

# Old Mutual African Agricultural Fund (Luxembourg) - SICAV Quarterly Report

December 2014



**OLDMUTUAL**  
INVESTMENT GROUP

# Old Mutual African Agricultural Fund (Luxembourg) - SICAV

Société d'Investissement À Capital Variable

## Summary

### Fund overview

The Old Mutual African Agricultural Fund (Luxembourg) - SICAV ("The Fund") holds an investment in the Futuregrowth Agri Fund 1 ("SA fund") which invests in South African farmland. The SA fund holds four farm investments: Marble Hall, Northern Cape Grape Farms, Piketberg and Eshowe, comprising a total area of 5 868 hectares (ha). This report deals primarily with the SA fund investments as there are currently no investments in the rest of Africa. The Fund also derives income from providing a working capital finance loan to an agricultural entity.

Development work on all four farms progressed well during the quarter. New lemon plantings at **Marble Hall** are showing promise. Some hail and frost damage may have an impact on the coming season.

### Investments (SA farm overview)

Harvesting is in full swing on the **Northern Cape Grape Farms**, with above average yields. Implications of the age of some individual vineyards are being explored.

The **Piketberg** farm is picture perfect after some changes in the management structure. The farm has moved from a rebuilding to a production phase.

The **Eshowe** farm has coped well under challenging conditions and has set a good crop for the coming season.

### Net asset value

Please refer to the Net Asset Value Inventory Reports on the Futuregrowth Luxembourg website for details: <http://www.futuregrowth.lu>

### Performance

The ZAR currency weakened by 2.4% relative to the US dollar during the quarter, which had a negative impact on the net asset value of the Fund.

### Social impact

Marble Hall workers made good use of the pre-paid healthcare programme in 2014 and an onsite clinic is in the planning stages. One of the workers is now an AET facilitator on the farm.

Good exam results were achieved at Piketberg, where learners went on an educational trip to the Karoo.

### Key data

#### Committed capital

: USD 6.5 million (ZAR 62 million) to SA farmland

#### The Net Asset Value per share of the Fund at end December 2014

: USD 88.62

#### Total farm workers impacted

As at 31 December 2014, **241** workers received pre-paid healthcare and **87** workers received AET.

## Market review

A key theme in 2014 for the South African agricultural industry was market diversification.

Since 2008 South African fruit exporters have been heavily exposed to the European market but have been exploring and developing new market opportunities. With recent geopolitical factors such as the demise of the Russian market, continuing EU concerns over citrus black spot contamination, economic difficulties in Europe and the resumption of grape production in Chile, the need for diversification has become increasingly urgent.

EU sanctions imposed on Russia during 2014 were detrimental for the entire fruit industry in SA, with Russia previously taking 15-20 percent of SA fruit. Most of the produce destined for Russia was shipped via the Netherlands and Germany and these distribution channels have fallen away due to the sanctions. Furthermore, the falling Russian rouble made imports exponentially expensive for Russia, resulting in a decreased demand for fruit.

Although research has indicated that citrus black spot is not harmful or transferable, the EU continued to threaten to impose import bans in 2014. In order to avoid an outright ban, exports from SA were voluntarily halted in September (during the season) resulting in an estimated loss of R1 billion to the industry. SA has taken up the issue with the World Trade Organisation, in an attempt to resolve the situation.

In order to mitigate this risk, the SA citrus industry is looking to new markets such as China, Indonesia, Vietnam, Philippines and India. However, trade relationships with these new markets will need further development, which is a long-term process. It will therefore take a while for the citrus industry to become less dependent on the EU market.

After a disastrous season previously, due to high crop losses and strikes, SA's biggest competitor in the table grape industry, Chile, is back in the market. This has resulted in lower prices. The weakening euro has put further pressure on revenue received in SA rand. Although the SA grape industry has had a good start to the current season, exporters are continuing to investigate ways to diversify in order to spread any future risks.



