

# Global Microfinance Investment Congress

## Panel: Fixed Income Investment Opportunities

January 2008

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## Morgan Stanley's Microfinance Institutions Group

### Brief introduction to MFIG

- Morgan Stanley's Microfinance Institutions Group ("MFIG") provides international capital markets solutions to the microfinance sector. In the past 2 years, we have intermediated nearly US\$210 million of microfinance debt through the arrangement and the placement of the notes of 2 microfinance CLOs (Collateralized Loan Obligations)
- MFIG covers microfinance institutions as Morgan Stanley covers any other client, providing institutional services ranging from debt and equity products to corporate advice, risk management, foreign exchange and derivative products
- MFIG is comprised of 12 full-time professionals based in London and New York whose backgrounds bring expertise in structured finance, global capital markets, credit risk management, mergers & acquisitions, initial public offerings, investment management, and private wealth management
  - The team comprises 9 ethnicities and speaks 11 languages
  - There is a commitment to understanding the businesses and needs of our microfinance institutions clients
  - The team has had direct involvement in the arena of development finance, especially within microfinance in Latin America, Africa and Asia

## Morgan Stanley's microfinance CLO experience

Our experience as Arranger of 2 microfinance CLOs

- Morgan Stanley acted as Arranger of two microfinance CLOs: BOLD 2006-1 and BOLD 2007-1
- In order to accommodate the increased and diversified pool of investors (see next slide), Morgan Stanley structured BOLD 2007-1 differently from BOLD 2006-1:
  - a Senior B tranche was added in BOLD 2007-1
  - a Mezzanine tranche was added in BOLD 2007-1
  - more fixed and floating coupons tranches, in GBP, EUR and USD in BOLD 2007-1
  - different % composition of the Equity tranche: lower % in BOLD 2007-1
- BOLD 2007-1's Senior A and B Notes were rated by S&P's

BOLD 2006-1 - Capital Structure						
Class	Currency	Size (MM)	% of Notes	S&P's Rating	Scheduled Maturity	Coupon
A1	EUR	32.9	40%	NR	Mar-11	EURIBOR + 75bps
A2	GBP	14.0	25%	NR	Mar-11	5.59%
A3	USD	7.0	7%	NR	Mar-11	6.02%
B	USD	28.0	28%	NR	Mar-11	Residual Cashflow
<b>Total</b>		<b>\$99.2<sup>(1)</sup></b>	<b>100%</b>			

BOLD 2007-1 - Capital Structure						
Class	Currency	Size (MM)	% of Notes	S&P's Rating	Scheduled Maturity	Coupon
A1	GBP	6.3		AA	May-12	6.33%
A2	EUR	2.2		AA	May-12	EURIBOR + 40bps
A3	USD	28.5	40%	AA	May-12	LIBOR + 40bps
B1	GBP	1.25		BBB	May-12	6.851%
B2	EUR	1.45		BBB	May-12	EURIBOR + 95bps
B3	USD	12.0	15%	BBB	May-12	LIBOR + 95bps
C1	GBP	10.05		NR	May-12	8.519%
C2	EUR	0.7		NR	May-12	EURIBOR + 245bps
C3	USD	21	38%	NR	May-12	LIBOR + 250bps
X	USD	7.7	7%	NR	May-12	Residual Cashflow
<b>Total</b>		<b>\$110.2<sup>(1)</sup></b>	<b>100%</b>			

<sup>(1)</sup> US\$-equivalent

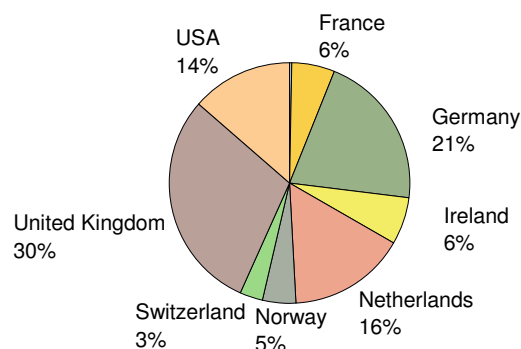
Source: Morgan Stanley

# Morgan Stanley's microfinance CLO experience

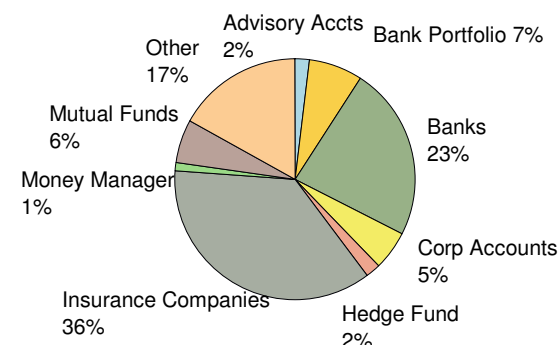
Our experience as Placement Agent of the notes of 2 microfinance CLOs

