

MedEd

Overview

Value Proposition: MedEd will pioneer a new market in student loan backed ABS products to support medical education in emerging markets. Through this, we can create a generation of socially mobile professionals with strong earning potential and significant positive health benefits.

Challenge: In most developing countries, the student loan market is immature. Government student loan programs either don't exist or aren't sufficient and only a handful of private programs have been started. Financing options are limited. Bank loans typically require security and collateral that many students don't have and credit card debt, at interest rates of nearly 30%-40%, is prohibitively expensive. There is little data, poor institutional support (credit bureaus) and little segmentation of risk by future earnings. So in Indonesia for example, only 4% of students from the lowest two income quintiles enroll in university, compared to 31% from the highest income quintile. A medical education in particular is the preserve of the wealthy. As a result, there are only 0.3 doctors per 1000 people, one of the lowest anywhere in the world, and significantly below the 2.5-3.0 rates seen in the developed world.

Solution: Our solution is to structure an investment strategy as follows: Medical education student loans are originated according to specific proprietary underwriting criteria and securitized. ABS products, backed by a pool of these loans, are created for both the institutional and impact investment communities that address their specific but different investment criteria. The institutional investors receive a secure low-risk return, a familiar looking product with IR risk to manage, and in return provide substantial liquidity. Impact investors leverage their social impact 3-4x, take on substantially more risk, but still get compensated in a structure that can withstand defaults of 10%-20%.

Market opportunity

We believe this innovation is attractive because:

- **Scale:** We believe the model is scalable across South East Asia and much of the developing world. Market size is USD 7bn in Asia and USD 15bn globally.
- **Secure income:** Doctors have a high probability of finding employment after graduation and a visible income trajectory.
- **High demand for finance:** Doctors study longer and require support.
- **Health and development benefits exist:** Doctors have a direct impact on health outcomes across the country.
- **Sustainable market returns for investors:** Investors can expect returns equal to or more attractive than other senior ABS benchmarks.

Medical Education Expenditure / Year
(# Medical Students Graduating / Year)



- Medical Education Student Loans
- Market size of USD 7 billion in Asia
- Attracting institutional investment
- Innovating in health and education

What is the fund strategy?

Long term vision:

- Pioneer USD1bn+ Emerging Market SLABS (Student Loan ABS) market
- Accelerate education of doctors
- Improve healthcare and economic prospects for next generation
- Scalable to different disciplines (law, engineering) so asset class could be large

Realistic to launch:

- Start in Indonesia, because it is a good representative market
- Partnership with Mr Hartanto, Executive Director, YDBP University of Indonesia already established
- Focus on final yr students closer to earning to ease cash flow constraints and prove concept (incl. applicability of our group lending model)

What is the loan product?

- Market-beating loan rates of 13-15%
- Up to full cost of tuition
- No collateral required, students co-sign
- Debt repayments max. 35% of salary
- Payback 9 years after graduation
- Interest deferred while studying
- Model loss rate of 2-4% p.a. (equiv. 15%-30% default rate over life of loans)

What can institutional investors expect?

- Return: 10-yr local treasuries + 250 bps
- Floating-rate 10 year amortising
- Low risk profile: senior ranking, 1.5x collateralized by loans, protection against defaults > 40% (incl. excess spread)
- Target AAA rating (explore credit wraps from ASEAN / ADB / IFC)

What can impact investors expect?

- Returns equiv. to inflation
- Strong social impact: demonstrate this with monetized SROI metrics per USD
- Every USD invested levered 3-4x

Fund team

Renato Delgado:	Brazilian, 32, 8 yrs across corporate finance
David Sher CFA:	British, 29, 3 yrs structured finance
Austin Arensberg:	American, 30, 7 yrs M&A in Indonesia & Thailand
Neel Shah:	Indian, 29, 7 yrs M&A and real estate finance

Core Management Team Activities

MedEd plans to disburse funds through local partners, who will assist in loan origination, administration, servicing and collection. MedEd core competencies are in the design of the financial structure and our innovative underwriting criteria, which help to mitigate credit risk. We believe we can incorporate techniques successfully deployed by microfinance in the village community setting to the 'student community', and mesh them successfully with features found in existing student loan ABS platforms.

- **Group lending de-risks loans:** Targeting small groups of mutually liable students allows us to leverage peer-to-peer insights to 'cherry-pick' borrowers. It also creates incentives for peers to assist in collection and special servicing in the long-run and strengthens alumni networks.
- **Establishing strict underwriting criteria:** Target only best schools and medical students which have lower default risk.
- **Structuring the provision of finance:** securitizing loan pool, defining tranches and matching them to investors, hedging IR swaps, credit, and FX risk.
- **Gathering data,** building scale and improving the platform over time.
- **Attracting institutional and impact investors:** clear focus and need
- **Measuring, monitoring and reporting** on social impact. Adopt UN Principles for Responsible Investment (UNPRI) reporting standards

Social Impact: Monitoring and Measurement

We see social impact in 3 key areas KPIs and one unifying indicator:

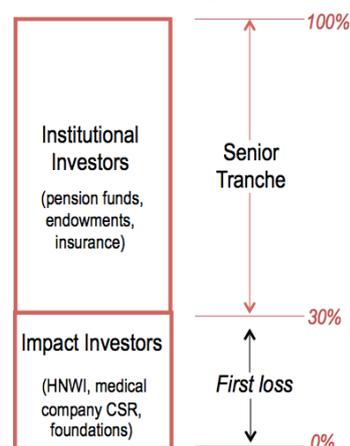
- **Education:** No of doctors trained - target 50,000 over 5 years.
- **Social mobility and development:** salary of doctor 5 years after graduation vs non-graduate from same income quintile.
- **Health:** doctors per capita in country of operation (data shows a correlation with life expectancy and other health outcomes).
- **Monetary:** Above three KPIs translated using accepted SROI methodology.

Critical Risks and Mitigants

- Loss rate is higher than 4% p.a or cost of structuring is higher than expected: the numbers in this prospectus create a viable economic model, but all can be flexed within a range without destroying value proposition.
- Scaling growth requires significant regulatory know-how and there is reliance on legal framework for collections: strong on-the-ground partners will manage operations. Group lending features reduce reliance on legal framework for recovery and turn peers into collection agents.

Sources:	WHO, World Bank, UN, IFC, Sampoerna Foundation, Lancet
Acknowledgements:	Frank Roessig - Mentor, Li Renn – DBS, Pete Hartigan – SOFI, Daniel Kahn – Common Bond, Cameron Stevens – Prodigy Finance, Ian Potter – Morgan Stanley, Pierre Hillion - INSEAD

What is the Capital Structure?



What are the economics?

Revenues	Expenses
Loan interest: 13-15%	WACC: 7% (senior of 8%; junior 4.5%)
	Loss rate: 2-4%
	Operating and structuring costs: 4%
Total: 13-15%	Total: 13-15%

How will we use partners?

Origination, servicing and loan administration: Universities, Sampoerna, MFIs, local banks

Special servicing: We expect group mutual liability will help engage peers to assist us and our partners in special servicing and help to mitigate risk and improve recovery

Investors: Venture Philanthropy
Institutional investors

We believe we have an attractive proposition for our partners:

- Universities: we help to increase demand and attract best talent
- NGO, wealthy donors, venture philanthropy: we leverage their social impact
- Banks: cross-sell for bank accounts, insurance products in the medium terms
- Pension funds, insurance funds, HNWI: looking to deploy socially responsible long term, safe investments for A-L matching