

# RDB - INVESTOR'S GUIDE

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The following document provides in 10 points all necessary information for investors, from how to invest and withdraw to the calculation of your personal interest rate and the haircut fee applicable when funds are withdrawn prematurely.

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## I. Investing

In order to invest via the RDB the first step is to contact us, either by email at [rigotnomics@gmail.com](mailto:rigotnomics@gmail.com) or by visiting us in our offices. You will need to provide us with your full name, your *permanent* email address, and also with a security question to be used in case of withdrawal. ***Keep us updated on your current email address!***

When registered as an RDB investor you will be provided with an ID and an account number to make a transfer to. Alternatively, you can make a cash deposit at our offices.

## II. Withdrawing

Send an email to the RDB. Provide us with your ID, your desired withdrawal date, and with the security question and answer. If you forgot the question, we will ask it to you by email. No withdrawal can be made if the correct answer is not given.

Unless you come to our offices to withdraw cash, you need to provide us with an account number to which we can make the transfer to.

## III. The currencies

The RDB currently accepts deposits in Swiss francs (SFr) or euros (€). For the moment, all our investments are made via the MYC4 platform which operates in euros. Hence, by giving us euros you circumvent the SFr/€exchange rate risk.

## IV. The risks

Investing via the RDB comes with various risks which the RDB does not cover. As loans to entrepreneurs are given in local currency, exchange rate fluctuations can entail significant losses. Besides the exchange rate risk, entrepreneurs may fail to repay their loans partly or fully. This default risk reduces again the potential return from an investment. Finally, political risks, such as the instability caused by a coup d'état or civil conflict, even though very low, need to be taken into account.

## V. Choosing investment projects

While the RDB chooses investment projects in order to strike the right risk-return balance, a share of the investment is dedicated to social projects in health and education at potentially lower rates as we also value the social reruns of our investments. When deciding on the investments we screen the entrepreneurs projects based on their repayment history, the Micro Finance Institution's (MFI) past performance and the viability of the business idea. Additionally, the RDB attempts to keep a portfolio balance across countries to minimize political and exchange rate related risk.

## **VI. Interest rates**

For the moment we invest only via MYC4. The platform operates so-called Dutch auctions where interest rates race to the bottom as investors bid competitively to make loans. The RDB attempts to obtain competitive interest rates but always decides on a minimum below which it is not willing to finance the particular project. The RDB interest rate is then the weighted average interest rate on all the projects the RDB has bid successfully for.

For instance, if the RDB has invested in two projects, 20 euros in Project A at 15% and 40 euros in project B at 12%, the rate of the portfolio is 13%. However, this rate is an annualized rate of return and obtained only if monthly repayments are re-invested at the same rate.

## **VII. Calculating the return**

The rate of return can vary widely from the interest rate at which the RDB lends to entrepreneurs. There are three reasons for this. First, risks as described under point IV can affect principal and interest repayment, second, the RDB pays taxes on interest gains, and third, due to liquidity requirements and the time lags between investment and actual start of the repayments not all repayments are constantly reinvested. Hence, the return on the deposit will generally differ from the return on the invested funds and the lending interest rate.

## **IX. Calculating your personal return**

Your personal return is a function of the overall performance of the RDB's investments, the duration of your deposit and proportional to your share of the RDB deposits. For instance consider you invested 100 euros two months ago. In the first month your RDB share is 10% while in the second month it falls to 5% (due to a doubling of deposits). If the return from the RDB investments in the first month was 5 euros and in the second month 10 euros, then your personal return is  $0.50+0.50=1$ . The total return on your investment after 2 months is 1% (an annualized 6%).

## **VIII. The haircut fee for premature withdrawals**

A withdrawal is considered premature if done less than 12 months after the deposit was made. Since such a move exerts an unexpected drain on the funds of the RDB and thereby imposes a maturity related liquidity risk, the RDB deducts a 10% fee from the sum of deposit and interest which accrued up to that point. For instance, reconsider the example under point XIII and assume you wanted to withdraw the funds after the 2 months. The haircut fee implies a deduction of 10 euros from the principal and 0.1 euros from the interest. So the total amount you will receive equals 90.90 euros. Had you decided to remain with the RDB for another 10 months you would have received 106 euros.

## **X. The RDB is what you make of it**

All these guidelines are set up to contribute to growth in the developing world and maximize the returns to RDB investors while ensuring the smooth functioning of the RDB. If you have any question or suggestions on how the RDB can be improved, don't hesitate to send us an email at [rigotnomics@gmail.com](mailto:rigotnomics@gmail.com). We are keen on hearing your proposals since we are always looking for ways to improve our services.