World Microfinance Forum Geneva
Promoting Inclusive Financial Markets

onValues
investment strategies & research

Ends Meet

Current state and future prospects of European pension funds' investments in microfinance

World Microfinance Forum Geneva and
onValues Investment Strategies and Research

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World Microfinance Forum Geneva

(WMFG) is a private-public partnership that promotes inclusive financial markets. Members and partners of the WMFG include the Geneva Financial Center, bringing together more than 100 mainstream financial institutions; the Swiss Microfinance Platform, uniting over 40 commercial and non-commercial organizations active in microfinance; the Swiss Agency for Development and Cooperation; The Sustainability Forum Zürich; and forward-looking family offices, microfinance investment vehicles, private enterprises and foundations promoting sustainable development and inclusive finance.

WMFG provides investors, regulators and providers of inclusive financial services with a platform for continuous networking, dialogue and learning. Key activities of the WMFG are international and regional events, and original research on investment in inclusive finance.

onValues

is an independent investment consulting and research company based in Switzerland, serving a wide range of international investors including pension funds, foundations and family offices. Its distinguishing feature is a focus on investment strategies that take into consideration long-term value drivers, including environmental, social and governance issues.

onValues combines an in-depth understanding of the pension fund market with knowledge of social investing, including microfinance. It regularly publishes on matters related to sustainable and social investing, has performed several surveys and analyses of European pension funds and contributes to collaborative investor platforms such as the Who Cares Wins initiative and the UN Principles for Responsible Investment.

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Ends Meet

Who could be further apart than the manager of a microfinance institution in a developing country, and the manager of a pension fund in Europe? While the first worries about a portfolio of loans sometimes worth less than 100 Euro, the other's daily job requires thinking in hundreds of millions and sometimes billions. They are at opposite ends of the financial spectrum.

Yet managers of pension funds and microfinance institutions meet with increasing frequency, be it usually through the intermediation of specialized fund managers. And it is no coincidence they meet. In fact, these different managers have in mind a common end - or should one say combination of ends? Both pursue social as well as financial goals. And both believe that when these two goals are pursued in tandem, clients and beneficiaries are better served in the long run.

The World Microfinance Forum Geneva believes that pension fund investment in microfinance can bring great benefits to both parties, provided they take the right decisions based on solid and objective information. It is for this reason that it commissioned the present study into the drivers and obstacles for pension fund investment in microfinance.

This report not only provides pension funds with a better understanding of what their peers are doing, it also helps microfinance institutions to understand the needs of large international investors, and it gives fund managers information that can help improve their services. We hope it will serve to strengthen and build the market.

Acknowledgements

We extend a heartfelt thanks to the participants in this survey, both for the time they set aside for the interview, and the valuable insights they contributed.

Our appreciation goes to Ivo Knoepfel of onValues, whose dedication made sure this report meets the highest standards of professionalism and independence.

Finally we would like to express our gratitude to the sponsors of this study, BlueOrchard, responsAbility Social Investments SA and UBS. They kindly provided the necessary funding for this independent study and its publication.

Executive summary

Pension funds are only recently starting to invest in microfinance. Through a series of structured interviews with European pension fund representatives, this study sets out to better understand their current microfinance investments, their motivations and concerns, their use of and need for information, as well as the desirable attributes of a microfinance investment offer. The study also aims to understand if the current financial crisis has in any way changed the pension funds' assessment of microfinance investments and their prospects for future growth.

This study covers nineteen pension funds in seven European countries with total assets of approximately 350 billion Euro. Care has been taken to include pension funds both small and large, as well as funds that have already invested in microfinance and funds that have not.

CURRENT INVESTMENTS IN MICROFINANCE

Total microfinance investments of the interviewed group were 390 million Euro. 62% was in debt and 38% in equity, with larger pension funds more inclined to invest in equity. All these investments were in pooled investment vehicles. Investments by single pension funds typically ranged between 0.3% and 1% of total assets, with some notable outliers reaching up to 3.6%, and large pension funds often having lower allocations. While these small figures are not surprising given that microfinance competes with a range of established investment options, some interviewees admit this makes it difficult to justify the dedication of resources to microfinance, and limits its contribution to portfolio diversification.

Interviewed pension funds allocate their microfinance investments most often to fixed income, alternative or private equity asset classes. Pension funds that invest mainly out of social motivation often consider microfinance part of Socially Responsible Investment (SRI).

DRIVERS AND BARRIERS FOR INVESTMENT IN MICROFINANCE

Investment in microfinance is driven by financial as well as social factors. Certain pension funds stress the contribution to their institution's corporate social responsibility, while others cite mainly financial reasons for investing, such as portfolio diversification and risk-adjusted financial returns. Large funds also seek exposure to financial innovation and the related first-mover advantage. For them, diversification is a less relevant reason for investing in microfinance.

The most frequent concerns surrounding microfinance investments are uncertainty about the long term development of risk, and the limited size of the microfinance market. The latter is the main constraint for large pension funds, followed by the lack of experienced microfinance asset managers with a long-enough track-record.

Many currently uninvested pension funds say their investment appetite will increase as the market grows, the choice of fund managers and proven products increases, and more pension funds invest. Other catalysts for investment in microfinance are better awareness and education of trustees and their investment consultants, and more collaboration between pension funds to establish low-cost, attractive institutional investment vehicles.