Housing for seasonal workers at Marble Hall in progress



Piketberg workers on an educational tour in the Karoo



# Old Mutual African Agricultural Fund (Luxembourg) - SICAV

Société d'Investissement À Capital Variable

## Fund overview

As at 31 December 2014 the Old Mutual African Agricultural Fund (Luxembourg) SICAV ("The Fund") had committed capital of USD 6.5m (ZAR 62m) to the SA fund, which is invested in South African farmland. Of this, USD 5.8m (ZAR 54.3) had been drawn by the end of the quarter.

The invested capital is spread across four deals: Marble Hall, Northern Cape Grape Farms, Piketberg and Eshowe. Furthermore, working capital finance has been provided to an agricultural entity.

**Eshowe**, a consolidation of four farms acquired in January 2014, is located in the Nkwalini Valley of KwaZulu-Natal, approximately 150 km from the Durban Harbour. This investment offers extensive expansion opportunities in a highly sought after grapefruit and lemon production region.

**Piketberg** is a consolidation of three deciduous and stone fruit farms in the Western Cape province, acquired in November 2011.

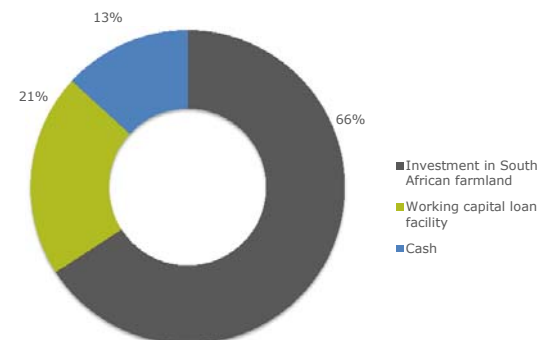
**Northern Cape Grape Farms** is a consolidation of three table grape farms in the Northern Cape province, bought in August 2011.

The **Marble Hall** investment is similarly a consolidation of three citrus farms in the Limpopo province, acquired in December 2010.

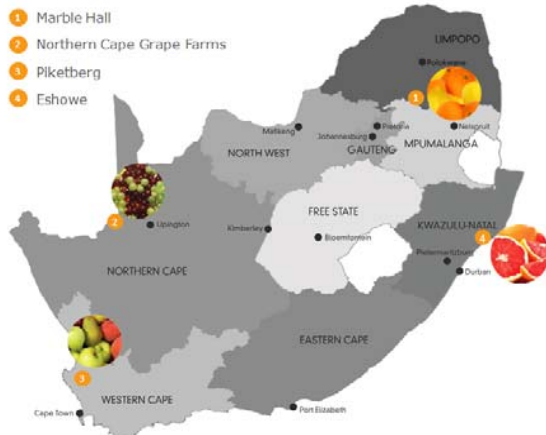
### Country exposures



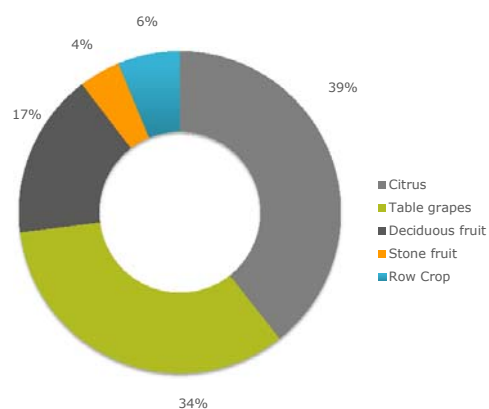
### Asset allocations



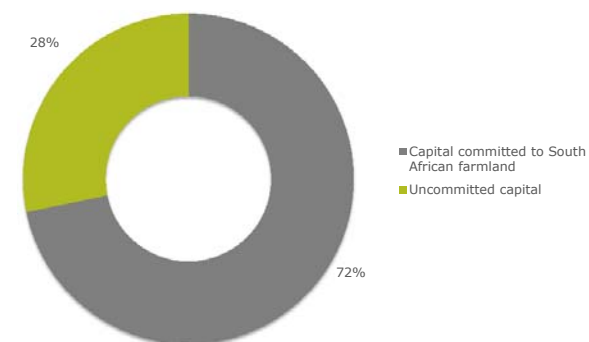
### Deals done in South Africa:



### Crop allocations



### Allocation of cash



# Old Mutual African Agricultural Fund (Luxembourg) - SICAV

Société d'Investissement À Capital Variable

## South African farm overview

	Marble Hall	Northern Cape Grape Farms	Piketberg	Eshowe
Acquisition date	Dec-2010	Aug-2011	Nov-2011	Jan-2014
Investment period	10 years	10 years	10 years	7 years
Primary crop	Citrus	Table grapes	Deciduous and stone fruit	Citrus
Region	Limpopo, bordering Mpumalanga	Northern Cape	Western Cape	KwaZulu Natal
Total farm size	936 ha (including natural lands)	3 183 ha (including natural lands)	1 035 ha (including natural lands)	714 ha (including natural lands)
Primary production and infrastructure area combined	714 ha (222 ha natural lands)	222 ha (2 961 ha natural lands)	147 ha ( 888 ha natural lands)	407 ha (307 ha natural lands)
Operator	JV between farmer Nelus Potgieter and SAFE Farm Ventures (SFV)	SFV	JV between farmer Hugo Schreiber and International Fruit Services (IFS)	Afrifresh (Pty) Ltd
Operator company/ies	Fanchon (Pty) Ltd / Somerhoek (Pty) Ltd	Onderstepoort (Pty) Ltd	Hochland (Pty) Ltd	Fruitstar (Pty) Ltd
Property SPV	Royal Dawn Farming (Pty) Ltd	Matlotlo Trading 27 (Pty) Ltd	Salestalk 173 (Pty) Ltd	Cedarpoint Trading 21 (Pty) Ltd
Individual farm names	Somerhoek	Onderstepoort	Stawelklip	Mvubu
	Loskop	Nuweland	Voorstevlei	Bridgeford
	Elandsdrift	Oranjestroom	Hochland	Sunnyside, Thabile
Farm performance <sup>1</sup>	<p>A hail storm in the early part of the quarter has reduced the crop expectation for the coming season. The extent of this is unknown: an assessment to determine the impact of this event should be possible in the first quarter of 2015.</p> <p>The new plantings of lemons will be going into bearing and early indications are of a good lemon crop. The frost damage reported in the third quarter has had an impact on the (already) bearing trees, whereas the new plantings have recovered well and will only need pruning for complete recovery.</p> <p>The farm experienced a very dry early summer, which has been good for pest control. There is overall optimism regarding the 2015 harvest.</p>	<p>This quarter has been without incident, with the harvesting currently in full swing. Yields have been above average and harvesting conditions have been ideal. Berry size is relatively even, thereby increasing the pack out for export. The labour force has been happy, with a clear focus on co-operation.</p> <p>In general, the dry season has been bad for the stock farmers in the area but very good for the fruit farmers. All the Fund's farms are in good condition and the inputs of the past seasons are now starting to show results.</p> <p>On Onderstepoort, various options are being explored in conjunction with the operator, to address vine age and required inputs to individual vineyards, to ensure the long term viability of this unit.</p>	<p>Late spring rain has filled the dams and there is enough water to take the farm through the summer. The farm is in very good condition and looks picture-perfect. Some changes in the management structure have had a positive impact and it is clear that the focus has been to get the farm into a condition that will make the investors proud.</p> <p>The farm has been through a rebuilding phase and has now entered the production phase. All peaches have yielded well and more product has been sold than in any previous season. The new irrigation system has had a significant impact on the control that the operator has been able to exercise over the crop.</p>	<p>The Nkweleni valley has had below average summer rainfall. Although this is an advantage for pest control, it has placed the irrigation system under strain. This has been exacerbated by the replanting programme, which has necessitated the replacement of some infrastructure. The farm has coped well under these circumstances and has managed to set a good crop for the coming season.</p> <p>In general the farm is in good shape considering where it is in its rebuilding phase.</p>
Expansion update	<p>The main focus has been on the replanting of 70 ha on H19. This is going very well and without incident: land preparation is complete and the irrigation system is being installed to be ready for the early autumn planting of the trees.</p> <p>The sealing of the dams on H19 and H24 is about 90% complete. The remaining staff housing is now at roof height and will be completed before the start of the new season.</p>	<p>At Onderstepoort, development has focused on replanting old vineyards and putting up new netting. This is about 90% complete and will be finalised in the second quarter of 2015. New plantings are doing well and are comparable to other plantings in the area.</p> <p>At Oranjestroom, new plantings and netting are complete. Most of the activity has focused on the completion of staff housing and the extension of the packhouse.</p> <p>At Nuweland, netting is about 90% complete and the packhouse now sports a new state of the art cold storage facility. The last of the staff housing is being completed.</p>	<p>Much effort went into completing the packhouse before the apple and pear picking commenced and all the work was completed just in time.</p> <p>The planting of the first 2 500 new citrus trees started in the early part of the quarter, but was postponed due to the planting material not being strong enough to take the planting process. This activity will continue in the second quarter of 2015.</p> <p>The peach and apple plantings have progressed well and will be completed before the late summer heat sets in.</p>	<p>Substantial effort has gone into installing the irrigation system and finalising land preparation for the new lemon, macadamia and banana development. The banana orchards have been planted and most of the grafting of the grapefruit to lemons is now complete.</p> <p>The packhouse cold room floor has been cast and new staff housing is at floor height. The staff housing location had to be moved due to a dispute between two families, but this has been resolved peacefully.</p>
Site visits during the quarter	27 November 2014	1 December 2014	8 October, 14 November 2014	9, 10, 11, 12 December 2014

