

**SIFEM** SWISS INVESTMENT FUND  
FOR EMERGING MARKETS

# Sifem's experience with structured finance

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## Private investment advisory company

- Mandated by the Swiss government to manage USD 250m private equity portfolio of SME and microfinance investments
- Advising SME private equity compartment of responsibility Base of Pyramid Fund (rABOP Lux)
- Representing SDC and ADA in EFSE Board

## Mandate of Swiss government

- Manage SME and MFI private equity portfolio according to investment policy (geographical allocation, return requirements etc.)
- Mobilise private investors for co-investments

**Instruments:** PE funds, direct equity, **structured products**

## Seeking equity type of risk/return profiles

- Participations in private equity funds
- Direct equity investments (including co-investments with funds)
- Subscription of subordinated notes with equity type of risk/return



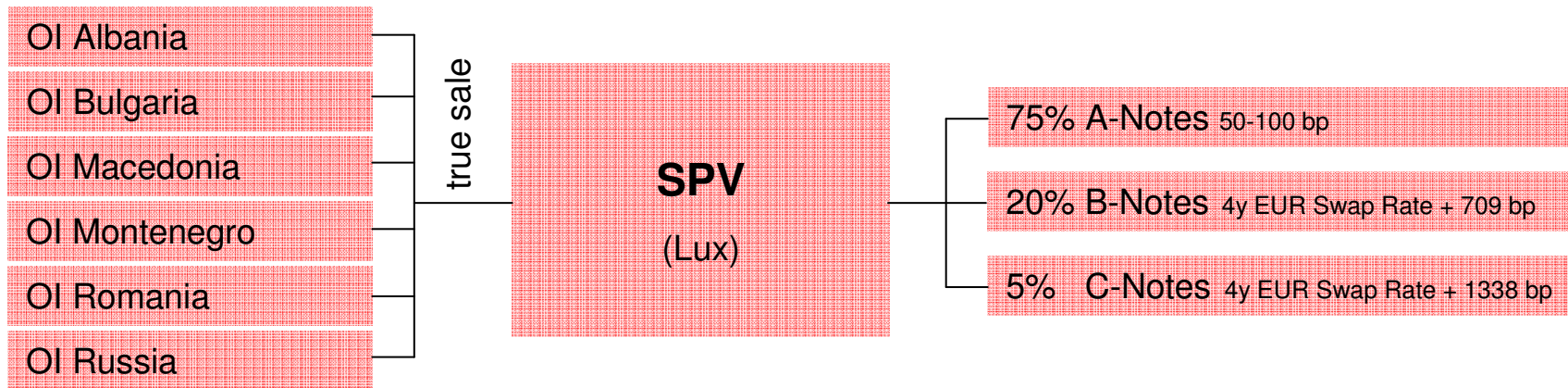
## Advantages of structured products for Sifem

- Return on subordinated notes complies with minimum return requirement of Sifem investment policy
- Mobilisation of private investors on the senior level

# SIFEM Investment Example

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## Symbiotics MFLO Opportunity international Eastern Europe



- Sifem commitments of EUR 3,300,000 to B-Notes and C-Notes with expected weighted average yield of 4y EUR Swap rate + 816 bp
- Transfer of EUR 1,000,000 of B-Note commitments to private investor

# Critical issues

## **Efficient structuring**

- Cost of passively managed structures must be significantly below actively managed fund type structures

## **Effective structuring**

- True sale transactions should be favored due to equity relief effect on MFI if circumstances allow

## **Correct pricing of notes**

- Investor should be indifferent about the seniority or subordination of notes. Often, junior notes are not priced correctly in relation to their inherent risk

## **Transferability of notes**

- For the facilitation of the secondary market development notes should be freely transferable

## **Innovative structures**

- Differing needs require specific solutions. DFI primarily should sponsor the development of new and innovative solutions for private investors

# Innovative structures

## True sale securitizations

- Equity relief effect

## Separation of risks

- Separation of counterparty risk and MFI portfolio risk

## Elimination of political risk for international investors

- Use of Credit Default Swaps (CDS)

## Securitisation of specific debt classes

- Subordinated debt, housing loans (MBS)

## Example Peru (structuring sponsored by SECO, Switzerland)

- CMACs: Increase of equity only through retained earnings
- True sale of MFI loan portfolio has equity relief effect
- Securitised portfolio is backed by on-shore collateral (SPV)
- On-shore SPV is backed by off-shore SPV through CDS
- International Investors subscribe notes of off-shore SPV and therefore face no political risk