2.1.5. New transparency and information platforms

Similarly to what can be observed at MFI level, microfinance investors face difficulties to obtain basic information on MIVs. With a growing number of MIVs worldwide there is a clear need to assist investors in their choice of investment, especially since MIVs' structures are sometimes complex and investment objectives may vary.
MicroRate, with the support of the Luxembourg Government and of LuxFLAG intends to meet this demand thanks to its web-based platform LUMINIS. The goal of LUMINIS is to create widespread transparency in the universe of MIVs.

"Transparency, critical analysis and fund comparison data are all vital components to establishing microfinance as a truly- recognized asset class and to help ensure the successful, long-term growth of this sustainable poverty-fighting sector."

Sebastian von Stauffenberg, MicroRate's Managing Director & CEO, MicroRate

2.3. Focus on the performance of LuxFLAG-labelled MIVs

Whereas the previous section describes current trends and future challenges of MIVs worldwide, this section focuses entirely on LuxFLAG-labelled MIVs. Through an analysis of five main indicators, we see how the designated MIVs have reacted through and post-crisis. However, given the lack of standardization in MIV reporting, cross-comparisons of fund figures are difficult. Hence, this study is limited to an analysis of the variation of individual funds, without cross evaluation.

2.3.1. Methodology

MIVs and Share classes

As of September 2010, a total of 14 MIVs, with total assets under management of USD 2.5 billion now hold the LuxFLAG label:

- Advans SA SICAR;
- The Blue Orchard Fund - Microfinance Fund for US investors[18];
- Dexia Micro-Credit Fund - BlueOrchard Debt Sub-Fund (DMCF);
- Dual Return Fund SICAV- Vision Microfinance Sub-fund (DRF-VM);
- European Fund for Southeast Europe (EFSE);
- Finethic Microfinance SCA SICAR;*
- KCD Mikrofinanzfonds (SIF) - I "Global";*
- KCD Mikrofinanzfonds (SIF) - II "Latinamerika;*
- responsAbility Global Microfinance fund (rAGMF);
- responsAbility SICAV (Lux) Microfinance Leaders Fund (rAMLF);
- responsAbility SICAV (Lux) Mikrofinanz- Fonds (rAMF);
- Rural Impulse Fund (RIF);
- Triodos SICAV II – Triodos Microfinance Fund;*
- Wallberg Global Microfinance Fund. *

*NB: As this study was undertaken in August 2010, it does not include the five new MIVs (marked with an * above) which were granted the Microfinance Label on 27 September 2010.*

[18] As this fund is a feeder of DMCF, its investments are similar to that of DMCF. Hence, we have not performed a separate analysis of this fund.

Time Frame

To track MIVs' performance throughout LuxFLAG's existence, the time frame of June 2007 to June 2010 was chosen, 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 frequency seemed appropriate. In the case of Advans SA, data are updated on a bi-annual basis in March and September;
- It must be noted that certain funds or share classes were created post-June 2006 and hence data may only start at a later date.

Indicators

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

- Total Assets (TA): data for all 8 MIVs;
- MFPF (Microfinance Portfolios): data for all 8 MIVs;
- Liquidity: data for 8 MIVs;
- Net Asset Value (NAV) per share: data for 6 MIVs. EFSE and Advans data unavailable;
- Monthly returns: data for 7 MIVs. EFSE data unavailable.

All values for the TA and MFPF are quoted in USD. 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 funds' share classes.

In order to analyze the evolution of these eight labelled MIVs, a systematic examination has been performed, considering each of the five indicators separately. Once again, one must note that the analysis is made solely on the evolution of individual MIVs rather than a cross-comparison of fund performance due to lack of data standardization.

It is to be noted that this study does not include any social performance aspects at the moment. While LuxFLAG considers that it is essential to include social aspects when analysing the performance of MIVs as they should all follow a dual objective, is premature to do so at this stage.

"By integrating a new social criterion to its Label, LuxFLAG recognises that the MIVs must pursue a "doublebottom line" objective and aims to encourage transparency on social performance(..) In the applications submitted in March this year, LuxFLAG tested this new social criterion. Although the indicators used and the measurement tools differ, a first analysis has revealed that all the labelled MIVs have started to take some concrete steps to demonstrate their willingness to achieve a "double bottom line". Throughout 2010, LuxFLAG plans to undertake a fine tuning exercise in order to come up with a standard questionnaire on "social performance". This questionnaire should enable a comparative analysis of the labelled MIVs and will be integrated to the application forms in 2011."

LuxFLAG Newsletter n°3

2.3.2. Total Assets (TA)

A general analysis of the evolution of total assets enables us to identify three distinct periods:

- Before December 2008, assets of labelled MIVs were increasing at a fast pace. Indeed, labelled MIVs were experiencing double-digit growth of their assets;
- During the more adverse economic context of 2008-09, as indicated in the previous "Report on the performance of LuxFLAG-labelled MIVs during the economic crisis" 2009, MIVs' Assets Under Management remained relatively stable and were not severely impacted by the global financial crisis;
- In its brief[19], dated April 2009, CGAP was already forecasting a slower growth of Microfinance funds assets than in the past. Post crisis (from Dec 2009 to June 2010), this trend has been confirmed by labelled MIVs, which all experienced a decrease in assets, with the sole exception of RIF, which reported an increase in AUM between December 2009 and June 2010 (+1.34%). It is noteworthy that as a reaction to the financial crisis and the reluctance of MFIs to call on international capital, ResponsAbility Global Microfinance Fund (rAGMF) took the decision on 26 May 2010 to temporarily suspend new subscriptions. This suspension enabled rAGMF to reduce the proportion of liquid assets in the fund.

"Continuous net inflows from our investors and a simultaneous decline in the demand for financing in developing countries and emerging markets resulted in a consistently high liquidity ratio of the responsAbility Global Microfinance Fund. The objective of the temporary suspension of the issuance of fund shares is to successively reduce the share of liquid assets from currently approximately 30 percent to 5 to 10 percent of the fund volume."

responsAbility press release, Zurich, May 5, 2010

[19] "Microfinance Funds Continue to Grow Despite the Crisis", CGAP Brief, April 2009

Despite a decrease in AUM of most of the labelled MIVs in June 2010, designated MIVs have doubled and sometimes tripled their assets between June 2007 and June 2010. The consistent rise in MIV total assets, demonstrates a continued expansion and potential in this sector, regardless of the turbulence recently experienced by international markets.