Note 1: The Fund itself has no exposure to primary agricultural risk as the farms' operating performance is for the account of the operator.

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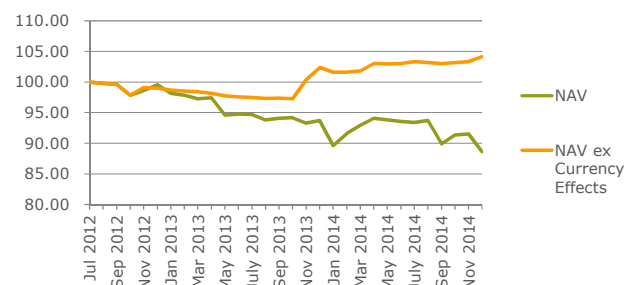
Société d'Investissement À Capital Variable

## Fund performance

The ZAR currency weakened by 2.4% relative to the US dollar during the quarter, which had a negative impact on the net asset value of the Fund. The investments within South Africa continue to perform well and the outlook on profitability of the farms within South Africa looks positive, with the continued weaker currency benefitting exports.

Revaluations of the farmland investments in the SA fund are expected to be completed during the 1st quarter of 2015.

Performance (historical NAV)



## SA fund performance

The Fund has a very short history; therefore an extract of the daily time weighted returns provided by the SA fund is shown on the right. The SA fund delivered a return of 1.40% this past quarter and 4.44% over the past year.

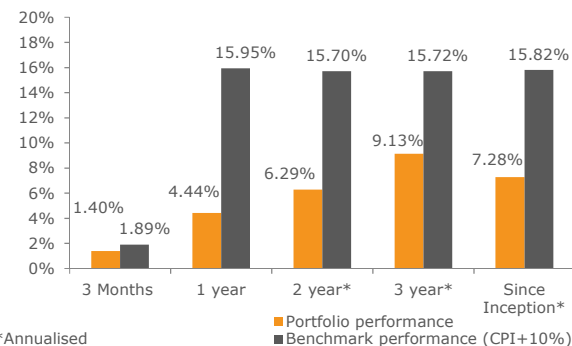
The investment performance of the SA fund reflects 7.28% per annum for the period since inception.

