Crucial questions

Part ①

Microfinance investments as a new asset class in portfolio management

June 2007

Have microfinance investments an economic utility for investors?

Are there investments with low risk **and** low correlation?

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the investor view

economic		Non - economic
Return	**Correlation**	**soc. engagement**
Risk		
Liquidity	+	+
Time		
investment	portfolio	SRI

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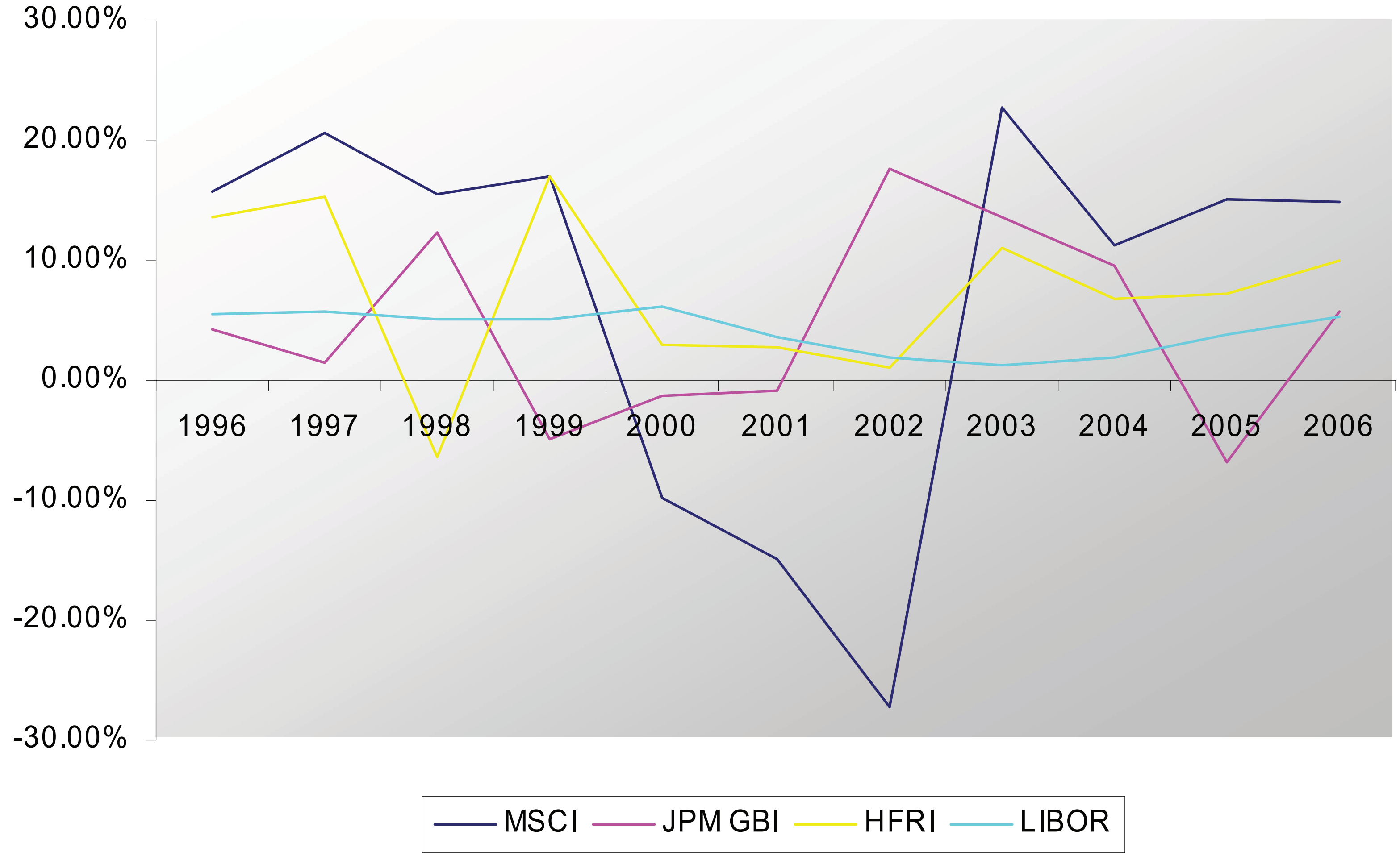
General market development (1996 - 2006)



