



**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

**Public/Private Partnerships  
in Microfinance  
The experience of BlueOrchard Finance**



**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

## Microfinance – What is it?

- The provision of financial services (credit, savings, insurance, etc) to a specific business segment of emerging markets : the micro-entrepreneurs. Not charity; business-oriented.
- Powerful tool to lift people out of poverty: small business growth, job creation, positive spill-over on health, education, housing and dynamic inter-generation progress
- No contradiction between desired social impact and commercial approach: profitability is key to sustainable and growing outreach of microfinance





**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

## International capital markets

- Microfinance market is huge and needs are largely unmet. The only long term source of funding able to meet global demand is the capital markets. Donor money and public subsidies will not be sufficient.
- While domestic capital markets should become the main driver of growth of local microfinance, international capital markets do play an important role (complementary offering, diversification, international awareness, image building, catalytic effect)





**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

## BlueOrchard Finance - Mission

- To contribute to the development of a fairer world for all through support to the expansion of microfinance worldwide...
- ... By bridging the gap between microfinance field operators and international capital markets





**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

## BlueOrchard Finance - A focused approach

- To strive to be a leading global private commercial asset management company specialized in Microfinance investments
- To create and develop financial investment products meeting the needs and requirements of both microfinance institutions and commercial investors





**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

## BlueOrchard Finance - A solid and fast growing company

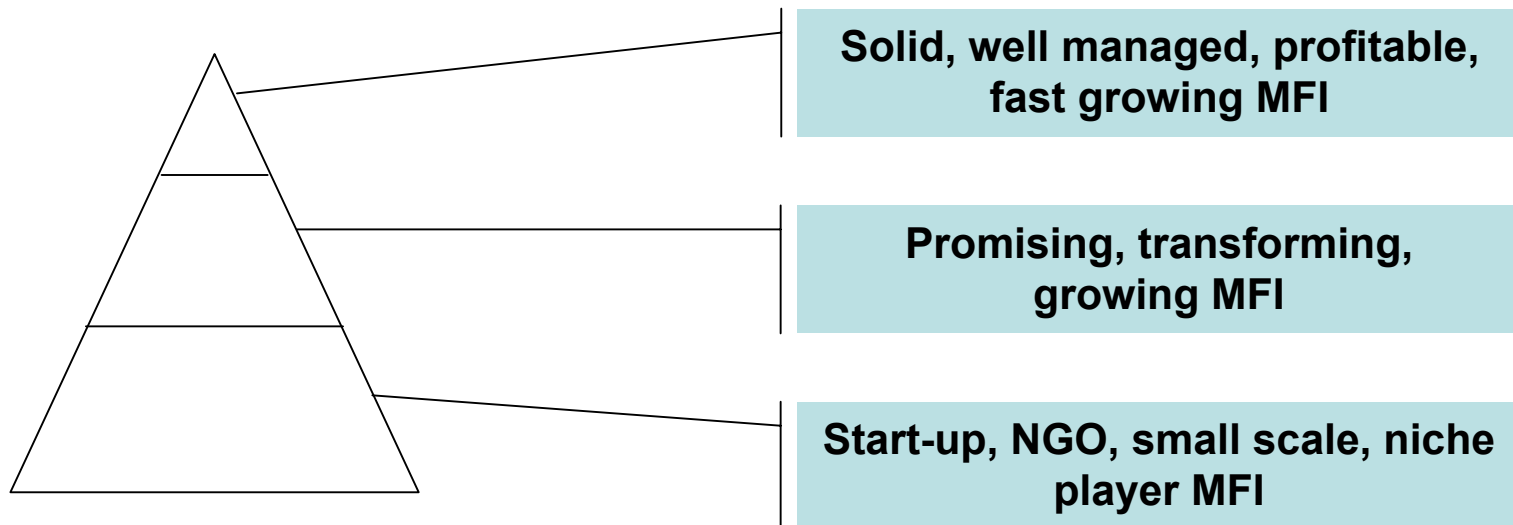
- Staff of 16 finance professionals with presence in Geneva and New-York; a stable and committed shareholders' base and board
- Total current assets under management of about \$450 million, present in over 24 countries in more than 68 microfinance institutions.
- Five investment products and partnerships with leading financial institutions, a pioneering philosophy.
- A robust investment track-record: over 400 loans made in more than six years, without any defaults to date