It must be noted that these types of investments tend to be capital intensive in the early years. Therefore, return expectations during the first few years tend to be lower but as time progresses the returns follow a J-curve. The J-curve effect is less pronounced than private equity investors are accustomed to, due to the lease income stream generated by the farmland assets after their acquisition.

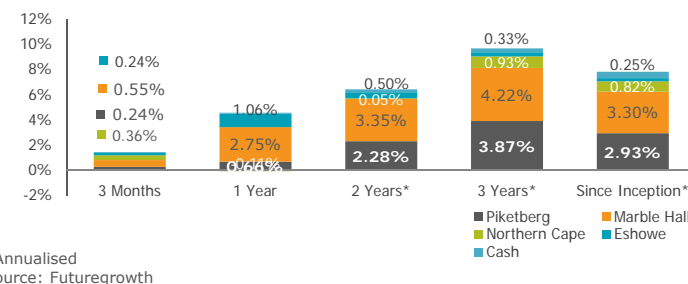
The returns during the quarter were attributable to the lease fee income net of costs.

Independent valuations on the assets were not completed in the 4th quarter due to the limited availability of reputable valuers. The valuations are under way and expected to be completed by February 2015. These will be updated for the March 2015 quarter end report.

SA fund returns (ZAR Denominated)



Farm level returns



## The components that drive returns

- | Capital appreciation on the underlying investment properties.
- | The CPI-linked lease fee: the lease is a fixed percentage of the purchase price of the land, escalating annually at CPI.
- | Expansion potential of the investments: not only gives an increased lease yield once the new developments reach production, but the capital value is also enhanced on revaluation and exit.
- | The investment returns may be affected by exchange rate movements.

# Old Mutual African Agricultural Fund (Luxembourg) - SICAV

Société d'Investissement À Capital Variable

## Social impact: South African fund

		Marble Hall	Northern Cape Grape Farms	Piketberg	Eshowe	Total
Permanent employees* (workers with contracts longer than 1 year)	At take-on:	25	94	102	83	304
	At Dec 2014:	67	83	127	82	359
Seasonal workers*, depending on season	Currently, up to:	450	950	520	440	2360
Projected new jobs (permanent & seasonal), due to expansion	Projected new jobs:	300	465	100	212	1077
Employees with access to pre-paid primary healthcare	At take-on:	0	0	0	0	0
	At Dec 2014:	66	0	71	104	241
Employees with access to HIV/AIDS services	At take-on:	0	0	0	0	0
	At Dec 2014:	66	0	71	104	241
Employees receiving adult education	At take-on:	0	0	0	9	9
	At Dec 2014:	34	34	7	12	87
Employees receiving management training	At take-on:	0	0	0	0	0
	At Dec 2014:	8	3	11	6	28

The table above tracks the social impact initiatives underway on the Fund's farms.

During 2014, 41 workers on the healthcare programme at Marble Hall paid a total of 91 visits to the doctor. Negotiations are continuing to coordinate initiatives by the farm, the provincial department of Health and Social Welfare, and CareCross (the programme provider). It is foreseen that an onsite clinic could address various chronic diseases and occupational health services for an extended group. One of the Marble Hall workers qualified as an AET facilitator and started running classes for fellow workers in communication and literacy.

At the Northern Cape Grape Farms, transport is provided for seasonal and permanent workers to and from the nearest doctor and pharmacy when required. Roll out of the pre-paid programme is foreseen at a later stage. Three of the four learners who wrote exams in July passed, and eight of the 16 who wrote in November passed their exams.

At Piketberg, all seven learners participating in the AET programme passed their exams, with two learners achieving A levels. In December all the learners participated in an educational trip to the Karoo which was organised by the local school and co-financed by the Fund. Two daycare ladies received Early Childhood Development training and eight Workers Committee members received basic computer training during the quarter.