This would suggest that, microfinance is being recognized as 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 remained committed to MIVs despite the market turmoil.

Table 1: Evolution of TA of 8 MIVs over the period 2007-2010

	June 07	Dec 07	June 08	Dec 08	June 09	Dec 09	June 10	Global trend	% evolution June 07 - June 10)
DMCF		↑	↑	↑	↑	↑	↓	↑	140,97
DRF-VM		↑	↑	↑	↑	↓	↓	↑	115,69
rAGMF		↑	↑	↑	↑	↑	↓	↑	260,37
rAMLF		↑	↑	↑	↓	↓	↓	↑	36,69
rAMF		↑	↑	↑	↑	↓	↓	↑	386,25
RIF			↑	↑	↑	↑	↑	↑	278,08*
EFSE		↑	↑	↑	↑	↑	↓	↑	71,88
		Sept 07	March 08	Sept 08	March 09	Sept 09	March 10	Global Trend	
Advans		↑	↑	↑	↓	↑	↑	↑	113,4

**For RIF, Total evolution Time Frame calculation from June 2007 to December 2010*
Source: Information from labelled funds

Legend:

↑	Increase in total assets on a month by month basis
↓	Decrease in total assets a month by month basis

NB: we have chosen above to illustrate the main trends using symbols rather than figures for clarity of presentation. Please note that the actual figures are set out in a table that is available in appendix (see appendix n°3).

2.3.3. Microfinance Portfolio (MFPF)

A general analysis of the MFPF figures over the December 2007 – June 2010 period indicates that, until December 2008 the labelled MIVs had experienced a remarkable growth in MFPF.

Analyzing the figures in more depth, it appears that December 2008 marks a turning point. Following this date, MFPF values remain relatively stable and the growth of the MFPF decelerates from December 2008 to June 2010. This is for instance illustrated by the MFPF of DRF-VM, which decreased from USD 98.58 million in June 2009 to USD 83.80 million in June 2010. This represents in one year a diminution of 15%.

This can be largely explained by the fact that some MFIs have switched strategies in reaction to the financial crisis by taking a more conservative approach. Hence, MFIs have tended to limit their expansion plans and to put greater focus on their portfolio quality. As a result, demand for funding from the MFIs was reduced and MIVs faced some difficulty in making new investments. This of course led to a reduction of the MFPF.

In addition, the Microfinance sector has been affected by the international financial crisis as described in the part 1.2 "one-off events". As a result, the effects of the crisis on MIVs' microfinance portfolios are more pronounced between June 2009 and June 2010. While many regions in the world appear to be gradually coming out of recession, other countries, particularly in Central America and Eastern Europe are still under significant pressure. In order to account for potential default of some MFIs, some MIVs, for instance Dual Return – vision microfinance and RIF I, have constituted provisions to cover impairment of some MFIs in Nicaragua and Bosnia Herzegovina.

Following the last months we have to refer, that one investee MFI in the Dual Return failed to properly address the challenges of its financial restructuring and recapitalization. (…). As a result, the Nicaraguan National Regulator ordered the MFI to be liquidated. The Board of Dual Return Fund – Vision Microfinance decided to fully provision the remaining position last month (…).

Dual Return Vision Microfinance, Factsheet Aug. 10

"During the second quarter of 2010, RIF allocated 272,500 USD from the general risk provision to impairments on Sunrise and Prestanic (see appendix 4 for more info). After this allocation the remaining general risk provision amounts to 1.69% of the portfolio size, down from 2.5% in the previous quarter. The next Supervisory Board in October 2010, shall review again the level of general risk provisioning".

Rural Impulse Fund, Quarterly Report, June 2010

Table 2: Evolution of MFPF of 8 MIVs over the period June 2007-June 2010

	June 07	Dec 07	June 08	Dec 08	June 09	Dec 09	June 10	Global trend	% evolution June 07-June 10)
DMCF		↑	↑	↑	↑	↑	↑	↑	139,82
DRF-VM		↑	↑	↑	↑	↓	↓	↑	124,31
rAGMF		↑	↑	↑	↑	↑	↑	↑	204,45
rAMLF		↑	↑	↑	↓	↓	↓	↑	47,95
rAMF		↑	↑	↑	↑	↑	↑	↑	179,23
RIF			↑	↑	↑	↑	↓	↓	284,52
EFSE		↑	↑	↑	↑	↑	↑	↑	19,79
		Sept 07	March 08	Sept 08	March 09	Sept 09	March 10	Global Trend	
Advans		↑	↑	↑	↑	↑	↑	↑	424,48

Source: Information from labelled funds

2.3.4. Liquidity

Liquidity has to be analyzed in conjunction with the Microfinance portfolio as they are inter-connected. Indeed, the higher the level of liquidity, the lower the Microfinance portfolio and vice-versa.

- Before June 2008, all funds maintained their liquidity levels within the range of 10 to 16% of AUM, except for the Rural Impulse Fund (26%);

- A year later, a wide disparity appeared, with liquidity proportions ranging between 10 and 40%. In a special report "Is the crisis over? The outlook for microfinance investment 2010" Matthew Fuchs corroborates what has been explained previously in this report: "*Microfinance Investment Vehicles have unsustainable levels of liquidity*". This may be linked to two main factors. First "*microfinance assets grew much more slowly than total MIV Assets*" and secondly "*the weak demand for funding from MFIs*". Moreover it said "*MIVs are finding it difficult to place the funds they are raising from investors*". In fact, in 2009 "*less than half of the funding mobilized ended up in microfinance*";

- Until June 2009, many MIVs mention increases in cash held in their monthly factsheets and despite most attestations that these provisions remain "temporary", increases in liquidity continued for most the funds. However, table 3 suggests that some of the concerned MIVs show decreasing liquidity levels in June 2010.