**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

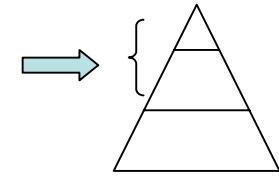
## BlueOrchard Finance - Product range

- Different microfinance institutions' segments with different financial needs





**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers



## BlueOrchard Finance - Current products (I)

- **Dexia Micro-Credit Fund (Co-Manager)**
  - Luxembourg SICAV part 2, launched in September 1998 by Dexia-BIL
  - Targeting leading and transforming MFI with short term debt (max. 3 years);
  - 8-year track record, 377 loans made, no default, net USD return 48.47%
  - Expected net annual return : \$ Libor 6M + 1% to 2%
  - Total assets: \$ 162 million, 68 MFI, 24 countries
- **ResponsAbility Global Microfinance Fund (Main partner)**
  - Luxembourg registered FCP, 3-year track record
  - Short-term debt to leading and transforming MFI (BlueOrchard focus)
  - Total assets : \$ 96 million; 81 MFI, 25 countries
  - Fund sponsor : Crédit Suisse Bank
  - Cumulated net \$ return since inception (Nov. 2003) : 10.78%

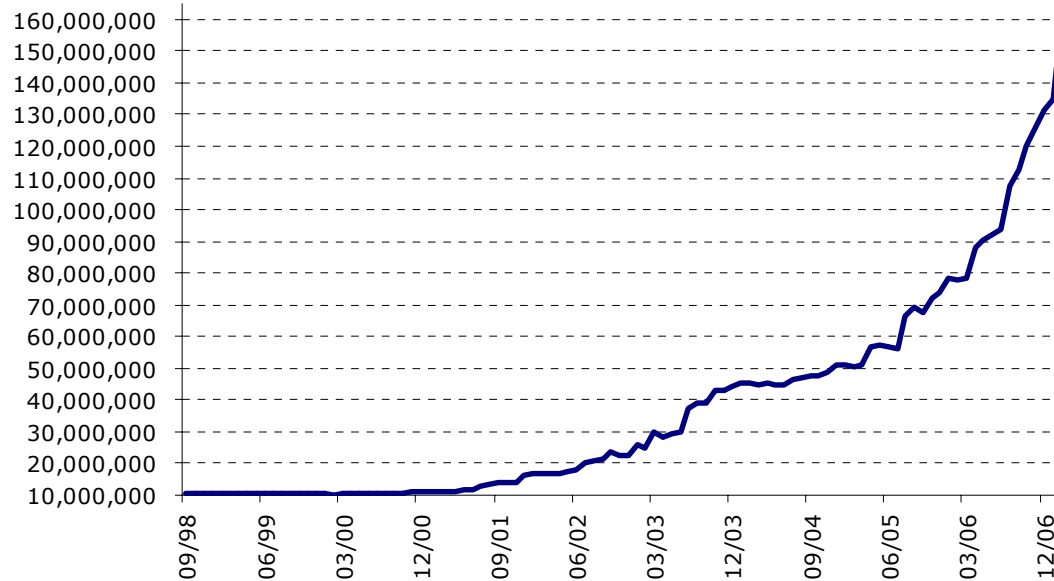


**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

## Dexia Micro-Credit Fund : Net Asset Value (Feb. 2007)

- Only private investors (individual and institutional)
- Very few historical redemptions (long average holding period)
- Increased interest from large institutional investors (pension funds)

