Finethic Microfinance SCA SICAV-SIF

10 YEARS IN THE SERVICE OF MICROFINANCE AND PENSION FUNDS

THE MICROFINANCE INDUSTRY

Microfinance was born out of the ashes of the failures of international humanitarian aid initiatives. In the space of 30 years, it has cemented its role as an alternative strategy for fostering economic development. It is predicated on the notion that it is more efficient to finance entrepreneurial initiatives in order to improve the fortunes of people in the most disadvantaged parts of the world in a sustainable way, rather than simply doling out aid without seeking to create value.

LENDING TO MICROBUSINESSES

By providing loans to individuals or communities of individuals who traditionally have had no access to financial services, microfinance institutions (MFIs) provide these micro-entrepreneurs with the opportunity to build profitable businesses which, if successful, will ensure financial independence for those individual micro-entrepreneurs in the future.

THE BIRTH OF FINETHIC MICROFINANCE FUND

Since its origins, Fundo SA[1], a FINMA regulated asset manager, has helped Swiss and international pension fund schemes to preserve their capital through its risk management expertise. As a natural evolution, the company extended its services by focusing on assets that are not listed and whose stable returns contribute towards endowing institutional clients' financial position with a greater degree of stability.

On these premises, the Finethic Microfinance Fund was created in 2006 with the aim to lend funds to local microfinancing institutions that independently manage their own client portfolio. Since it was set up in 2006, Finethic Microfinance has granted over 500 loans, totaling in excess of half a billion dollars, to more than 180 such establishments located across more than 40 countries. To date and thanks to Fundo SAs risk management expertise, it has registered only twice a negative monthly return and is among the top performing microfinance funds of the industry.

The challenging interest rate environment as well as the excellent track record has raised investors' interest in the Finethic Microfinance Fund over the recent years. As a matter of fact, new inflows from existing and new investors had to be rejected as the capacity of deal-sourcing in its investment segment of predilection (Tier II microfinance Institutions) remains limited. Hence, to avoid performance dilution by excess cash, the Manager has decided to soft-close the Finethic Microfinance Fund at approximately $220m at the end of 2015 and to launch a new vehicle – the Finethic Microfinance II Fund.

FINETHIC MICROFINANCE FUND, STATISTICS

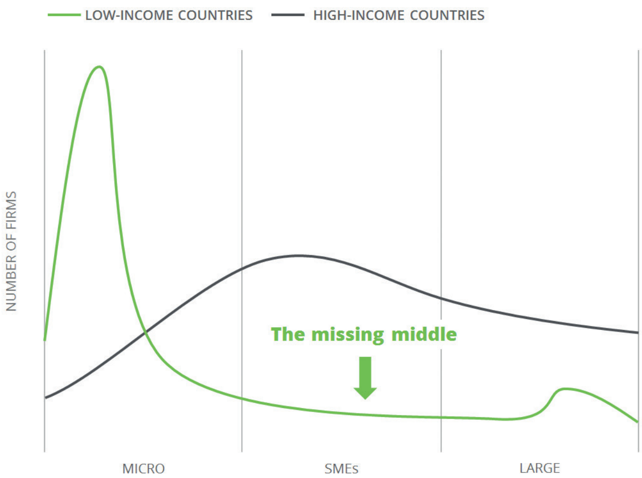
THEMES		SECTORS		KEY INDICATORS	
Microfinance	62.0%	Trade	27.5%	Est. Clients	220 433
SME Finance	18.1%	Agriculture	25.7%	Women	59%
Household Finance	10.3%	Services	19.3%	Rural	58%
Housing Finance	5.4%	Production	5.7%	Avg Credit Size	$4678
Other	4.1%	Other	21.7%		

As of 30.09.2016

THE EVOLUTION OF THE MICROFINANCE INDUSTRY

While the microfinance industry has managed to channel capital and provided access to credit to many micro-entrepreneurs, one of the key challenges in developing and frontier markets remain the relative lack of small- and medium-sized enterprises (SMEs). Whereas in developed markets, they represent over 50% of GDP and over 60% of employment, the share for low-income countries is less than a fifth (17%) and a third (30%) respectively.[2] This gap is referred to as the "missing middle" in low-income economies.

Beside lack of regulatory, policy and infrastructure framework, one of the main factors for this gap remains access to financial services. Small enterprise impact investments offer today an increasing opportunity to contribute to reinforcing the financial intermediation infrastructure and promoting financial policies which are more inclusive and consequently generating more distributive economic growth.[3]



IMF, World Economic Outlook, 2012
Harward University, Center for Intl.Dvlp, 2013

FINANCING THE MISSING MIDDLE

Based on the same premises than the first fund, the Manager decided to launch the Finethic Microfinance II sub-fund early 2016 with a broadened investment universe whereby lending predominantly to institutions, that have evolved from non-bank financial institutions to bank status (upscaling MFIs) as well as downscaling commercial banks. These specialized banks (also referenced Tier 1 institutions) generally hold deposits and will have a larger scope of financing activity, expanding the loan offering from micro-enterprises to SMEs as well as education, consumption, housing and other segments.

The Finethic Microfinance II sub-fund is a response to the growing demand from institutional investors and pension funds for sustainable investments that generate attractive risk-adjusted yields. Based on a broad diversification, consistent hedging of local currency risk and investments limited to granting of loans, the sub-fund seeks to achieve a similar long-term return objective as its predecessor.

Fundo SA is delighted to celebrate this year the 10th anniversary of the Finethic Microfinance fund with the launch of its second vehicle Finethic Microfinance II and expects to continue this success story together with its valuable existing and new investors.

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1 Fundo SA is a manager of Swiss collective investment schemes approved by the FINMA.
2 Harvard University, Center for International Development, 2013.
3 *Small Enterprise Impact Investing*, Roland Dominicé & Julia Minici, Symbiotics, 2013.