- In June 2010, labelled funds show some positive signs in terms of their liquidity management. For instance, in March 2009, ResponsAbility 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*"[20]. One year later, liquidity has substantially decreased as it represents 19% of the total assets of the fund in June 2010, in comparison to almost 40% back in June 2009.

Dr. Armand Vardanyan, Fund Manager of the DRF-VM, in the Microfinance focus paper dated April 2010, shows optimism by declaring that "*MFIs are recovering, despite some isolated incidents, with an improving outlook for growth and profitability*".

Table 3: Evolution of liquidity as % of TA of 8 MIVs over the period June 2007-June 2010

	June 07	Dec 07	June 08	Dec 08	June 09	Dec 09	June 10	Global trend	% evolution June 07-June 10)
DMCF		↓	↓	↑	↑		↓	↑	145,20
DRF-VM		↓	↑	↑	↓	↑	↓	↓	77,89
rAGMF		↓	↑	↑	↑	↑	↓	↑	674,19
rAMLF		↓	↓	↑	↓	↑	↑	↓	1,98
rAMF		↑	↑	↑	↑	↓	↓	↑	539,14
RIF			↑	↓	↑	↑	↑	↓	199,61
EFSE		↓	↓	↑	↑	↑	↑	↑	81,03
		Sept 07	March 08	Sept 08	March 09	Sept 09	March 10	Global Trend	
Advans			↓	↓	↓	↑	↓	↓	40,68

Source: information from labelled funds.

[20] ResponsAbility Global Microfinance Fund, Factsheet March 09.

2.3.5. Net Asset Value (NAV) per share

- Over the period June 2006 to June 2010, the seven funds[21] and their share classes, with the exception of responsAbility Mikrofinanz-Fonds, demonstrate a clear rise in Net Asset Value "NAV". Most even display 10 to 20% increases (see Table n°4);
- RIF showed an outstanding increase in NAV of around 45% from Dec 2007 to June 2010;
- Throughout the last four years (or less depending on the fund's creation), there has been a constant, regular increase in NAV per share in five of the six funds.

Taking a closer look at the December 2008 - June 2010 period:

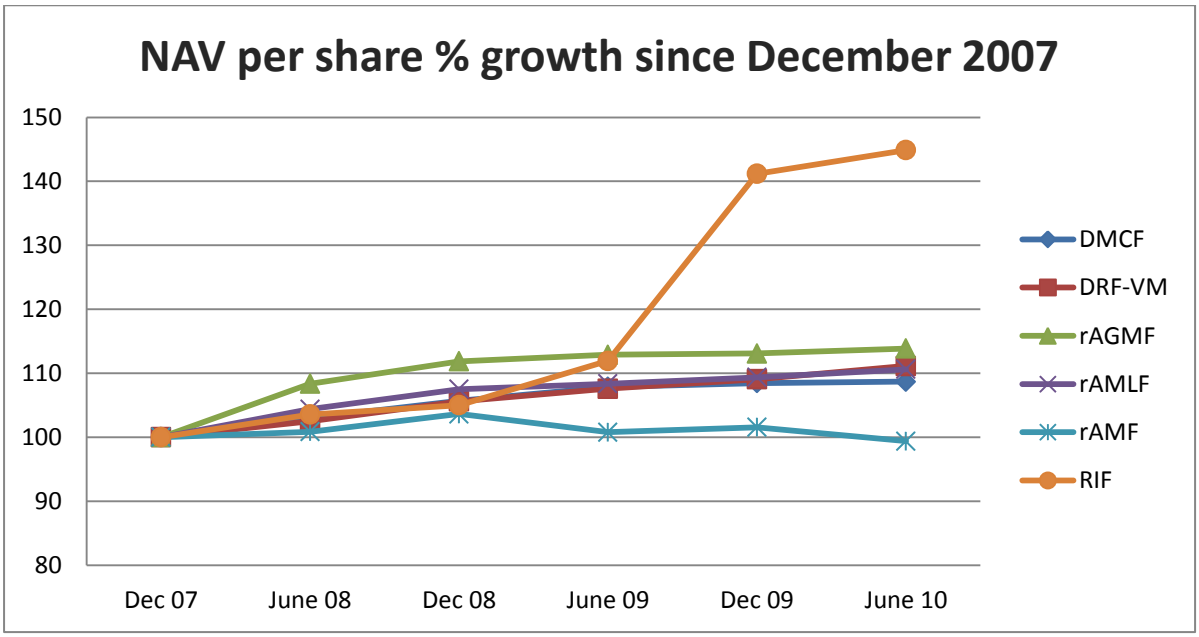
- Of the six funds reviewed, only one shows a dip in NAV per share during the financial crisis;
- the evolution of the NAV per share from June 2008 to June 2010 still shows a positive and encouraging evolution ranging from 3% to 10%, with the sole exception of rAMF;
- the NAV per share of the USD and CHF share classes of the DRF-VM were inactive from June 2009/Dec 2009 to June 2010.

[21] EFSE does not appear in this section due to unavailability of data

Table n°4: Net Asset Value per share - 6 MIVs between the period June 2007 to June 2010 (figures according to designated currencies)

