

Benchmarking Equity Investment in Microfinance: the WSAS MFI Shareholder Value Index 2006 & Composite Index Results

Executive Summary

Investors who made equity investments in 29 microfinance institutions (MFIs) from 19 countries during 2005 collectively saw their shareholder value increase 148% in US\$ terms over the three-year period ending 2008, according to the recently released results of the WSAS MFI Shareholder Value Index for 2006 investors (WSAS MFI SVIX 2006). This compares to the 4-year, 308% increase experienced by the WSAS MFI SVIX 2005 vintage investors.

The WSAS MFI SVIX Composite blends these results, according the weighted changes in to their US\$-denominated shareholder values. The WSAS MFI SVIX Composite shows a 4-year, 295% cumulative increase in shareholder value in US\$ terms from the blended results of the MFI SVIX 2005 and 2006 investor groups.

The combined end-2005 equity capital of the two sets of Investor Vintages (MFI SVIX 2005 and 2006) making up the WSAS MFI SVIX Composite, at US\$ 608 mn., represented about 32% of that of the 378 MFI universe's US\$ 1,917 mn. in book value, making the WSAS MFI SVIX series quite representative with regard to the broadest definition of the asset category.

Results from the WSAS MFI SVIX 2006 & Composite series

Highlights for the MFI SVIX 2006 results include:

- 29 MFIs from 19 countries were involved (21 MFIs selected for coverage based on 2006 data, and 8 from the 2005 MFI Selection because they had new Investor Vintages formed during 2005);
- 26 of the Investor Vintages produced positive returns, though 6 produced 3-year cumulative increases in shareholder values of under 10%;
- The single-largest increase in IV '06 value was for SKS Microfinance Ltd. (India) – a staggering 3-year cumulative increase of 2,566% (a 199% CAGR);
- Shareholder values decreased over the period for K-Rep Bank (Kenya) by -26%, for Tameer Microfinance Bank (Pakistan) by -32%, and for the new IV '06 of PNG Microfinance (Papua-New Guinea) by -66%;
- The simple average 3-year cumulative change in IV '06 shareholder value was about 182%. Leaving out the spectacular SKS Microfinance gain and the three losses, the simple average was 113%.
- The single-largest IV '06 in the MFI SVIX 2006 was from Financiera Independencia (Mexico), at 30% of the index's shareholder value at the start of the series in 2005, and it produced a cumulative 214% increase in IV '06 shareholder value, due largely to the sell-out proceeds realized during 2008. This sell-out removes Mexican representation from the MFI SVIX 2006 from 2009 forward;
- Two other MFI SVIX 2006 constituents saw their IV '06 investors sell-out during 2008 – Peru's Bco. del Trabajo (via a trade sell to Scotia Bank, producing a 3-year increase of 210%), and Uganda Microfinance Ltd. (via a trade sale to Equity Bank Kenya, producing a 3-year increase of 335%).

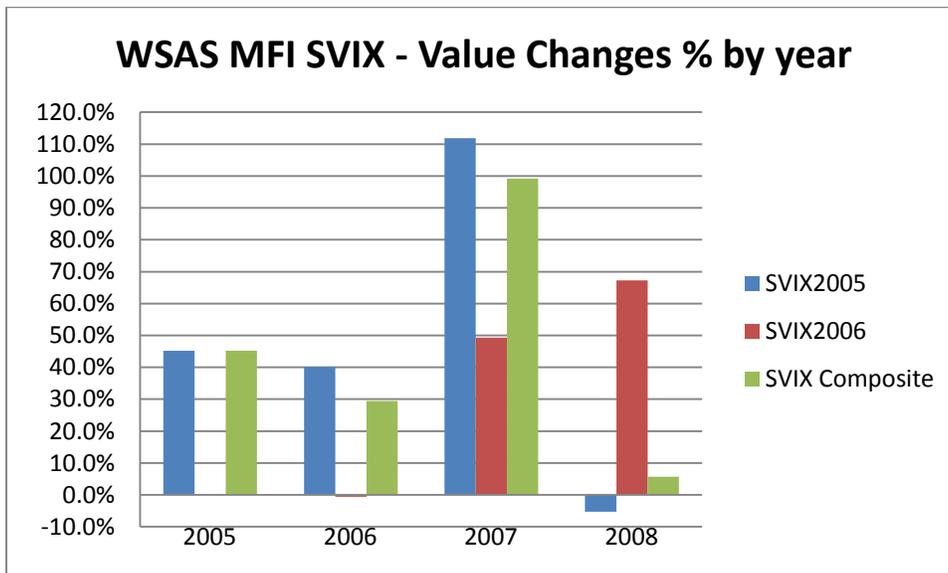
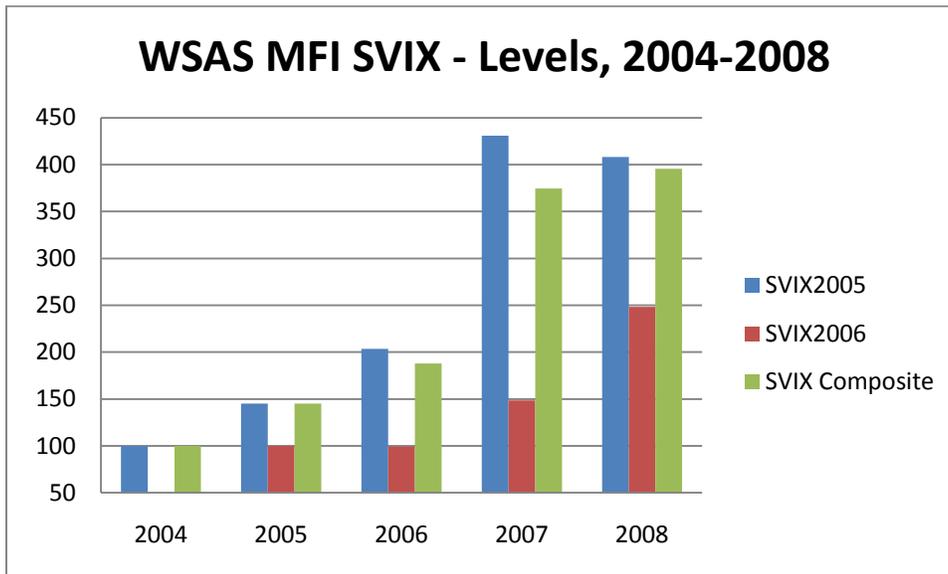
WSAS MFI SVIX –Vintage 2006 Executive Summary