- Morgan Stanley acted as Placement Agent of the notes of BOLD 2006-1 and BOLD 2007-1
- We noted an increased number of capital markets investors interested in microfinance CLOs, both socially responsible investors and institutional investors
- The Senior A and B Notes of BOLD 2007-1 were rated by S&Ps, and were considerably oversubscribed; this was the first time that a microfinance CLO is rated
- In the Placement of BOLD 2007-1 (May 2007), as compared to BOLD 2006-1 (April 2006), MS reached:
  - Larger number of investors
  - More diversified investor base
  - More diversified geographical location of investors

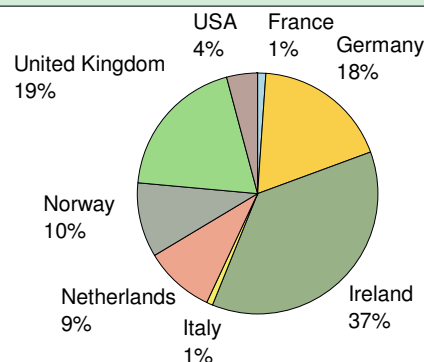
**BOLD 2007-1 Distribution**  
By Country



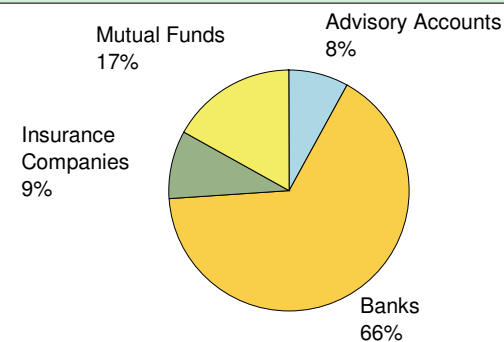
**BOLD 2007-1 Distribution**  
By Account Type



**BOLD 2006-1 Distribution**  
By Country



**BOLD 2006-1 Distribution**  
By Account Type



Source: Morgan Stanley

## CDOs global market overview and outlook

- In a manner unprecedented for a credit asset class, CDOs have been central to the mayhem in global capital markets
- The CDO market storm has its roots in the ongoing housing recession and the different orders of leveraged manifestations of the sub-prime mortgage risk
- We estimate 2007's CDO new issuance to be 10% lower than 2006's new issuance, or 17% lower if we were to consider unfunded superior senior. Q4/07's new issuance was 75% lower than Q1/07's new issuance
- 2007 was the worst ever for CDO downgrades, with the three rating agencies downgrading 3,370 structured finance CDO tranches, with most of the downgrades happening in Q4/07
- Liability spreads widened without an offsetting widening in the asset spreads, hence pressuring on equity tranches' IRR
- For 2008, Morgan Stanley Fixed Income Research's CDO primary analysts expect:
  - A lot more deterioration in terms of rating downgrades, writedowns and mark-to-market volatility
  - New issuance to be down significantly from 2006/07 levels
  - US housing will remain in unprecedented and prolonged downturn (to last for the next 3 years), which will put further pressure on the performance of securitized sub-prime ABS pools

Source: Morgan Stanley Fixed Income Research "CDO Market Insights, 2008 Outlook: Distress and Disequilibrium", dated December 14, 2007; and "CDO Market Update", dated January 8, 2008

## Microfinance public CLOs in the current markets

- Microfinance risks are different from sub-prime mortgage risks
- Investors and rating agencies are becoming knowledgeable in microfinance risks
- However, microfinance CLOs liabilities also widened (while the MFIs' cost of funding remained mostly stable, or decreased)
- The following aspects have resulted of more importance for microfinance public CLOs:
  - Appropriate structure
  - Reaching the right equity and mezzanine tranches' investors
  - Highly diversified underlying portfolios
  - Higher amount and quality of information of the underlying assets available to investors
  - Originator's and Servicer's capabilities

## Emerging MF fixed income investment opportunities

- Microfinance fixed income instruments are increasingly demanded by certain types of investors, for example:
  - High-income individuals
  - Traditional emerging markets bonds investors
  - Hedge funds
  - Emerging markets funds
  - Pension funds
  - Socially responsible investors
  - Banks' proprietary emerging markets desks
- This has resulted in new/increased volume of microfinance fixed income structures/instruments, for example:
  - Private CLOs
  - Single-name bonds (placed in the international and local markets)
  - Debt funds
  - Raw MFI loans (specially denominated in local currency)

## Panelist's contact information

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