Important attributes of an attractive microfinance investment offer include many of the same characteristics as for any other institutional investment offer. Specifically mentioned are better reporting, lower fees, a broader offer, better risk management, and a process to systematically exclude issues of ethical concern from the portfolio.

SOURCES OF INFORMATION USED AND NEEDED

Most pension funds interviewed have not researched the market in great depth. Presentations by and discussions with microfinance asset managers are the single most important source of information for deciding to invest. For the majority, except the very large ones, the process used to select external asset managers is not sophisticated.

Microfinance asset managers are also the main source of ongoing information for pension funds that have already invested. Several mention that they would like to get more in-depth information from them on portfolio management challenges, changes in the microfinance market, market outlook and future prospects, as well as the investees' social performance. Pension funds that have not yet invested stress the importance of investment consultants providing better information on microfinance investments, and the need for independent sources of comparative information on risks, returns and correlation of different products.

FUTURE DEMAND FOR MICROFINANCE PRODUCTS

Interviewees were generally optimistic about the long-term prospects for microfinance investments, despite their awareness of the short-term increase in risk due to the ongoing economic recession. All pension funds that have already invested or are about to invest expect to maintain or increase current investment levels over the next three years.

Most interviewees are convinced that future years will see many more pension funds entering the microfinance investment space. However, this process will slow over the next 6-12 months due to the cautious attitude of the pension fund industry while the financial crisis is still unraveling.

Some interviewees believe microfinance has already shown its comparative strength and microfinance asset managers should be more proactive in spreading the good news in the pension fund world. The majority, however, view the financial crisis as an interesting test for microfinance investing. Should it pass (i.e. no major surprises or fundamental changes in risk/return profiles) - then it will be considered a viable investment option for a much larger group of pension funds.

1 Background

This study was commissioned by the World Microfinance Forum Geneva (WMFG), an independent think-tank and learning platform that promotes sustainable investment in inclusive financial markets. Its work is based on the premise that the provision of financial services to the population at the base of the economic pyramid not only contributes to poverty reduction and development, but also offers interesting business and investment opportunities to the private sector.

The World Microfinance Forum Geneva believes that pension funds are of interest to providers of inclusive financial services, because they are able to invest substantial volumes, and they also have the patience that is so desirable for a nascent industry.

Pension fund involvement in inclusive finance is a new and barely understood phenomenon. A small number of pension funds, including some large ones like APG and TIAA-CREF, have recently taken the step to invest in inclusive finance. It is not clear, however, why the large majority have not yet done so, or only very timidly.

For this reason, WMFG commissioned a European-wide study of pension funds. The objectives of the study were as follows:

- Assess pension funds' current investment in microfinance[1] products
- Understand potential drivers of and barriers for pension fund investment in microfinance
- Evaluate sources of information used and needed by pension funds to take decisions about microfinance investments
- Get insight into pension funds' future demand for microfinance services

WMFG contracted onValues, an independent investment consulting and research company, to lead the study and prepare this report. onValues worked closely with WMFG on the different steps of the process.

2 Methodology

This study is based on a series of telephone interviews with a sample of 19 carefully selected respondents. In selecting the sample, the following criteria were used:

- Inclusion of pension funds with sufficient knowledge of microfinance to be able to give useful answers to the questions. Of the 19 pension funds interviewed, 14 had already invested in microfinance or were about to do so, and 5 were considering investing.
- Good coverage of WMFG's base country Switzerland, for which a separate case-study is provided in this report. About half of the pension funds interviewed, namely 9, came from Switzerland.
- Wide geographical coverage. The other 10 pension funds came from six different European countries (see ***Fig. 1***). For some large European countries (UK, Spain, Italy) it was difficult to find pension funds with enough knowledge in the field, and these countries were therefore not covered.
- A balance between large and small pension funds (see ***Fig. 2***). About 6 pension funds were large to very-large with total assets above 10 billion Euro, none of which from Switzerland. This can be attributed to the fact that, in contrast with other European countries, the Swiss pension fund market is particularly fragmented.

The total assets managed by the 19 pension funds interviewed amount to approx. 350 billion Euro.

Telephone interviews were carried out between May and July 2009. They were guided by a structured questionnaire. Different questions were asked according to whether the respondent had already invested or was only considering investing in microfinance. The questionnaire is attached as Appendix 1.