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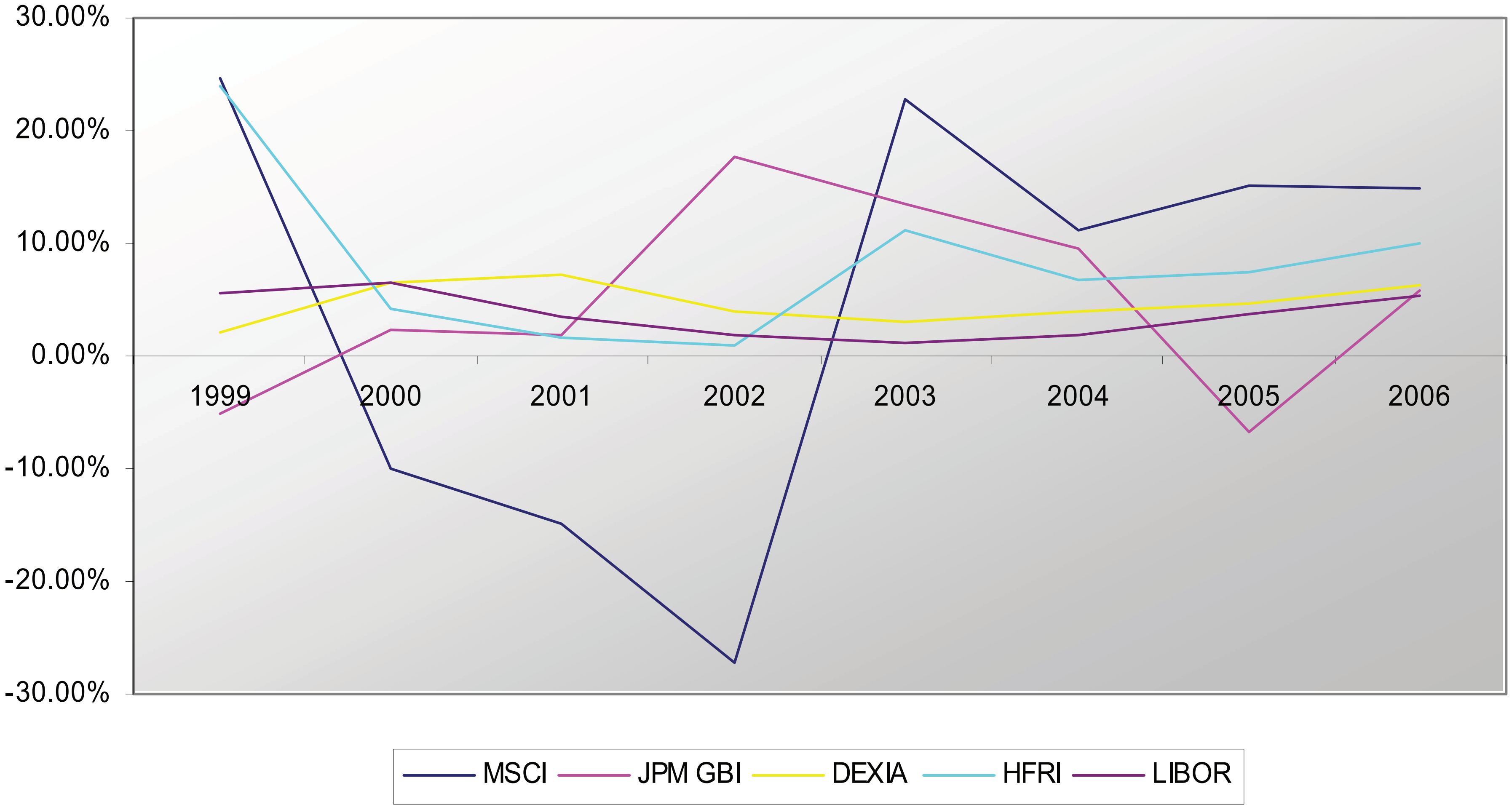
Microfinance investments by comparison



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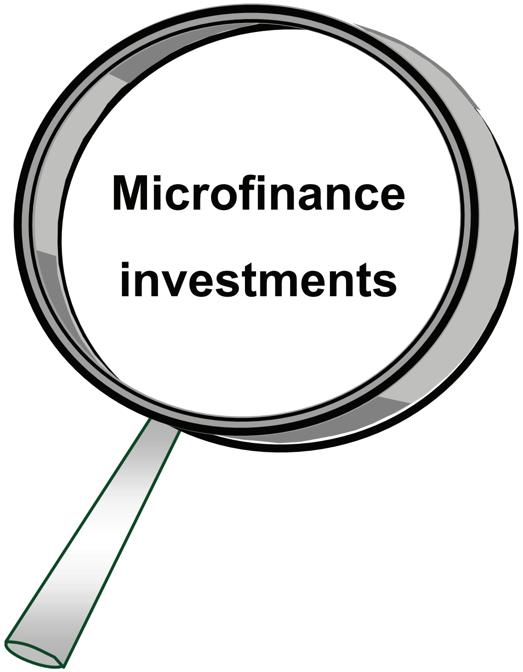
Empirical analysis – asset management



- Product category
- Legal form
- Duration

Commercial Microfinance Investment Funds (MFIFs)

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Asset Allocation within the scope of portfolio optimization with microfinance…

Return	Balanced	Growth
20% stocks	50% stocks	80% stocks
80% bonds	50% bonds	20% bonds

+ 10 % MF   + 10 % MF   + 10 % MF

Return	Balanced	Growth
20% stocks	50% stocks	80% stocks
70% bonds	40% bonds	10% bonds
10% microfinance	10% microfinance	10% microfinance

Sharpe Ratio?

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…and the received positive results

Portfolio without MF	**Return**	**Balanced**	**Growth**
Return	4.57%	4.64%	4.70%
Standard deviation	5.58%	7.02%	10.72%
Sharpe-Ratio	0.1553	0.1331	0.0937

Portfolio with MF	**Return**	**Balanced**	**Growth**
Return	4.59%	4.66%	4.72%
Standard deviations	5.00%	6.84%	10.77%
Sharpe-Ratio	**0.1773**	**0.1396**	**0.0951**

Higher return, lower risk

All sample portfolios show after incorporation of microfinance a higher absolute return as well as a lower risk.

Improved risk-return relationship

The incorporation of microfinance leads in every sample portfolio to an improved risk-adjusted return (Sharpe-Ratio).

Source: own calculations