Highlights for the MFI SVIX Composite are brief, since these represent a dollar-weighted blend of the annual MFI SVIX series' results:

- Throughout the period, MFI SVIX 2005 represents around 80% of the Composite's shareholder value;
- India had the largest number of MFI Investor Vintages represented (8), followed by Peru (7), Cambodia (4), and Mexico (3), while 7 countries had 2 IVs represented, among 59 Investor Vintages from 51 MFIs;
- By the end of 2008, the combined book values of the Composite's 59 IVs represented about US\$ 1.34 billion, up from 2005's combined book values of US\$ 0.61 billion;
- Since period-end book value represents money still invested in the MFIs, it is a measure of 'money-at-risk', and it is the best measure of index diversification. The top five countries in this regard at the end of 2008 were Mexico (18%), Kenya (14%), Peru (10%), Cambodia (7%), and Bulgaria (5%), for a combined 54% share of book value. This was very similar to 2005's 56% share by the same 5 countries, though weights shifted significantly in some cases (Kenya up from 4.5% to 14%, Mexico down from 26% to 18%, for instance);
- Indian MFIs produced some spectacular gains for investors of 2005 and 2006 (largely from capital expansions at high multiples to book values), but typically from low US\$ starting points.

The table below presents the MFI SVIX 2005, 2006 and Composite results and related data, through the end of 2008.

WSAS MFI SVIX series - Basic Data	2004	2005	2006	2007	2008
MFI SVIX 2005					
Index Levels, US\$ terms, end of period	100.00	145.20	203.47	431.01	408.29
Number of MFIs included	30	30	30	30	30
IV '05 Shareholder Value, USD mn.	\$ 395.08	\$ 573.66	\$ 803.86	\$ 1,702.83	\$1,613.08
IV '05 SV, USD Change %		45.2%	40.1%	111.8%	-5.3%
MFI SVIX 2006					
Index Levels, US\$ terms, end of period		100.00	99.42	148.46	248.28
Number of MFIs included		29	29	29	29
IV '06 Shareholder Value, USD mn. end-period		\$ 204.25	\$ 203.07	\$ 303.23	\$ 507.11
IV '06 Shareholder Value, USD Change %		0.0%	-0.6%	49.3%	67.2%
MFI SVIX Composite 1/					
Index Levels, US\$ terms, end of period	100.00	145.20	187.95	374.44	395.74
Number of MFIs included	30	30/51	51	51	51
Combined IVs' SV, USD mn. end of period	\$395.08	\$777.91	\$1,006.93	\$2,006.07	\$2,120.20
Combined IVs' SV USD, Change %	0.0%	45.2%	29.4%	99.2%	5.7%
1/ All values for the years after 2006 will change as new MFIs & annual Investor Vintages are added					



Closing Comments

Microfinance is increasingly attracting the interest and investment of international equity investors, for its potential as a socially-responsible, asset-diversifying, and profitable asset category. The WSAS MFI Shareholder Value Indexes, which so far bear out the profitable aspect of the asset category, represent the first consistent measures of the financial value shareholders received over time across a broadly diversified set of MFIs.

WSAS MFI SVIX –Vintage 2006 Executive Summary

As microfinance becomes a more widely practiced and commercially-funded business activity, and as more annual indexes are added, the Indexes will become increasingly important to investors looking to benchmark their portfolios' performance, and to potential investors who want to know MFI equity's performance characteristics.

The full report offers details, by year, by country, by MFI, and by other break-outs, and is available from WSAS on subscription.

Readers are encouraged to refer to the WSAS MFI SVIX methodology statement, freely available from WSAS, for complete treatment of the Index approaches and practices. The Methodology can be found at:

http://www.wallsstreetadvisorservices.com/the_wsas_mfi_shareholder_value_index_series

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