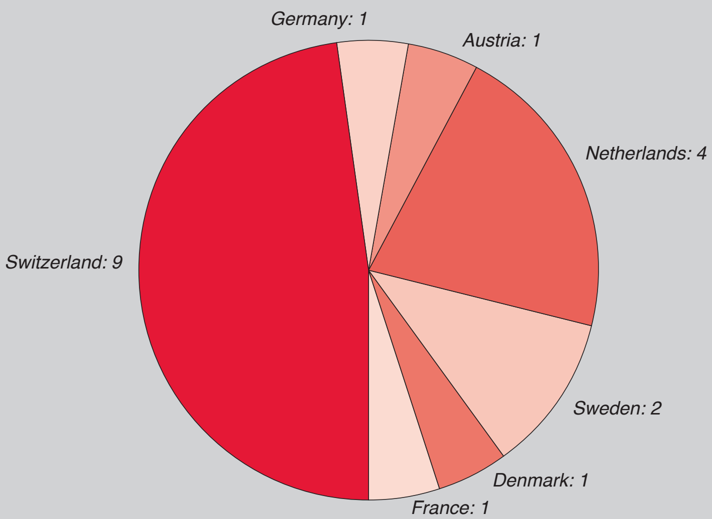

Fig. 1 *Number of interviewed pension funds by country of origin*

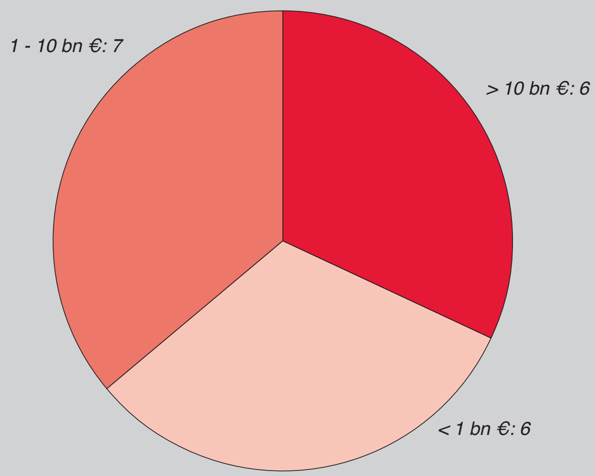

Fig. 2 *Number of interviewed pension funds by size (ranges for the total assets of the interviewed pension funds)*

[1] For purposes of simplification, in this report, the term 'microfinance' is used as a shortcut for all types of inclusive financial services. In actual fact, microfinance is of course only a subset of inclusive finance.

3 Current investment in microfinance

The microfinance investments by the 14 pension funds that had already invested in microfinance or were about to invest amounted to 390 million Euro. Microfinance investments of single pension funds were typically in the range of 0.3% to 1% of total assets, with some notable outliers reaching up to 3.6% of total assets. Large pension funds often had allocations around 0.1% and lower. This is not a surprise given the fact that there is only limited space for innovative investments such as microfinance in the asset allocation of pension funds and that microfinance investments are still young.

Several respondents mentioned that these relatively small allocations are a problem for a number of reasons. In the first place, they are too small to make a significant contribution to portfolio diversification. In the second place, it is difficult to justify specialized resources needed to select and monitor these investments for such a small allocation.

All microfinance investment of the surveyed pension funds is through specialized pooled vehicles, so-called Microfinance Investment Vehicles (MIVs). About 62% of the 390 million Euro invested by the surveyed pension funds were in microfinance debt, with the remaining 38% in microfinance equity[2]. The larger, more sophisticated pension funds are typically more inclined to invest in microfinance equity, because of their capability to take higher risks and the higher sophistication of their investment process and team.

The microfinance investments are placed in different compartments of the overall asset allocation, depending on the pension fund. ***Fig. 3*** shows how interviewed pension funds categorise microfinance investments.

The most mentioned categories are fixed income (often in the 'emerging market' or 'higher risk' subset), alternative investments and private equity. Microfinance investments are therefore allocated to relatively well established asset categories where they have to compete with other mainstream investments. Those pension funds that invest mainly out of social motivation often have an overall SRI allocation that cuts across different asset categories (this was often the case for the Dutch funds interviewed) and consider microfinance investments as being part of that. Being part of a top-down SRI allocation can be an advantage for microfinance investments in the sense that it provides a certain shield from heavy competition from mainstream investments.

The importance of microfinance

Today, the worldwide assets of the microfinance sector are estimated at over 50 billion US dollars. Total foreign investment in microfinance amounts to approximately 10 billion dollars, of which 3 billion come from institutional investors[1]. For this study we interviewed pension funds that together contributed approximately 18% of this institutional investment in microfinance.

[1] From: Reille, Xavier, *Microfinance Outlook: Trends, Opportunities and Threats*, presentation on behalf of CGAP delivered at WMFG's event 'Will Microfinance Continue to do Well?', 23 June 2009

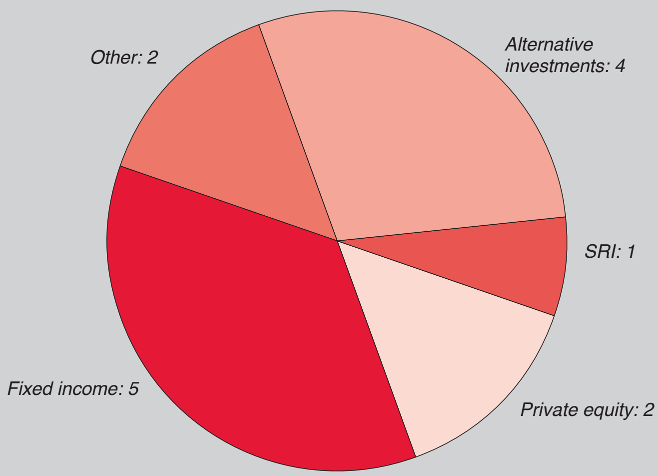

Fig. 3 *Allocation to different segments of pension funds' asset allocation - number of mentions*

[2] *This includes an equity investment of up to $60m publicly announced by PGGM in July 2009.*

4 Drivers of investment in microfinance

The interviewed pension funds mentioned a variety of reasons for investing in microfinance, as can be seen in ***Fig. 4.*** Certain pension funds stressed the contribution to their institution's corporate social responsibility, others cited mainly financial reasons for investing (e.g. diversification, risk-adjusted financial returns).

