Microfinance

An attractive proposition

Microfinance has been part of our bespoke portfolio offering since 2006 and for us it remains an attractive proposition from both an ethical and investment perspective.

On the ethical side we consider it a high impact social investment, hitting the number one UN Social Development Goal of no poverty. Microfinance Funds raise money and then finance a large number of Microfinance Institutions (MFIs) in various developing counties. These MFIs then provide the essential business finance to the world's poorest and unbanked people. Across a number of continents from Mexico to Chile, Cambodia to Uzbekistan and South Africa to Lebanon, microfinance has now lent almost $200 Billion, enabling many people to start their own businesses and work their way out of poverty.

$200bn
amount lent for microfinace

Form an investment perspective this lending, though expensive to administer, has to date had lower default rates than anticipated. By providing small business loans in a number of developing countries these investments diversify the portfolio in terms of client profile and geography.

The pandemic has hit the developing world very hard. Many Microfinance Institutions offered client's moratoriums on their payments, lasting until this quarter, therefore developments over the coming quarter will be closely watched. Across our bespoke portfolios we are mainly exposed to microfinance through two investments.

ASA International is a listed microfinance based in Dhaka. Being listed, their shares will trade in line with market demand and supply, and their shares have returned -11.68% year to date. This moves reflects the difficulties the sector faces with the pandemic and the market reaction in full.

Monthly traded based on the Net Asset Value rather than market supply and demand, our other investment, the Triodos Microfinance SICAV, has returned -3.81%. A negative return in a world where Impact investments have performed well year to date, these returns actually compare well to mainstream banks. Over the same period, we have seen sterling total returns of -39.7% for leading European banks or for example -56% for Lloyds Banking group or -48.9% for HSBC (all data Bloomberg Sterling total returns 31/12/2019 to 21/10/2020).

Over the next year we expect the world to emerge from the pandemic, and it is clear the world will be different. Whatever happens, banking and finance will play an essential role in the global economic recovery. With Central Banks providing high levels of liquidity, there is no shortage on money for banks, and many lenders have plenty of firepower.

At the same time we see the need for many in the developing world to restart their lives after the pandemic, and addressing poverty has a knock on effect for other key developments goals such as zero hunger, education and equality, areas that our investors want to see addressed, and we see microfinance remaining a core part of our portfolios.

United Nation Sustainable Development Goals

As a reminder, the Sustainable Development Goals are a framework of 17 interconnected goals and 169 underlying targets. As explained by the United Nations, they "are the blueprint to achieve a better and more sustainable future for all. They address the global challenges we face, including those related to poverty, inequality, climate change, environmental degradation, peace and justice. The 17 Goals are all interconnected, and in order to leave no one behind, it is important that we achieve them all by 2030".

It is estimated that $3-5 trillion of investment is required per annum over the next ten years to reach the goals, highlighting the huge role that both public and private markets will play over the coming years in allocating capital.

Disclaimer

Please remember that the value of investments and the income arising from them may fall as well as rise and is not guaranteed. Investors should be aware of the underlying risk associated with investing in shares of small-cap stocks and emerging markets. These can prove to be more volatile than in more developed stock markets.

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