

Tomorrow is Today

Microfinance from pension funds' perspective

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Introduction to APG

- One of the largest pension administrators in the Netherlands and one of the largest managers of pension assets in the world.
- Established on March 1, 2008: All Pensions Group
- Builds on a long tradition of pension fund management
- Promotes the pension interests of 4 million Dutch individuals and 4000 employers
- Manages pension assets of about €230 billion (mid 2008)
- Advocate of collective pension schemes

APG's Responsible Investment Policy

- Integrate sustainability factors (Environmental, Social and Governance) as widely as possible across the investment portfolio
 - Encourage compliance with UN Global Compact
 - Active corporate governance and voting
 - Invest in sustainability solutions
 - Engage with policy-makers
- However, ESG is APG's responsibility, not APG's identity

APG and Microfinance Investments

- Total commitments (equity + debt): ~ 150 mln
- Indirect, no direct investments in MFIs
- Arguments pro microfinance:
 - Potentially attractive risk adjusted returns, especially private equity
 - Improved portfolio diversification
 - Stimulate economic growth in emerging markets
 - Social returns
 - Good reputational return
- Pension funds are seeking competitive returns within the context of a social responsibility mandate

APG Return Targets for Microfinance Investment Opportunities

- We are SRI committed, but not at the cost of sacrificing investment returns
- Market-conformity with (commercial) alternatives remains to be the main reference point
- Microfinance private debt: Libor +150-200 bp
- Microfinance private equity: IRR: 15-20%
- Tentative numbers, because every deal has its own typical risk and return characteristics

Issues

- Lack of transparency:
 - How to measure the social impact?
 - Needed: standardized social performance metrics
- Tomorrow is today, but:
 - How to assess the relationship between social return now and high financial performance in future?
- Danger of mission drift
- Need for professionalization
- What about tier 3?

Forward Outlook

- Global microfinance opportunities have potential to grow very fast in next decade
- Institutional investors will increasingly integrate ESG factors in their strategies
- For long-term investors a unique blend of potentially very attractive financial, social and reputation returns