	Name of shares	Currency	June 07	Dec 07	June 08	Dec 08	June 09	Dec 09	June 10	Total Evolution June 07-
DMCF	USD Cap	USD	15 154,47	15 639,98	16 049,75	16 450,82	16 801,33	16 895,18	16 936,43	19%
	EUR Cap	EUR	11 688,52	11 980,79	12 339,21	12 666,00	12 923,25	12 994,58	13 023,12	16%
	CHF Cap	CHF	11 289,21	11 468,71	11 691,17	11 925,68	12 119,28	12 163,38	12 188,34	11%
DRF-VM	P USD Cap	USD	1 039,92	1 074,91	1 094,02	1 121,24	1 085,96	Inactive	Inactive	-
	P CHF Cap	CHF	999,31	1007,48	1022,74	1 043,27	Inactive	Inactive	Inactive	-
	P EUR Cap	EUR	1017,61	1 035,80	1 061,67	1 093,85	1 114,49	1 129,62	1 151,13	15%
	I EUR Cap	EUR	-	1014,87	1043,57	1 078,78	1 102,62	1 121,30	1 146,13	13%
rAGMF	USD Cap	USD	116,25	119,37	123,43	127,06	128,12	128,53	129,56	19%
	EUR-H Cap	EUR	105,81	107,02	115,97	119,73	120,81	121,03	121,87	17%
	CHF-H Cap	CHF	109,62	112,02	110,05	112,99	112,91	112,84	113,33	11%
rAMLF	Q USD C	USD	103,29	106,57	111,23	114,57	115,48	116,56	117,87	7%
rAMF	A Dis EUR	EUR	100,16	102,15	103,02	105,87	102,94	103,74	101,51	-1%
RIF	A Dis USD	USD	-	95,03	98,41	99,78	106,38	134,16	137,69	45%

Source: Information from labelled funds / Finesti – Advans does not publish any NAV information



**the above table represents changes in NAV of the EUR share class of the respective MIVs, except for RAMLF and RIF which are based on USD denominated shares.*

** In the case of RIF, the increase in NAV per share in 2009 reflects the realization of a capital gain on disposal of a significant equity investment.*

2.3.6. Monthly Returns

Symbiotics keeps a 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. The majority of the funds listed in the SMX indices[22] are labelled by LuxFLAG.

In its "Quarterly Corporate Newsletter" dated July 2010, Symbiotics highlights that the MIVs belonging to the SMX index have shown a significant decrease in returns compared to previous years. For example, the SMX 50, shows returns for 2009 at 3.08%, down from 5.95% in 2008 and 6.33% in 2007. This is in line with the CGAP 2009 MIV Survey which forecast returns to fall below 3.5% in 2009.

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

1. Currency volatility on the foreign exchange markets, especially between the EUR and the USD. The depreciation of the EUR against the USD in the period under review had a negative impact on the EUR-investment class;

2. The increased provisions of MIVs to cover potential default risks. responsAbility Microfinance Leaders Fund, in its June 2010 factsheet supports this statement: "*Persistent economic and political problems have made business difficult for some MFIs in Nicaragua. This prompted the fund to set aside further provisions this month, which led to a slightly negative performance overall for the month in review".*

However perspectives for the future remain positive and signs of a return to growth, although at a limited pace, is expected for 2010, even if there should still be important differences between countries (cf case studies below).

The Dual Return- Vision Microfinance Fund began the year in posting positive return of 0.32% for retail class and 0.37% for the institutional class in March 2010. Despite the Impact of the financial crisis on the performance of most MIVs between March and June 2009, Dr Vardanyan, is positive and explains his forecast in the "Microfinance Focus": "*Overall we have a positive outlook for the microfinance market in 2010. The microfinance business model continues to prove its general resilience to crisis".*

[22] More information on these indices can be found on www.syminvest.com

Nicaragua & Bosnia: end of tunnel not yet in sight. Performance charts illustrate the continuous deterioration of all indicators within these two markets. In both countries, a limited number of institutions are in the process of, or close to, being liquidated. Consolidations have unfortunately not occurred, mainly due to difficult regulatory environments. Significant improvements are not expected in either market over the coming months.

Kyrgyzstan: fast growing market but gloomy political situation. The country has recorded strong growth this year and has sound portfolio quality. Thus far, the recent revolution, ethnic tensions, and political instability have yet to have a significant impact on the MFI sector. However, the bloody ethnic violence that took place in June in the South of Kyrgyzstan will definitely impact the portfolio quality of most MFIs – a situation which will be covered in greater depth in our next newsletter when more data is available.

Mexico: a complex but highly dynamic microfinance market. Mexico remains one of the microfinance markets with the largest growth potential. Nevertheless, Mexico is a very complex market with a huge number of institutions, most of which have poor governance and very high operating expenses. However, some high quality MFIs are now emerging and are working hard to become well managed and sustainable institutions.

Source: Quarterly Corporate Newsletter", July 2010, Symbiotics

CONCLUSION

When the economic crisis peaked towards the end of December 2008, repercussions for MFIs and MIVs were not yet visible and, although some experts were prepared, it was not accepted by all at that time that the microfinance industry would be more correlated to the financial markets than it had been in the past.
However, during the first half of 2009, the microfinance industry started to witness the first impairments of MFIs leading to a lower risk appetite, higher levels of liquidity in MIVs' portfolios and eventually negative monthly returns for some MIVs.

An analysis of the eight LuxFLAG-labelled MIVs, shows that the main trends are rather similar to those established in the 2009 study, namely:

- Slowdown in, but nevertheless continuing, growth of AUM;
- High levels of liquidity although these have started to decrease by June 2010;
- Lower monthly returns and in some cases negative returns;
- Positive signs of recovery as of June 2010. This would suggest that, MIVs are beginning to adjust their portfolios and tend to ensure stable funding for MFIs.

There were also new developments in the Microfinance industry as a whole:

- Heightened competition prompting MFIs to diversify their offer and improve their operating models ;
- Greater emphasis on the need to achieve both profitability and sustainability in the long term;
- Call for more transparency and access to complete and accurate data.