The most quoted reason for investing in microfinance was its contribution to the social mission (corporate social responsibility) of the pension fund. Other important factors were its contribution to diversification and to risk-adjusted financial returns.

If answers are weighted according to the size of the pension funds, to take into account the leading role of larger funds in the industry, the picture changes, as can be seen in ***Fig. 5.***

While larger pension funds also emphasized corporate social responsibility, they gave considerable importance to the exposure to financial innovations and seizing the related first-mover advantage. On the other hand, for them the contribution to diversification was not as important given that their microfinance allocations are too small as a percentage of assets to make a difference.

5 Barriers to investment in microfinance

Pension funds were asked what their main concerns or barriers were in relation to starting or expanding further their investment in microfinance. Answers are summarized in ***Fig. 6.***

The most frequently mentioned concern vis-à-vis microfinance was the uncertainty about the longer-term development of risk levels. Most interviewees were positively impressed by the relatively low risk levels observed so far, but some explicitly mentioned the relatively short track-record and the fact that the financial crisis might change the so-far benign risk profile of the investments.

A second concern revolved around the limited size of the microfinance market and its limited capability to absorb large investments by the pension fund industry, which could, in the extreme case, lead to market disruptions and «bubble» building. This concern was often mentioned by the large pension funds wanting to invest larger amounts.

Additional concerns mentioned several times were the lack in Trustee Board awareness/interest for microfinance investments and the lack of internal capabilities and resources needed to select and monitor the investments for the comparatively very small microfinance allocations.

Less important concerns were the uncertainty about the future development of financial returns or of correlations with other asset classes. Financial returns were generally considered adequate. Only one interviewee found that they were

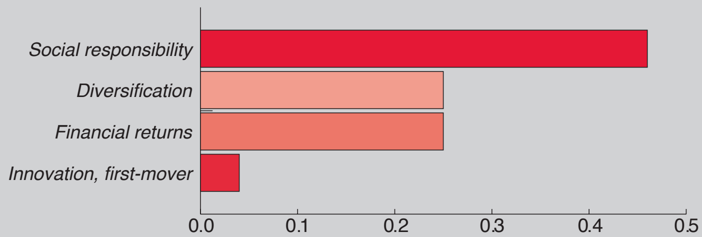

Fig. 4 *Share of different reasons cited for investing in microfinance* [3]

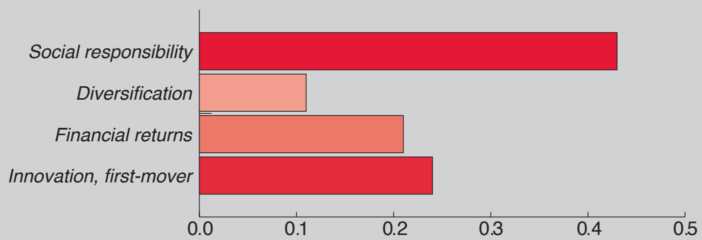

Fig. 5 *Share of different reasons cited for investing in microfinance - weighted by the total assets of the responding pension fund*

[3] *Here and in the next graph the three most important reasons mentioned by each interviewed pension fund were considered (one point each for a total of three points per interviewee). If an interviewee mentioned only two reasons, each was assigned 1.5 points. If the interviewee prioritised the top-3 reasons, they were assigned 1.5, 1 and 0.5 points respectively.*

lower than comparable investments and that microfinance investments were therefore difficult to justify from a financial point of view. Low correlation so far was generally considered proven.

Other barriers or concerns summarized under Other concerns include:

- Small number of other pension funds investing
- Small number of consultants recommending microfinance
- Reputational risks associated with microfinance being accused of unethical practices in the media
- Perceived high management fees of microfinance investment funds.

If answers are weighted according to the size of the pension funds, to take into account the leading role of larger funds in the industry, the picture changes as seen in ***Fig. 7.***

The main concern of large pension funds is the limited size and liquidity of the microfinance market. Larger funds are on average also less satisfied with the experience and track record of existing microfinance asset managers, also because of the high due-diligence requirements related to their microfinance equity investments. One of them commented that existing managers often lack either microfinance experience or traditional investment experience, whereas for successful microfinance investments a combination of the two is essential.

To better understand the specific concerns/barriers of pension funds that have not yet invested in microfinance, these institutions were asked to mention what would need to happen in the near future to increase the likelihood of their institutions investing. Most frequent answers were:

- Larger numbers of pension funds investing in microfinance (the need for a critical size of the pack to justify investments)
- More collaboration among pension funds, i.e. in view of establishing low-cost, attractive institutional investment vehicles
- Better education and awareness of trustees and their investment consultants
- A longer track record showing attractive risk-adjusted returns and low correlation
- The microfinance market to grow considerably so as to be able to absorb large investment volumes from the large pension funds
- The availability of a larger choice of microfinance fund managers and products with a longer track-record.