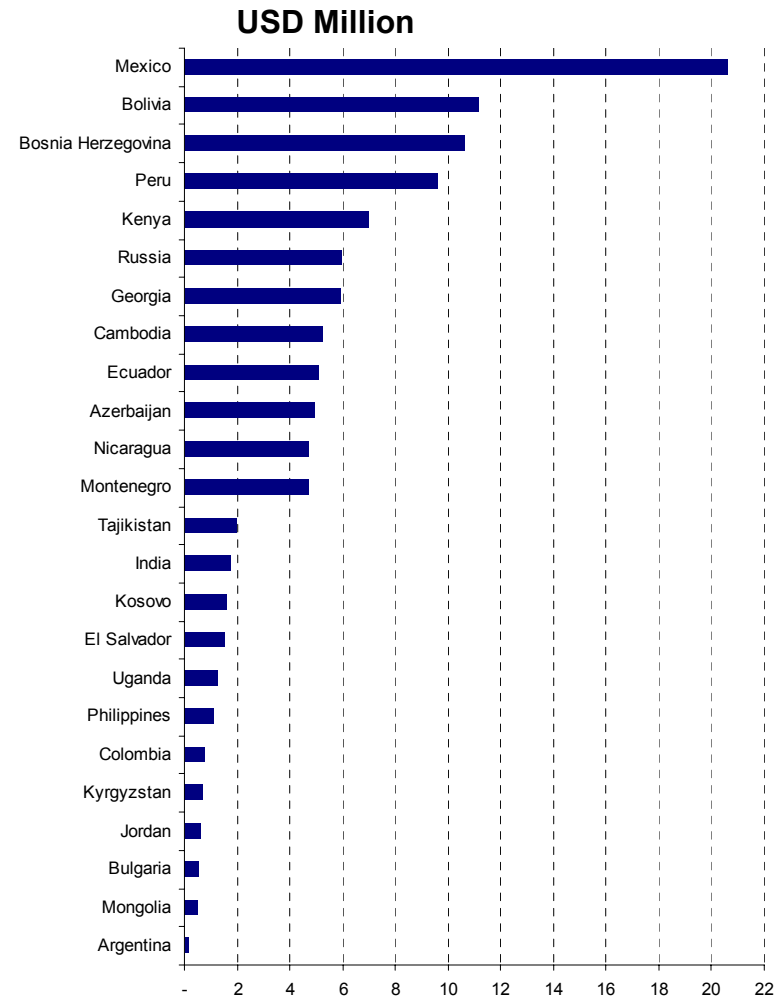
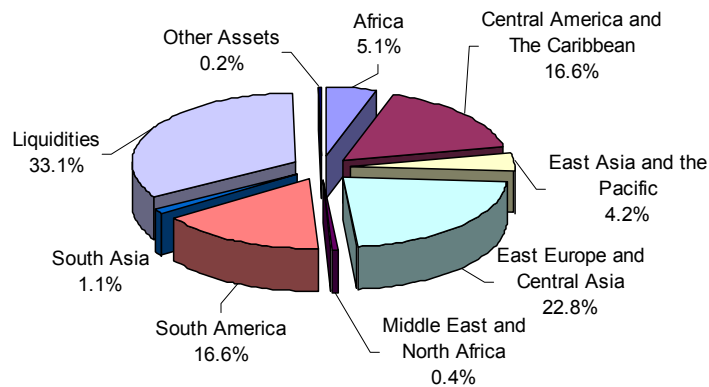
Total Net Asset Value of the Fund