Contributions:
Laetitia Hamon, Business Development Officer, LuxFLAG
Fanny Czajkowski, Intern, LuxFLAG

Acknowledgements:
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"The Global Financial Crisis: What does it mean for microfinance?", December 15, 2008

PRESENTATIONS

"*Impact and Implications of the Food Crisis on Microfinance*", Eric Duflosand Barbara Gähwiler, CGAP

TABLE OF APPENDICES

1. APPENDIX n°1: Factsheets of labelled MIVs

	Advans
MIV GENERAL INFORMATION	
Inception	August 2005
ISIN	
Min. Investment	Class A - Class M
Financial year	31/03/2010
Domicile	Luxembourg
Legal Form	SICAR
INVESTMENT OBJECTIVE	
The company will invest in microfinance institution (s) or microbank (s) (MFIs), based in developing countries, which are members of the World Bank Group and/or signatories of the Cotonou Agreement ("Eligible Countries"). The main objective assigned to target MFIs shall consit in providing private Micro, small and medium-sized enterprises with sutainable access to finance. Through its invetment activities the Company will thus enable and promote the generation of income for economically active, but poor sectors of the population, by providing them with sustanable access to financial services.	
THIRD PARTIES	
Investment Manager	Horus Development Finance
Sponsor & Sales Agent	RBC Dexia
Custodian & Paying Agent	RBC Dexia
Domiciliary Agent	RBC Dexia
Auditor	PwC
Legal Firm	Arendt & Medernarch & CMS Bureau

BlueOrchard Microfinance Investment Managers	**BlueOrchard fund** - Microfinance Fund for US Investors
MIV GENERAL INFORMATION	
Inception	February 2007
Financial year	Dec 31st
Domicile	Luxembourg
Legal Form	SICAV - SIF
INVESTMENT OBJECTIVE	
The investment objective of the Fund is to contribute, directy or indirectly, to the financing of MFIs and social enterprises all over the world. It intends to reach that objective by investing in other investment vehicles which invest themselves in debt and equity of MFIs or social enterprises. This fund is a feeder fund of the Dexia Micro-Credit Fund - BluOrchard Debt sub-fund and therefore has the same investment objective.	
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
Legal Firm	Arendt & Medernarch

vision microfinance	**Dual Return Fund** - Vision Microfinance
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 OBJECTIVE	
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.	
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

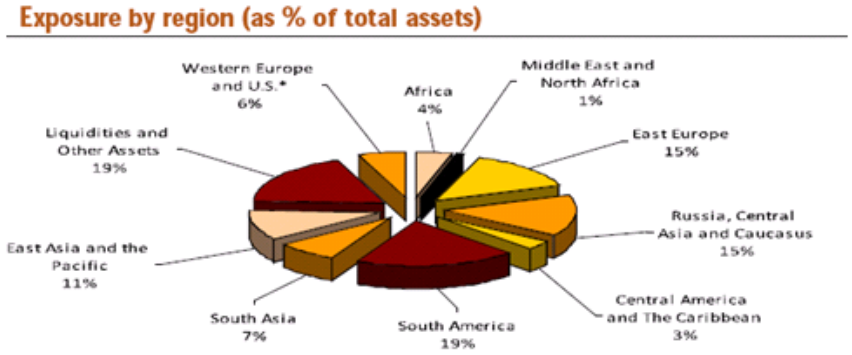
BlueOrchard Microfinance Investment Managers	**Dexia Micro-Credit Fund -** BlueOrchard Debt Sub-Fund
MIV GENERAL INFORMATION	
Inception	September 1998
ISIN	LU0091117944 USD share class, LU0136928586 CHF share class; LU0164081316 EUR share class
Min. Investment	USD 10,000, CHF 15,000, EUR 10,000
Financial year	June 30th
Domicile	Luxembourg
Legal Form	SICAV Part II

INVESTMENT OBJECTIVE

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%.

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

GEOGRAPHIC BREAKDOWN PER REGION (as of 3 November 2010)



*Loans to microfinance networks for the purpose of on-lending to regional affiliates and liquidity management
** Data is net of provisions

European Fund for Southeast Europe

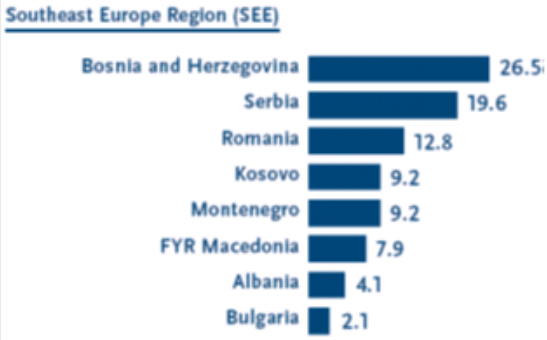
MIV GENERAL INFORMATION	
Inception	December 2005
ISIN	Notes – Private Investors A-Shares – Mainly IFIs B-Shares – Mainly IFIs C-Shares – Public Investors
Min. Investment	-
Financial year	December 31st
Domicile	Luxembourg
Legal Form	SICAV SIF

INVESTMENT OBJECTIVE

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 investrnent 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.

THIRD PARTIES	
Investment Manager	Oppenheim Asset Management Services S.à r.l.
Investment Advisor	Finance in Motion
Sponsor & Sales Agent	Oppenheim Asset Management Services S.a r.1.
Custodian & Paying Agent	Citibank International plc
Auditor	Ernst & Young

GEOGRAPHIC BREAKDOWN PER REGION (as of Q3 2010)

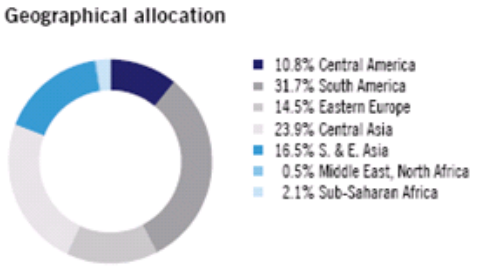


FINETHIC	**Finethic Microfinance SCA**
MIV GENERAL INFORMATION	
Inception	18 July 2006
Min. Investment	C1 ($): USD 5,000 C2 (€): EUR 5,000 C3 (CHF): CHF 5,000 S1 ($): EUR 5,000 S2 (€): EUR 5,000 S3 (CHF): CHF 5,000
Financial year	December 31st
Domicile	Luxembourg
Legal Form	SICAR
INVESTMENT OBJECTIVE	
The investment objective of the SICAR is primarily to finance unlisted microfinance Institutions (MFIs), located especially in emerging countries and developing countries, either directly or by means of other investment vehicles or UCIs; secondarily to invest in listed investment vehicles. The investment policy is to finance targeted MFIs directly (by providing debt financing) or indirectly (by investing in investment vehicles active in the field of Microfinance).	
THIRD PARTIES	
Investment Manager	Fundo SA
Investment Advisor	Symbiotics SA
Administrator	European Fund Administration SA
Custodian & Paying Agent	Banque de Luxembourg
Auditor	Ernst & Young