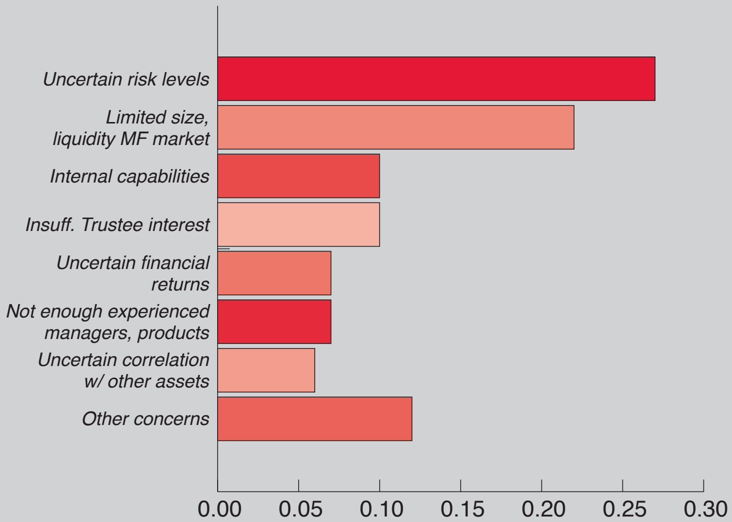

Fig. 6 *Share of different concerns/ barriers in relation to microfinance investing mentioned by the interviewed pension funds*

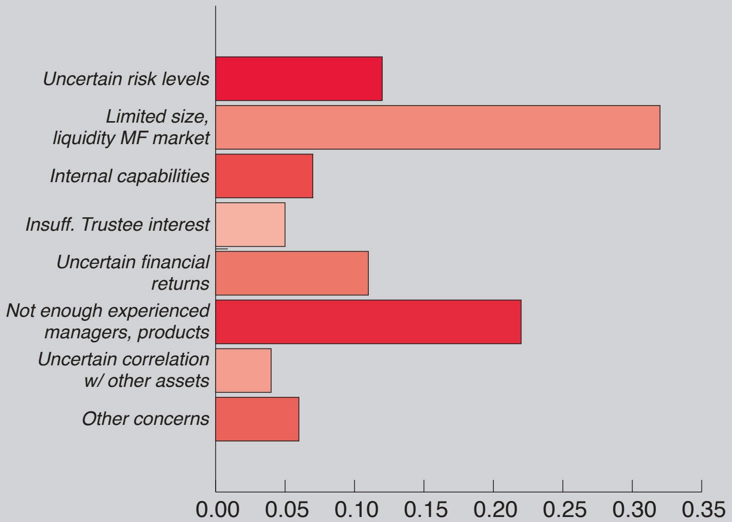

Fig. 7 *Share of different concerns/ barriers in relation to microfinance investing mentioned by the interviewed pension funds -weighted by the total assets of the responding pension fund*

Case-study: Switzerland

The Swiss pension fund landscape is more fragmented than that of other European countries, and lacks very large pension funds. In practice, very large funds often play an important leadership role in testing innovative approaches such as microfinance investing. A good example is provided by the Netherlands were the leading APG Asset Management invested early on in microfinance and paved the way for a relatively large number of small pension funds investing in microfinance. Switzerland, therefore, is in principle less well positioned in taking a lead compared to other countries.

On the other hand, Switzerland is in a way better positioned because it is home to two of the largest commercial microfinance asset managers, BlueOrchard and responsAbility Social Investments AG. Both have played an important role in increasing the awareness of the opportunity provided by microfinance investments in the institutional investment world. This has to a great extent compensated for the lack of large, leading pension funds in Switzerland.

Our interviews with Swiss pension funds show that a sizeable number of pension funds has invested in microfinance in Switzerland. We estimate them to be between 12 and 15, of which we have interviewed nine.

The Swiss pension funds are prepared to take slightly larger exposures to microfinance as a percentage of total assets than the average invested European pension fund (but the range is similar: 0.3% to 1% of total assets).

In terms of Swiss funds' concerns vis-à-vis microfinance investments/barriers for investing the pattern is also very similar to European pension funds: main concern is the uncertainty of risk levels, followed by the limited size of the microfinance market. Other concerns mentioned are also similar to those listed by European pension funds.

In terms of their motivations for investing, participating Swiss pension funds tend to put a slightly higher weight on financial motives (contribution to risk-adjusted returns and diversification) than social ones, compared to their European peers. All surveyed Swiss pension funds allocated microfinance investments to mainstream asset classes, as opposed to SRI. This can be interpreted as a sign of good knowledge of microfinance, because generally the more knowledgeable a pension fund is about microfinance, the stronger it acknowledges its positive contribution to financial outcomes (both for the fund and for the micro-entrepreneurs that are clients of microfinance)[4]. But in general, the cited range of reasons for investing in microfinance and their relative importance are very similar to those of their European peers.

6 Sources of information

At many pension funds it was initially the personal engagement of a single individual (often the CIO or a leading Investment Team member) to have brought forward microfinance as an investment option. Only very rarely the initial expression of interest came from the Board or a Trustee.

In general, one can say that most pension funds interviewed had not researched the market in great depth. Presentations by and discussions with microfinance asset managers were the single most important source of information that surveyed pension funds used to decide on their investments. Only very few of the interviewees had used traditional or specialist investment consultants to help them. Other sources of information mentioned, including the participation in microfinance conferences, discussions with other pension fund colleagues and research by investment brokers (e.g. Deutsche Bank, JPMorgan, Citigroup), were used only by a limited number of interviewees.

Similarly, for the majority of interviewed pension funds the process used to select external asset managers was not very sophisticated. This is probably explained by the limited internal resources that they could justify allocating to the relatively small microfinance investment. The exceptions to this general pattern were the very large pension funds, which had applied more thorough processes.

