

Benchmarking Equity Investment in Microfinance: the Vintage 2007 & Composite Index Results

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Executive Summary

The newly-launched WSAS Microfinance Institutions Shareholder Value Index for vintage 2007 investments (WSAS MFI SVIX 2007) declined sharply over the 2-year period 2007-2008, as three especially large investments made at high multiples to book values during 2007 dragged greatly on the 2007 vintage index's and WSAS MFI SVIX Composite's results.

Highlights & key facts about the WSAS MFI SVIX 2007 include:

- The WSAS MFI SVIX 2007 lost nearly 72% of its value during 2007, based on shareholder values measured at year-end book values. A small 2008 rebound (+17%) meant the vintage 2007 index finished the 2-year period down -67% in value.
- The initial value of the WSAS MFI SVIX 2007 was US\$ 947 million. Of that amount, new investors in three MFIs - Equity Bank (Kenya), Compartamos Banco (Mexico) and Financiera Independencia (Mexico) - together accounted for \$873 million, or about 93%, of that. The substantial declines of the 2007 investor vintages' shareholder values in these three MFIs are the flip side to the gains enjoyed by vintage 2005 and 2006 investors in these same MFIs. The WSAS MFI SVIX 2005 and 2006 increased nearly 112% and 49%, respectively, during 2007 in large part because of the premiums paid by 2007's incoming investors.
- In the cases of the Mexican MFIs, the new investor vintages were created through initial public offerings (IPOs) of shares to the public, while in the case of Kenya's Equity Bank, a single private equity investor bought 25% of the company through a capital expansion. All these MFIs had investor vintages in the earlier WSAS MFI SVIX vintage series.
- The 2007 index contains investor vintages from 27 MFIs from 15 countries. Seventeen (17) represent new investor vintages formed in 2007 among MFIs previously covered in the 2005 and 2006 vintage indexes, and 10 are from MFIs first qualifying for index coverage in 2007.
- The 2007 investor vintages from MFIs of the 2006 selection year experienced the strongest performance among the WSAS MFI SVIX 2007 constituents, showing a 2-year CAGR of 99%. This small sub-group of the 2007 index saw several 'trade sales' (MFIs being sold completely to new owners) and capital expansions at high multiples to prevailing book values.
- The range of results for the two years at the individual MFI investor vintage levels varies widely, from a high of +859% (SKS in India), down to a complete loss at MicroCred Mexico. The upper end of increased shareholder values were concentrated in Peru, Uganda and India, which experienced an average 244% increase in 2 years.

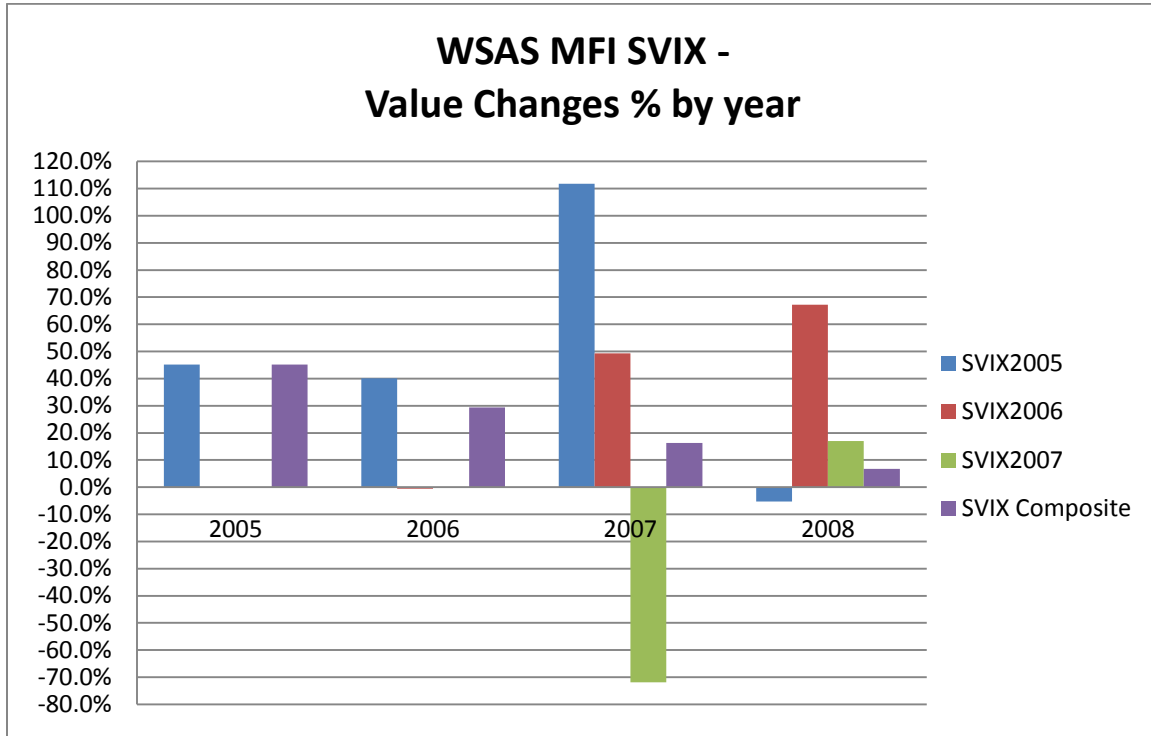
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- Apart from the MicroCred Mexico loss, the worst declines were experienced by the vintage 2007 investors in CompartamosBanco and Financiera Independencia, each losing -84% over 2 years.

The WSAS MFI SVIX Composite represents a dollar-weighted blend of the annual MFI SVIX series' results. Highlights of results for the Composite include:

- The WSAS MFI SVIX 2007 represented the single largest vintage of the WSAS MFI SVIX Composite's shareholder value at the end of 2006 at 48%, but declined to just 12% by the end of 2007 due to the vintage's poor performance.
- Given the large initial weight of the WSAS MFI SVIX 2007 series in the Composite and that vintage's poor performance, the overall Composite index's results declined to a 4-year compound annual growth rate of almost 24%, down from a 41% rate before the investor vintage 2007 results were added.
- At the end of 2008, the WSAS MFI Composite consists of 86 distinct investor vintages from 61 MFIs in 34 countries.
- Throughout the period, apart from the inception of the IV2007 series with its base period at the end of 2006, the IV2005 dominates the Composite series' shareholder value in terms of its dollar-valued weighting and highly positive contribution to overall increases in shareholder value. It's a classic result of private equity investing that early investors reap the highest returns, largely as a result of buy-outs or of offering shares to the public;
- In a corollary, as the US \$ amount of money entering the Composite's MFIs through new investor vintages in 2007 matched that already in place from the 2005 & 2006 investor vintages, the rate of positive annual change in the Composite's shareholder value has declined as the blended purchase cost by new investors and the value realized by prior investors tended to wash. Though the Composite's change for 2008 was still positive at +6.8% for the combined three investor vintages 2005, 2006, and 2007, WSAS can see that the MFIs' investor vintage 2008's buy-in pricing is the source of much of that gain.
- The listing of major MFIs' shares on stock exchanges during 2007 (and thereafter) opens new possibilities for shareowners to establish market-based prices for shares, which tend to be above book value.

Therefore, it remains to be seen what a long-term rate of change in shareholder value may be for a diversified portfolio of MFI equity. It is a hope of WSAS that as the WSAS MFI SVIX series evolves, it can help form investors' long-term return expectations from MFI equity investments.



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