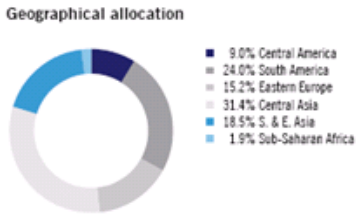
	KCD Mikrofinanzfonds - I "Global"
MIV GENERAL INFORMATION	
Financial year	December 31st
ISIN	LA0412316290
Min. Investment	EUR 125,000
Domicile	Luxembourg
Legal Form	SICAV - SIF
INVESTMENT POLICY	
Investments in microfinance institutions via loans all over the world; at least 10%liquidity; PPM reference: article 3 "general investment policy" and article 1 of the subfund "investment policy"	
THIRD PARTIES	
Investment Manager	Bank in Bistum AG
Custodian & Paying Agent	DZ Privatbank SA
Auditor	PwC
Legal Firm	Arendt & Medernach

	KCD Mikrofinanzfonds - II "LateinAmerica"
MIV GENERAL INFORMATION	
Financial year	December 31st
ISIN	LU0412316373
Min. Investment	EUR 125,000
Domicile	Luxembourg
Legal Form	SICAV - SIF
INVESTMENT POLICY	
Investments in microfinance institutions via loans all over the world; at least 10%liquidity; PPM reference: article 3 "general investment policy" (page 5) and article 1 of the subfund "investment policy".	
THIRD PARTIES	
Investment Manager	Bank in Bistum AG
Custodian & Paying Agent	DZ Privatbank SA
Auditor	PwC
Legal Firm	Arendt & Medernach

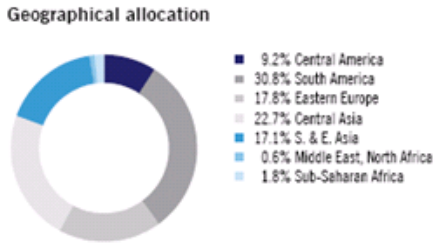
responsAbility	responsAbility Global Microfinance Fund
MIV GENERAL INFORMATION	
Inception	25 November 2003
ISIN	USD LU0180189770 EUR LU0180190273 CHF LU0180190604
Min. Investment	USD 1,000 CHF 1,000 EUR 1,000
Financial year	March 31st
Domicile	Luxembourg
Legal Form	FCP Part II
INVESTMENT OBJECTIVE	
The 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)	
THIRD PARTIES	
Investment Manager	Crédit Suisse Microfinance Fund
	Management Company, Luxembourg
Investment Advisor	responsAbility
	Social Investments AG, Zurich
Sponsor & Sales Agent	Credit Suisse AM(Luxembourg) S.A.
Custodian & Paying Agent	Credit Suisse AM(Luxembourg) S.A.
	LGT Bank in Liechtenstein Aktiengesellschaft
	Credit Suisse Switzerland
Domiciliary Agent	Credit Suisse Asset Management Fund Service (Luxembourg) S.A.
Auditor	KPMG
GEOGRAPHIC BREAKDOWN PER REGION (as of October 2010)	



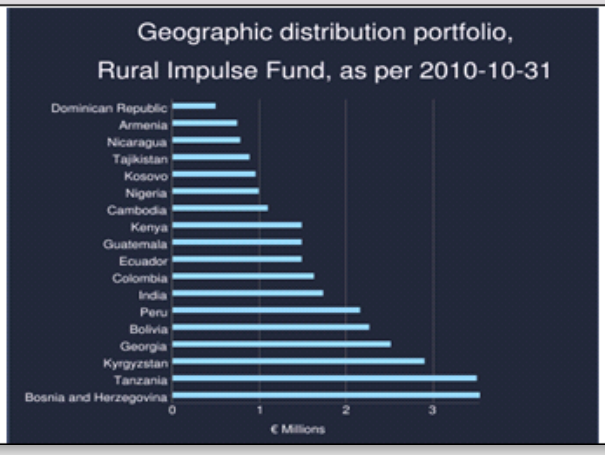
responsAbility	responsAbility Microfinance Leaders Fund
MIV GENERAL INFORMATION	
Inception	15. November 2006
ISIN	LU0274396679
Min. Investment	USD 1,000,000
Financial year	December 31st
Domicile	Luxembourg
Legal Form	SICAV Part II
INVESTMENT OBJECTIVE	
The fund invests worldwide on a broadly diversified 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)	
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
GEOGRAPHIC BREAKDOWN PER REGION (as of October 2010)	



responsAbility	responsAbility Mikrofinanz-Fonds
MIV GENERAL INFORMATION	
Inception	29 May 2007
ISIN	EUR LU0302153209
Min. Investment	EUR 1,000
Financial year	December 31st
Domicile	Luxembourg
Legal Form	SICAV Part II
INVESTMENT OBJECTIVE	
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)	
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
GEOGRAPHIC BREAKDOWN PER REGION (as of October 2010)	



	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 31st
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
GEOGRAPHIC BREAKDOWN PER REGION	



Triodos Bank	Triodos Microfinance Fund	
MIV GENERAL INFORMATION		
Inception	2 March 2009	
ISIN	EUR share classes i-shares-cap lu0402513328 i-shares-dis lu0402513674 b-shares-cap lu0406596501 b-shares-dis lu0407946978 r-shares-cap lu0402511389 r-shares-dis lu0402512866	GBP share classes kb-shares-cap lu0464591055 kb-shares-dis lu0464591139 ki-shares-cap lu0402513914 ki-shares-dis lu0402514052 kr-shares-dis lu0403566739
Financial year	December 31st	
Domicile	Luxembourg	
Legal Form	SICAV Part II	
INVESTMENT OBJECTIVE		
THIRD PARTIES		
Investment Manager	Triodos Investment Management bv	
Investment Advisor	Triodos Investment Management bv	
Custodian & Paying Agent	RBC Dexia Investor Services Bank sa	
Domiciliary Agent	RBC Dexia Investor Services Bank sa	
Auditor	KPMG	
GEOGRAPHIC BREAKDOWN PER REGION		