Most interviewees relied to a great extent on their microfinance asset managers for ongoing information on the performance of their investments. The need to verify the information with independent sources did not seem a major concern, and this again is probably explained by the relatively small investments in microfinance compared to total assets.

Given the importance of microfinance asset managers as a source of information it is not surprising that pension funds are eager to get more in-depth information from them, covering aspects such as:

- Portfolio management challenges
- Changes in the microfinance market
- Market outlook and future prospects
- Social performance of the portfolio

Pension funds that had not yet invested in microfinance specifically stressed the importance of investment consultants providing better information on microfinance investments and the need for independent sources of comparative information on risks, returns and correlation of different microfinance investment products.

[4] *In a recent article, Jean-Luc Gérard summarises answers of 121 Swiss pension funds to questions about SRI and microfinance (Schweizer Personalvorsorge 07-09, p. 53-54). Results seem to suggest that the majority of respondents – who most probably do not have profound knowledge of microfinance investments - associate these investments with their institutions' social responsibility. Unfortunately the underlying study is not publicly available and therefore its details are not known.*

7 Attributes of an attractive investment offer

In order to understand how microfinance asset managers could improve their products and services for pension funds, we also asked pension funds that had already invested in microfinance to list important attributes of an attractive microfinance investment offer.

In general, most interviewees were quite happy about the investment products and services so far. An important area for improvement mentioned by several interviewees is better reporting, as mentioned in the previous chapter.

Some interviewees pointed to the relatively high fees charged by the microfinance asset managers and invited other pension funds to collaborate in order to establish pooled vehicles with lower fees for institutional clients.

Other attributes of an attractive microfinance investment offer by asset managers mentioned were (in descending order of importance):

- A broader offer, more choice of different managers and types of products
- Same attributes as for any other institutional investment offer: low management fees, professional governance, risk management, investment skills and processes, transparency, compliance, tax efficiency and reporting
- Better and more professional risk management, including high levels of diversification
- A process to systematically exclude issues of ethical concern from the portfolio.

8 Future demand

The interviewed pension funds were generally quite optimistic about the long-term prospects for microfinance investments. The current financial crisis does not seem to influence significantly their positive long-term view, in spite of their awareness of the short-term increase in risk levels caused by the crisis.

All surveyed pension funds that are already invested or about to invest in microfinance expect to either maintain or increase current investment levels in the course of the next three years (see ***Fig. 8***). Those that are planning to increase are typically considering to double their current microfinance investments.

Most interviewees are convinced that future years will see many more pension funds entering the microfinance investment space. However, this process will be slowed down in the next 6-12 months due to the cautious attitude of the pension funds industry while the financial crisis is still ongoing.

Some interviewees find that, in the course of the current financial crisis, microfinance investments have already shown their comparative strength in terms of a relatively low risk profile and limited correlation with other asset classes. Therefore, some interviewees expressed the opinion that microfinance asset managers should be much more pro-active in spreading the good news in the pension fund world.

The majority, however, view the current crisis as an interesting test for microfinance investments. Should this relatively young investment class pass this test (i.e. no major surprises or fundamental changes in risk/return profiles), then it will be viewed as a viable investment option for a much larger group of pension funds.

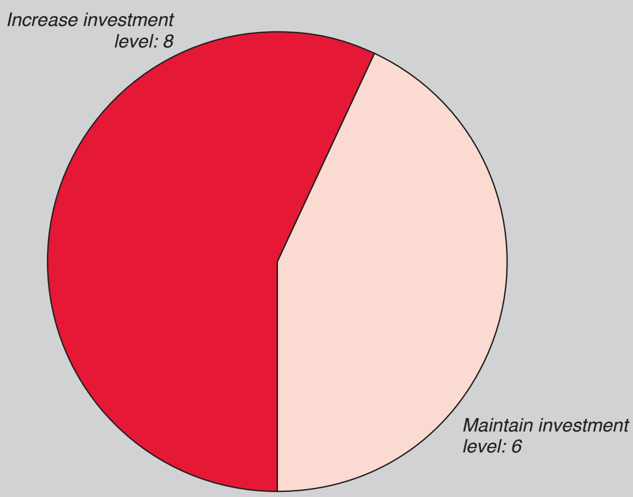

Fig. 8 *Number of interviewed pension funds (already invested or about to invest in microfinance) planning to maintain or increase microfinance investment levels (share of microfinance investments as a percentage of total assets)*

Appendix 1
Questionnaire used for interviews

1. Is your institution already investing in microfinance (debt or equity)?

- Yes -> answer questions 2 to 10
- No -> answer questions 11 to 16

INSTITUTIONS ALREADY INVESTING IN MICROFINANCE

2. Please indicate your institution's current investment amounts (MEuro) in microfinance:

	Managed in-house	Mandates managed externally	Investments in pooled vehicles
Microfinance debt			
Microfinance equity			

>> Please also indicate the current size of your institution's total investment portfolio.

3. To what segment of your institution's asset allocation are microfinance investments allocated (e.g. alternative investments, fixed-income investments, private equity investments, SRI investments etc.)?

4. How was the decision to include microfinance in your institution's investment portfolio taken? (please indicate committees and individuals involved)

5. What is/was your institution's motivation for investing in microfinance?

- Adds financial value to the investment activity (please comment)
- Contribution to diversification/risk management in the portfolio
- Contribution to your institution's corporate social responsibility commitment
- Other: ...

