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Helping people to help themselves

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Martin Cech

Microfinance investments help improving lives and facilitate stable returns

There are investments that create a better world. Microloans give people in the Third World a chance to a better life and facilitate a stable yield for domestic investors.

Martin Cech, fund manager of [ERSTE RESPONSIBLE MICROFINANCE](#), the only [mutual fund](#) of its kind in Austria, answered some questions.

What is a microfinance investment?

The previous UN Secretary-General, Kofi Annan, put it in a nutshell: "Microfinance is not a donation. It is a way to provide low-income households with the same services that others have also access to." Basically, our [ERSTE RESPONSIBLE MICROFINANCE](#) invests in microfinance institutes. These institutes are based on a remarkably simple idea: small, direct loans are given to people in developing countries to fight poverty. The so-called microloans facilitate the creation of small trade while at the same time securing the subsistence of the recipients of said loans. The trades involved may be tailors, potteries, tourist arts and craft, or wood-processing businesses, to name but a few. The average loan amount is EUR 4,817 (as of March 2018).

You are no credit institution. What is the connection between microloans and investment?

This is a justified question. The microfinance institutions serve as a bridge between investors and loan recipients. They are based locally in emerging and developing countries and scrutinise the circumstances of a potential micro loan recipient before a loan is granted. We do not have that sort of know-how of the small local banks. Therefore, we do not invest directly in specific projects, but indirectly via funds. Also, the administrative efforts of direct lending by the fund to thousands of microloan recipients is not practicable. That being said, as lender we sometimes do make a point of looking more closely at some projects and their effects in the various countries. I take care of this personally. Most recently, I was in Georgia and Armenia in 2012 and 2014 to have a look at several microloan clients, and I managed to obtain precious information about the business processes and their cooperation with the local microfinance institutes.

What impact does the invested capital have?

More than 500mn people have been given access to microloans via microfinance institutes. [ERSTE RESPONSIBLE MICROFINANCE](#) alone reaches 15,000 loan recipients. But that is by far not enough. There are still more than a billion people worldwide who live in abject poverty. They have less than EUR 2 a day at their disposal. This makes it impossible to set up a business. Without access to loans, these people are left to their own devices. Microfinance thus provides new perspectives and prevents child labour.

Let's talk about the fund. How is ERSTE RESPONSIBLE MICROFINANCE structured? What focus does it have?

[ERSTE RESPONSIBLE MICROFINANCE](#) is a [fund of funds](#)*. The portfolio is broadly diversified: at the moment, we invest in a total of 400 different microfinance institutions and 42 fair trade institutions. Two thirds of the clients are female. The majority of loans are investment loans, while consumer loans make up only a small portion. The share of loans that have been due for 30 or more days is currently 5%. But this does not mean that these loans will actually be non-performing. We try to keep the cash reserve as small as possible. A reserve for possible pay-outs is necessary. No investment exceeds 3% of assets under management, and we invest a maximum of 10% in one country. Every country is subject to separate evaluation, and that includes its political stability.

*A fund of funds is an [investment fund](#) that does not invest its assets in individual [securities](#) but in several individual open-end funds (sub-funds or target funds).

How successful is an investment in ERSTE RESPONSIBLE MICROFINANCE? What downsides does this investment come with?

[ERSTE RESPONSIBLE MICROFINANCE](#) is a so-called alternative investment. As such, its correlation with traditional equity and bond markets is low. Therefore, it is suitable as complementary investment in an existing equity and bond portfolio. The fund has so far fulfilled this function rather well. Since the launch of the fund, it has gained 2.2%, with volatility below that of bond funds.

Performance of ERSTE RESPONSIBLE MICROFINANCE since launch

(indexed, 4 January 2010 = 100)

Source: FMP, Erste Asset Management

Note: Past performance is not indicative of future development.

The lack of fungibility is a downside that has to be taken into account when investing in the fund. Due to the specific features of this fund, there can be a time lag until the capital is invested or available for withdrawal again (please refer to the information at <https://www.erste-am.at/en/private-investors/funds/erste-responsible-microfinance/AT0000A0G249>). We recommend a holding period of at least five years.

ERSTE RESPONSIBLE MICROFINANCE

Distributing share (A): AT0000A0G249

Accumulating share (T): AT0000A0G256

Advantages for the investor

- Support of global microcredit lending, particularly to individuals in emerging markets.
- Correlation with other asset classes is low.
- Chance for an attractive long-term return.

Risks to be considered

- Regarding the issuance and redemption of share certificates please pay attention to the Key Investor Information Document and § 21 AIFMG, Point 10.
- Investment is done in Alternative Investments, which pose higher liquidity risk.
- Due to investments denominated in foreign currencies, the net asset value of the fund can be negatively impacted by currency fluctuations.
- Capital loss is possible.

Risk notes according to 2011 Austrian Investment Fund Act

ERSTE RESPONSIBLE MICROFINANCE may make significant investments in investment funds (UCITS, UCI) pursuant to section 71 of the 2011 Austrian Investment Fund Act. The Austrian Financial Market Authority (FMA) hereby warns: In accordance with section 166, para. 1, point 3 of the 2011 Austrian Investment Fund Act, ERSTE RESPONSIBLE MICROFINANCE solely invests in alternative investments that might bear higher investment risks compared with traditional investments. These investments in particular may incur losses up to the total amount of the invested capital.

Legal note:

Prognoses are no reliable indicator for future Performance.

Legal disclaimer

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The prospectus for UCITS funds (including any amendments) is prepared and published in accordance with the provisions of the InvFG 2011 as amended. Information for Investors pursuant to § 21 AIFMG is prepared for the alternative investment funds (AIF) administered by Erste Asset Management GmbH pursuant to the provisions of the AIFMG in conjunction with the InvFG 2011.

The currently valid versions of the prospectus, the Information for Investors pursuant to § 21 AIFMG, and the key information document can be found on the website www.erste-am.com under "Mandatory publications" and can be obtained free of charge by interested investors at the offices of the Management Company and at the offices of the depositary bank. The exact date of the most recent publication of the prospectus, the languages in which the key information document is available, and any other locations where the documents can be obtained are indicated on the website www.erste-am.com. A summary of the investor rights is available in German and English on the website www.erste-am.com/investor-rights and can also be obtained from the Management Company.

The Management Company can decide to suspend the provisions it has taken for the sale of unit certificates in other countries in accordance with the regulatory requirements.

Note: You are about to purchase a product that may be difficult to understand. We recommend that you read the indicated fund documents before making an investment decision. In addition to the locations listed above, you can obtain these documents free of charge at the offices of the referring Sparkassen bank and the offices of Erste Bank der oesterreichischen Sparkassen AG. You can also access these documents electronically at www.erste-am.com.

N.B.: The performance scenarios listed in the key information document are based on a calculation method that is specified in an EU regulation. The future market development cannot be accurately predicted. The depicted performance scenarios merely present potential earnings, but are based on the earnings in the recent past. The actual earnings may be lower than indicated. Our analyses and conclusions are general in nature and do not take into account the individual characteristics of our investors in terms of earnings, taxation, experience and knowledge, investment objective, financial position, capacity for loss, and risk tolerance.

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Please consult the corresponding information in the fund prospectus and the Information for Investors pursuant to § 21 AIFMG for restrictions on the sale of the fund to American or Russian citizens.

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