Exposure by country*
(as % of NAV), 30 September 2010

Peru	23.5%
Cambodia	17.7%
Azerbaijan	7.0%
India	6.4%
Mongolia	5.4%
Bolivia	4.9%
Colombia	3.5%
Uganda	3.1%
Kenya	2.1%
Sri Lanka	1.9%
Bosnia-Herzegovina	1.9%
Paraguay	0.7%
Indonesia	0.7%

Wallberg Global Microfinance Fund

MIV GENERAL INFORMATION	
Inception	October 2008
ISIN	LU0375612230
Min. Investment	EUR 1,000
Financial year	December 31st
Domicile	Luxembourg
Legal Form	FCP Part II

INVESTMENT POLICY

The objective of the Fund's investment policy is to provide poor, economically active sections of the population in developing countries and emerging markets with access to the financial and credit markets and to enable both institutional and private Investors. These investments are made either directly or indirectly after careful assessment of the microfinance institutions (MFIs) concerned.

THIRD PARTIES	
Promoter	Wallberg Invest SA
Investment Manager	Symbiotics Investment Management
Custodian & Paying Agent	DZ Privatbank SA
Auditor	PwC
Legal Firm	Elvinger, Hoss and Prussen

GEOGRAPHIC BREAKDOWN PER REGION (as of October 2010)

2. APPENDIX N°2: Press Release - exemption of subscription tax for MIVs – 3 August 2010

LUXFLAG
microfinance

PRESS RELEASE

03 August 2010

LuxFLAG welcomes the automatic exemption from the annual subscription tax for Microfinance Investment Funds holding the LuxFLAG Microfinance Label.

A Grand Ducal Regulation of 14 July 2010, that has been officially published in the Mémorial A on 30 July 2010, determines the conditions and criteria for the exemption of the subscription tax for "Undertakings for Collective Investments" (UCIs) and "Specialised Investment Funds" (SIFs) investing in Microfinance.

The Grand Ducal Regulation foresees that the UCIs and SIFs which hold the LuxFLAG Microfinance Label will be automatically exempted.

As of July 2010, a total of 9 MIVs representing 18 sub-funds and around USD 2.24 billion of Assets Under Management (AUM) now carry the LuxFLAG Microfinance Label. **In order to obtain a LuxFLAG Microfinance Label a fund must comply with a set of criteria (available on www.luxflag.org).** The application is reviewed by an Eligibility Committee that gives its recommendations to the Board of Directors of LuxFLAG. The Board eventually takes the final decision and grants the Labels for a one year renewable period. Eligible MIVs may be domiciled in any jurisdiction that has supervision of the MIV or its fund manager equivalent to supervision in EU countries.

3. APPENDIX N°3: Figures

	Evolution of TA of 8 MIV's ($)							Total evolution
	June 07	Dec 07	June 08	Dec 08	June 09	Dec 09	June 10	
DMCF	204,38	295,86	398,34	424,37	505,83	541,38	492,50	**141,0**
DRF-VM	45,88	51,11	88,84	114,43	121,19	118,76	98,96	**115,7**
rAGMF	130,20	192,90	298,20	377,80	423,30	489,30	469,20	**260,4**
rAMLF	103,30	157,30	194,90	200,80	175,10	166,60	141,20	**36,7**
rAMF	27,07	42,06	55,29	74,66	147,73	145,84	131,63	**386,2**
RIF*	-	9,64	22,68	32,79	33,98	35,96	36,44	**278,1**
EFSE	450,58	582,22	738,09	792,64	876,84	906,98	774,47	**71,9**
	sept-07	March 08	sept-08	March 09	sept-09	March 10		
Advans SA*	6,28	11,68	14,65	13,82	20,32	24,93		**113,4**

* RIF: Data

* Advans SA: Data not available in June 2010

	Evolution of the MFPF of 8 MIV's ($)							Total evolution
	June 07	Dec 07	June 08	Dec 08	June 09	Dec 09	June 10	
DMCF	160,53	253,07	344,63	349,43	364,56	384,22	384,97	**139,82**
DRF-VM	37,36	46,44	74,19	91,27	98,58	94,69	83,80	**124,31**
rAGMF	114,70	183,80	258,90	285,90	317,70	344,80	349,20	**204,45**
rAMLF	78,00	128,60	165,10	160,25	149,60	138,40	115,40	**47,95**
rAMF	4,06	38,11	46,78	62,94	89,31	103,43	106,43	**179,23**
RIF*	-	8,91	16,70	32,52	32,72	34,53	34,25	**284,52**
EFSE	224,82	305,35	397,24	407,77	434,21	428,35	365,77	**62,70**
	sept-07	March 08	sept-08	March 09	sept-09	March 10		
Advans SA*	1,08	3,36	8,79	10,25	13,61	17,62		**424,48**

* RIF : Data based on the evolution from December 2007 to June 2010

* Advans SA: Data based on the evolution from September 2007 to March 2010

	Liquidity of 8 MIV's (€)							Total evolution
	June 07	Dec 07	June 08	Dec 08	June 09	Dec 09	June 10	
DMCF	43,85	42,79	53,71	74,94	141,27	157,16	107,53	**145,20**
DRF-VM	8,53	4,67	14,65	23,17	22,61	24,07	15,17	**77,89**
rAGMF	15,50	9,10	39,30	91,90	105,60	144,50	120,00	**674,19**
rAMLF	25,30	28,70	29,80	40,55	25,50	28,20	25,80	**1,98**
rAMF		3,94	8,51	11,72	58,42	42,40	25,20	**539,14**
RIF		0,73	5,99	0,28	1,26	1,43	2,19	**199,61**
EFSE	225,76	276,87	340,85	384,88	442,64	478,63	408,70	**81,03**
	sept-07	March 08	sept-08	March 09	sept-09	March 10		
Advans SA	5,20	8,32	5,86	3,56	6,71	7,31		**40,68**