6. What sources of information have you used to inform your decision to invest in microfinance?

- Our regular investment consultants have supported us
- We have engaged specialist consultants to help us
- We have used specific tools, databases, specialist media (please explain)
- Other: ...

7. What were initially or still are the main objections to or barriers in relation to expanding further your investment in microfinance? (please mention the three most important ones, but also feel free to comment on the others)

- Risk level is unclear (e.g. country risk in developing countries)
- Correlation with other asset classes is unclear
- There is uncertainty about expected long-term financial return levels (e.g. in relation to a potential saturation of microfinance markets)
- Concerns about the limited size and liquidity of the microfinance investment market
- There is a lack of professional managers or pooled vehicles with long-enough track-record
- There is a lack of in-house capabilities (to select and monitor external managers etc.)
- Other: ...

8. What are, in your view, important attributes of an attractive microfinance investment offer by external asset managers (please mention the three most important ones, but also feel free to comment on the others):

- It provides highly attractive financial returns (please specify)
- It professionally manages and limits risk levels (e.g. high degree of geographic diversification, active monitoring and management of risk etc.)
- It provides a high degree of liquidity (please explain)
- It is capable of qualifying and regularly reporting on social goals reached (social performance); it excludes issues of ethical concern from the portfolio
- It focuses better on a specific asset class (e.g. private equity) or a specific region, as opposed to blending different asset classes/regions/themes in the same strategy or product
- Other: ...

9. Is the current global financial crisis affecting in any way your institution's interest in microfinance investments? (please elaborate)

10. How do you expect your institution's investments in microfinance to evolve in the course of the next 3 years? (as a % of total investment portfolio). Please explain the main reasons for the expected development.

- Increase (main reasons: ...)
- Decrease (main reasons: ...)
- Maintain more or less current levels
- Don't know/ Will depend on ....

INSTITUTIONS NOT YET INVESTING IN MICROFINANCE

11. Is the current offer and value proposition of investing in the microfinance sector clear to you? If not, which elements are not clear?

12. What are your institution's main internal reasons for not investing in microfinance? (please mention the three most important ones, but also feel free to comment on the others)

- Trustees / members are not demanding it
- Management not buying in/ lack of consensus
- Our investment consultants have not mentioned it / have actively recommended not to invest (please explain)
- Our investment policy/restrictions would not allow us to invest (please explain)
- There is not an obvious place in our asset allocation where microfinance (debt or equity) would fit in
- Available offer is not tailored to our needs (please explain)
- There is a lack of in-house capabilities (to select and monitor external managers etc.)
- Other: ...

13. What are your institution's main external reasons for not investing in microfinance? (please mention the three most important ones, but also feel free to comment on the others)

- Only few pension funds are investing, there is not enough track record in the pensions industry
- Pension fund regulations in our country don't support an investment in microfinance (please explain)
- The risk level (of microfinance investments) is unclear (e.g. concerns about country risk in developing countries)
- The correlation with other asset classes is unclear
- The financial return levels are unclear
- There is a lack of professional managers or pooled vehicles with long-enough track-record
- Existing investment strategies lack transparency, or liquidity, or are expensive
- Other: ...

14. How would a decision to include microfinance in your institution's investment portfolio be taken? (please indicate committees and individuals involved)

15. What sources of information are you currently using to take a decision on whether to invest in microfinance?

- We receive support from our regular investment consultants
- We are using specialist consultants to help us
- We are using specific tools, databases, specialist media (please explain)
- Other: ...

16. In summary, what will need to happen in the next three years to increase the likelihood of your institution investing in microfinance?

Appendix 2
List of interviewed pension funds

ORGANIZATIONS INTERVIEWED

COUNTRY

Organization	Country
APG Asset Management *Algemene Pensioengroep*	THE NETHERLANDS
AP2 *Second Swedish National Pension Fund*	SWEDEN
Bonus Pensionskassen	AUSTRIA
CIA *Caisse de Prévoyance du Personnel Enseignant de l'Instruction Publique et des Fonctionnaires de l'Administration du Canton de Genève*	SWITZERLAND
Church of Sweden Pension Fund	SWEDEN
CEH *Caisse de Prévoyance du Personnel des Etablissements Publics Medicaux du Canton de Genève*	SWITZERLAND
Fondation de Prévoyance Skycare	SWITZERLAND
FRR *Fonds de Réserve pour les Retraites*	FRANCE
Caisse de Prévoyance de l'ISO	SWITZERLAND
Nestlé Capital Advisors SA	SWITZERLAND
Nest Caisse de Pensions Ecologique et Ethique	SWITZERLAND
Pensionskasse SRG SSR idée suisse	SWITZERLAND
Personalvorsorgestiftung der Ärzte -und Tierärzte	SWITZERLAND
PKA *Pensionskassernes Administration A/S*	DENMARK
PGGM Investments *Pensioenverzekeraar voor Werknemers en Werkgevers in de Sector Zorg en Welzijn*	THE NETHERLANDS
Raiffeisen Pensionskasse	SWITZERLAND
RPK *Rheinische Pensionskasse*	GERMANY
SPF *Spoorweg Pensioenfonds*	THE NETHERLANDS
SNS Reaal Pensioenfonds	THE NETHERLANDS

BlueOrchard, a bridge between microfinance and the capital markets.