## Dexia Micro-Credit Fund : Portfolio (Feb. 2007)

### Geographic diversification

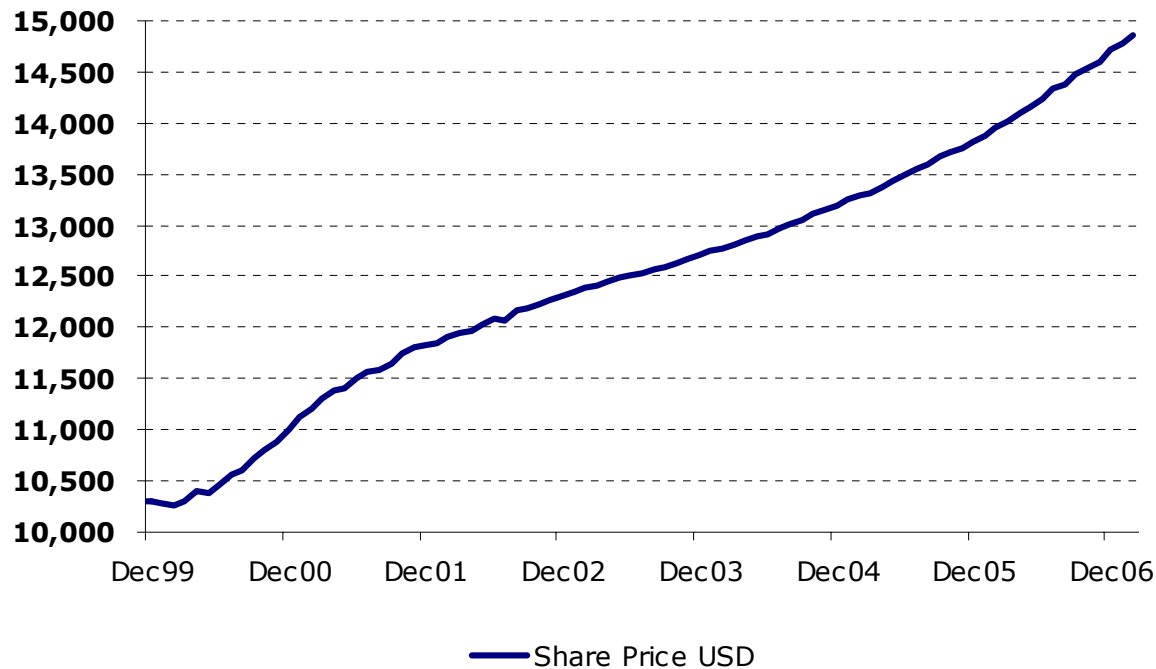




**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

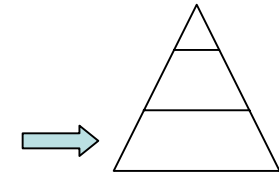
## Dexia Micro-Credit Fund : Net returns (Feb. 2007)

- Net annual financial return target of \$Libor6M + 1-2%
- Total net USD cumulated return since creation (Sept. 98) : ~48.47%





**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

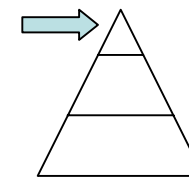


## BlueOrchard Finance - Current products (II)

- **Saint-Honoré Microfinance fund (Co-Manager)**
  - Luxembourg SICAV part 2, created in November 2005
  - Fund of funds approach: local – regional microfinance funds
  - Objective 1: strengthen local / regional investment capabilities
  - Objective 2: target indirectly the smaller MFI segment
  - Sponsor: La compagnie Financière Edmond de Rothschild Banque – France
  - Expected AUM February 2007: EUR 16 million
  - Expected net annual return: monetary rates



**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers



## BlueOrchard Finance - Current products (III)

- **BlueOrchard Microfinance Securities I, LLC (Manager)**
  - Delaware (USA) Special Purpose Vehicle, July 04 and May 05
  - Targeting the best MFI worldwide with 7-year debt at fixed rate
  - First securitization of portfolio of international loans to MFI
  - Total assets: \$ 87 million, 14 MFI, 7 countries
  - In collaboration with DWM, OPIC and JPMorgan Securities
  
- **BlueOrchard Loans for Development – BOLD (Manager)**
  - Luxembourg investment company, April 2006
  - Targeting the best MFI worldwide with 5-year debt at fixed rate
  - 25% of portfolio extended in local currency, fully hedged for investors
  - Total assets: \$ 99 million, 21 MFI, 13 countries, 5 currencies
  - Access to mainstream institutional investors
  - In collaboration with Morgan Stanley as arranger and placement agent



**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

## Microfinance – The investors’ perspective

- Very strong credit quality of selected microfinance institutions
  - Outstanding loan portfolio quality, strong balance sheet metrics
- Some insulation of microfinance industry from macroeconomic shocks
  - Examples of resilience of microfinance in situation of severe financial crisis
- Fast growing emerging market segment
  - Average annual growth rate of BlueOrchard MFI pool over last 3 years : 40%
- De-correlation of microfinance with other asset classes
  - Excellent opportunity for portfolio diversification
- Double bottom line returns : social and financial
  - Very appealing product for “socially responsible investors”



**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

## BlueOrchard Finance - Future developments - I

- **Investment funds: local currency debt offering will be top priority**
  - Greater access to many countries worldwide
  - Deeper market penetration possible (smaller institutions)
  - Better service to Microfinance institutions
  - Higher competitiveness of international funding in front of domestic offer
- **In product pipeline for 2007:**
  - Global debt funds sponsored by leading global banks
  - Latin American regional debt fund sponsored by leading Spanish bank
  - Those funds will lend in local currency and will take some Fx risk



**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

## BlueOrchard Finance - Future developments - II

- **Structured finance products: we will seek to improve our CLO**
  - Include more MFI and countries, increase AUM and diversification
  - Get at least senior piece rated by a mainstream rating agency
  - Expand local currency offering
  
- **In product pipeline for 1<sup>st</sup> quarter 2007:**
  - A new global CLO
  - Discussions currently under way with:
    - Mainstream rating agencies
    - A few global investment banks



**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

## Public/Private Partnerships Are they realisable?

One example: BlueOrchard and FMO, the Dutch Development Bank.