	MFPF as % of TA of 8 MIV's						
	June 07	Dec 07	June 08	Dec 08	June 09	Dec 09	June 10
DMCF	78,5	85,5	86,5	82,3	72,1	71,0	78,2
DRF-VM	81,4	90,9	83,5	79,8	81,3	79,7	84,7
rAGMF	88,1	95,3	86,8	75,7	75,1	70,5	74,4
rAMLF	75,5	81,8	84,7	79,8	85,4	83,1	81,7
rAMF	15,0	90,6	84,6	84,3	60,5	70,9	80,9
RIF		92,4	73,6	99,1	96,3	96,0	94,0
EFSE	49,9	52,4	53,8	51,4	49,5	47,2	47,2
	sept-07	March 08	sept-08	March 09	sept-09	March 10	
Advans SA	17,2	28,8	60,0	74,2	67,0	70,7	

	Evolution liquidity/TA of 8 MIV's (€)						
	June 07	Dec 07	June 08	Dec 08	June 09	Dec 09	June 10
DMCF	21,5	14,5	13,5	17,7	27,9	29,0	21,8
DRF-VM	18,6	9,1	16,5	20,2	18,7	20,3	15,3
rAGMF	11,9	4,7	13,2	24,3	24,9	29,5	25,6
rAMLF	24,5	18,2	15,3	20,2	14,6	16,9	18,3
rAMF	0,0	9,4	15,4	15,7	39,5	29,1	19,1
RIF		7,6	26,4	0,9	3,7	4,0	6,0
EFSE	50,1	47,6	46,2	48,6	50,5	52,8	52,8
	sept-07	March 08	sept-08	March 09	sept-09	March 10	
Advans SA	82,76	71,25	39,98	25,80	33,03	29,33	

4. APPENDIX N°4: Glossary

Microfinance Investment Vehicles (MIV): An MIV is an independent investment entity specialized in microfinance with at least 50% of its portfolio invested in microfinance. It intermediates capital from private and public investors to microfinance providers operating in emerging markets and/or to other MIVs. *CGAP Definition*

Microfinance Institutions (MFIs): A microfinance institution (MFI) is an organization that provides financial services to the poor. This very broad definition includes a wide range of providers that vary in their legal structure, mission, and methodology. However, all share the common characteristic of providing financial services to clients who are poorer and more vulnerable than traditional bank clients. *CGAP Definition*

Undertaking for Collective Investment in Transferable Securities (UCITS): a UCITS is an investment fund that meets the criteria laid down by Directive 85/611/EEC, as amended, and benefits from a passport which enables it to be sold cross-border into any of the 27 EU Member States.

Société d'investissement en capital à risque (SICAR): a SICAR is a regulated, fiscally efficient structure designed for private equity and venture capital investments. There are no investment diversification rules, nor lending or leverage restrictions.

Specialised Investment Fund (SIF): A SIF is a regulated, operationally flexible and fiscally efficient multipurpose investment fund regime for an international, institutional and qualified investor base. The SIF is characterised by greater flexibility with regard to the investment policy, broadening of the sphere of investors and a more relaxed regulatory regime.

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

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 MFIs"[1]

NAV: Net asset Value: This is a solvency-oriented concept that attempts to compute the funds invested by shareholders by valuing (see also valuation) the company's various assets after deduction of liabilities. Net asset value is an accounting and in some instances tax-related term, rather than a financial one.

Return on investment: Return on investment is the expected increase in the cash flows generated by the operating cycle as a result of investment outlays. Return on investment is the compensation for forsaking instant consumption. Return on investment can simply be called return.

[1] "Microfinance Investment Vehicles Disclosure Guidelines for Reporting on Performance Indicators- Microfinance Consensus Guidelines", 2008, CGAP, 15 Sept. 2009 <http://www.iamfi.com/ documents/CGAPMIVDisclosureGuidelines2008.pdf

5. APPENDIX N°5: Press Release – LUMINIS – 12 May 2010

MicroRate
The Rating Agency for Microfinance

LUXFLAG
microfinance

Press Release

12 May 2010

LuxFLAG and MicroRate Launch, LUMINIS, Investor Information Service for Microfinance

Luxembourg, Maison de la Microfinance, 12 May 2010

Today the Luxembourg Government, LuxFLAG, and MicroRate announced the launch of LUMINIS Microfinance ("LUMINIS"). LUMINIS will provide critical information on Microfinance Investment Vehicles (MIVs) in order to facilitate future growth and investment in microfinance.

Building on its many years of experience in the industry, MicroRate will manage and direct this new investor information service with the support of the Luxembourg Government and the Luxembourg Fund Labeling Agency "LuxFLAG".

The goal of LUMINIS is to create widespread transparency in the universe of MIVs. For the first time, MIVs' critical performance data will be collected, analyzed and disseminated throughout the industry via a web-based platform. The data and accompanying analyses will allow investors to compare MIVs, analyze performance and trends, and ultimately make informed investment decisions.

Sebastian von Stauffenberg, MicroRate's Managing Director & CEO, said, "Transparency, critical analysis and fund comparison data are all vital components to establishing microfinance as a truly- recognized asset class and to help ensure the successful, long-term growth of this sustainable poverty-fighting sector."

"This new project represents a clear step forward for the microfinance industry, whose stakeholders have long been demanding clearer and more reliable industry information," according to Daniel Dax, General Manager of LuxFLAG. "Through the service agreement with MicroRate, LuxFLAG will capitalize on LUMINIS' data collection and analysis, increase its visibility and attract foreign-domiciled MIVs. In addition, LUMINIS will be able to provide LuxFLAG with in-depth, comprehensive and up-to-date information on the LuxFLAG labeled MIVs."

LUMINIS reinforces Luxembourg's position as a leading hub for MIVs. This initiative supports its vision of being a center of excellence for microfinance and further diversifies the activities of Luxembourg's financial center.

For further information, please visit the following websites:
www.luxflag.org
www.mae.lu
www.microrate.com
www.mf.public.lu

Luxembourg Fund Labelling Agency (LuxFLAG)
Luxembourg House of Finance
59, boulevard Royal | L-2429 Luxembourg
T: +352 22 30 26-1 | info@luxflag.org