ABOUT BLUEORCHARD

BlueOrchard is a leading commercial microfinance investment manager, providing credit and equity to microfinance institutions (MFIs) in emerging countries. We consider commercial investment in the microfinance sector as a powerful tool to support economic development, as well as an attractive asset class worthy of inclusion in any diversified investment portfolio.

BLUEORCHARD'S TRACK RECORD OF GROWTH AND INNOVATION

BlueOrchard presently has almost USD 1 billion assets under management and works with over 120 partner MFIs in more than 35 countries. We manage, co-manage or advise four funds that provide credit to MFIs including the renowned Dexia Micro-Credit Fund. In addition, BlueOrchard pioneered the offering of structured credit products in microfinance in 2004, 2006 and 2007. Last but not least, we set up a new private equity fund at the end of 2007 and successfully raised USD 131 million which are being invested in MFIs microfinance funds of funds and networks, enhancing the active participation of Blue Orchard in the sector.

BLUEORCHARD'S FLAGSHIP INVESTMENT VEHICLE: THE DEXIA MICRO-CREDIT FUND

The Dexia Micro-Credit Fund (DMCF) is the world's first private fully commercial microfinance fund designed to refinance microfinance institutions and is available for private investments by informed individuals and institutions via their investment advisors.

The DMCF is invested in a diversified portfolio of short term loans to leading MFIs around the world. As at 1st July 2009, the fund had USD 502 million in net assets and its portfolio consisted of 192 loans to 96 MFIs in 30 countries. The average loan size to MFIs is presently USD 1,9 million. The fund has a history of attractive financial returns, with a 5-year annualised performance of 5.34% for the USD share class (as at 1st July 2009). It has known no default of payment since its creation in 1998. 15% of the outstanding loans are in local currencies (other than USD or EUR); hedged into USD. The investment objective of the DMCF is to achieve net returns in excess of 6-month USD Libor +100-200 basis points.

The DMCF's investments encourage a development cycle of capital accumulation, investment and job creation in emerging economies. This has a positive effect on improved housing, nutrition, health and education among less privileged communities. They also contribute to the empowerment of marginalised groups: in 2008, over half of micro-entrepreneurs benefitting from credits were women, four in ten of the beneficiaries of loans by MFIs in the DMCF portfolio were isolated rural clients, and 20% of the loan volume was destined for agriculture. The DMCF borrower MFIs serve over 7.5 million clients, with an average loan size of USD 1,500 per micro-entrepreneur (as of 31 Dec. 2008).

In 2007, 2008 and 2009, the Luxembourg Fund Labelling Agency (LuxFLAG) delivered its label to the DMCF, making it one of the first microfinance funds to receive this distinction.

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responsAbility, investments in new perspectives with double bottom line returns.

ABOUT RESPONSABILITY

Founded in 2003 in Switzerland, responsAbility Social Investments Ltd. is one of the world's leading social investments companies. With its innovative products, responsAbility enables people in developing countries and emerging markets to access markets, information and other financial services to improve their standard of living. The company's social investments deliver a sustained financial return while contributing to development. The company currently manages more than USD 814 million in 249 institutions in almost 60 countries.

COMPREHENSIVE SERVICES

responsAbility systematically designs its products and services to meet the different needs of clients pursuing strategies ranging from capital preservation to growth. It assists and advises banks, asset managers and gives individual advice to pension funds, insurance companies, foundations, NGOs and other institutional investors.

SELECTED PRODUCT RANGE

The company applies its extensive competence to structure and advise fund vehicles to bridge capital needs of the developing world with the capital supply of western markets. All of responsAbility's investment products are managed according to a standardized and systematic investment process including environmental, governance and social criteria. The process is then adapted to the characteristics of the investment themes. responsAbility unlocks the following themes for investors:

MICROFINANCE

- responsAbility Global Microfinance Fund
- responsAbility Mikrofinanz-Fonds
- responsAbility Microfinance Leaders Fund

The three microfinance investment funds invest worldwide on a broadly diversified basis in short- to medium-term bearing debt securities of microfinance institutions (MFIs). The funds may also invest a certain percentage in equities of MFIs or in Fair Trade. Every investment in these funds allows microcredits to be granted to microentrepreneurs, enabling them to earn additional income by setting up new businesses or expanding their existing ones. Investors can thus make an important contribution to reducing poverty. The funds aim to achieve steady appreciation with very low volatility. In 2008, the performance of the funds ranged from 5,67% to 7,51%, and 430'000 microentrepreneurs were reached.

SME FINANCING

- responsAbility BOP Investments

This private equity fund acquires stakes in small and medium-sized enterprises (SME) and thus gives these companies access to a source of long-term financing. This plays a key role in their growth and business development. SMEs are the backbone of each economy and crucial for economic growth, stability and job creation.

INDEPENDENT MEDIA

- responsAbility Media Development Basket

Is a certificate which invests in the promotion of independent media in developing and emerging countries. Independent media and the freedom of the press are of the utmost social and economic importance because they are crucial to the development of democracy and the rule of law.

RESPONSABILITY OFFERS
• Alternative investments with a stable return and growth potential • Portfolio diversification • Double bottom line return • Seasoned portfolio with track-record exceeding 6 years • Dedicated team of financial experts and development specialists

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