In May 2006, we jointly launched BOLD I, a collateralised Debt obligation worth \$ 99 mio US Dollars.



**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

**An Example:** The “BOLD” Transaction – A lot of “firsts”

**BOLD**

- First large “public-private-partnership”
  - FMO underwrote 30% subordinated notes
  - KFW and others bought large portions of their underwriting
- First large local currency loans included:
  - - Mexican Pesos
  - - Colombian Pesos
  - - Russian Roubles
- First participation by an international investment bank:  
MorganStanley

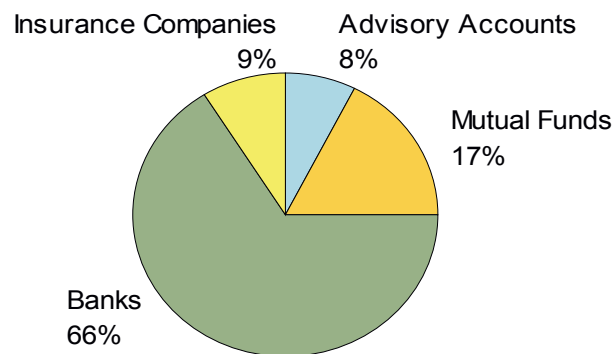


**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

**BOLD**

. First real access to mainstream investors like insurance companies and pension funds.

**Distribution**  
By Account Type

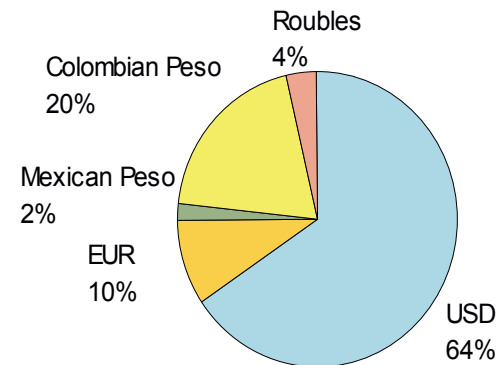
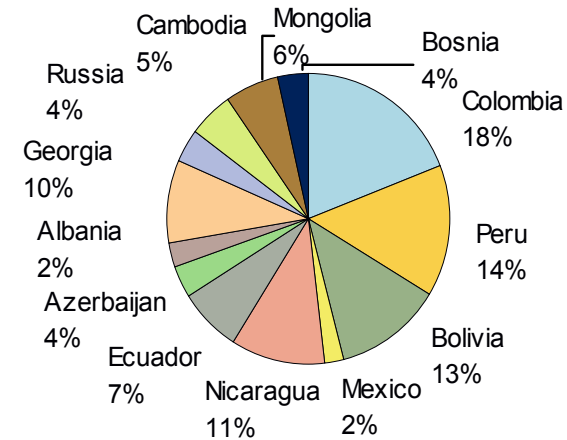


. Largest transaction done to date.



## BOLD

- BOLD also showed the way towards reducing the risk portfolio of securitization:
- 21 MFI
- 13 countries, diversified by region
- 5 currencies





**BOLD** Here is a thumbnail sketch of the BOLD transaction:

Capital Structure				
Class	Amount	% of Notes	Credit Enhancement	Interest Rate
A1	€32,900,000	40%	28%	Euribor 3M + 0.75%
A2	£14,000,000	25%	28%	5.586%
A3	\$7,000,000	7%	28%	6.017%
B	\$28,000,000	28%	n/a	9.020%
<b>Total</b>	<b>\$99,142,531 (eq.)</b>	<b>100%</b>		



**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

**BOLD** But much can be done to further refine this partnership:

1. Extend number of MFIs included in deals
2. Do more local currency loans
3. Cover more geography to better diversify
4. Make the CDOs more efficient and less costly
5. Extend the investor base
6. Bring in a larger number of development banks.



**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

## Contact

For further information, please contact:

Mr. Jack Lowe

CEO

32, rue de Malatrex

1201 Geneva

Switzerland

Tel: + 41 22 339 0890

[Jack@blueorchard.com](mailto:Jack@blueorchard.com)

[www.blueorchard.com](http://www.blueorchard.com)



**BlueOrchard**<sup>®</sup>  
Microfinance Investment Managers

## Public/Private Partnerships Are they realisable?

One example: BlueOrchard and FMO, the Dutch Development Bank.

In May 2006, we jointly launched BOLD I, a collateralised Debt obligation worth \$ 99 mio US Dollars.