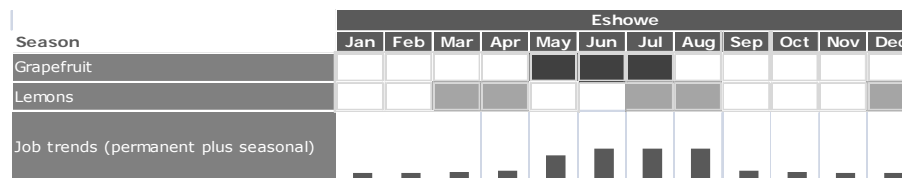
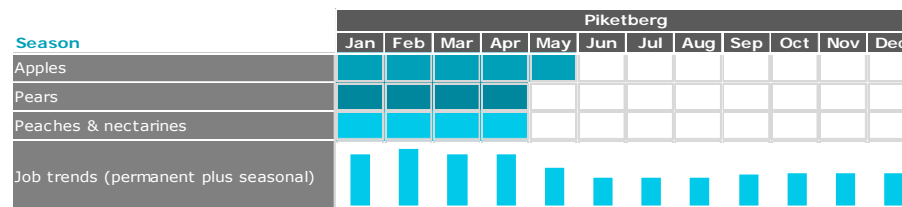
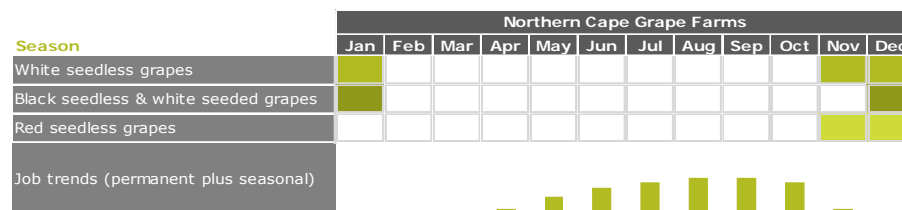
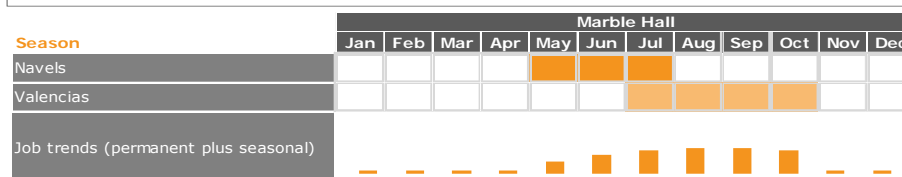
In Eshowe, all permanent workers and selected seasonal workers are enrolled on the pre-paid healthcare programme. During the quarter, nine learners wrote AET exams and an additional two learners wrote their final (Matric) exams, with results still awaited.

## \* Farm seasonality

The SA fund currently has three labour intensive fruit farm investments. These present a greater opportunity for social impact than other (less labour intensive) types of farming. However, the seasonal nature of these operations means that labour requirements and activities can fluctuate significantly during the year with the resultant impact on job creation, housing, healthcare and training.

Where possible, the operators make an effort to keep as many workers employed for as long as possible during the year via work on general maintenance or other crops, or packing fruit for other farms.

The tables below depict the seasons for the major crops currently produced on each of the Fund's farms, together with the concomitant labour requirements.



# Old Mutual African Agricultural Fund (Luxembourg) - SICAV

Société d'Investissement À Capital Variable

## Fund facts and general information

### Price publications and regular information

Information on the Fund's development is available through selected banks. Additional regular information may be obtained from the Fund's investment advisor, UFF Agri Asset Management ([www.uff.co.za](http://www.uff.co.za)), or the Fund manager, Futuregrowth Asset Management.

### Fund domicile and type

Luxembourg,  
Société d'Investissement à Capital Variable (SICAV)

### Inception date

August 1, 2012

### Central administration

Credit Suisse Fund Services  
(Luxembourg) S.A., Luxembourg

### Investment manager

Futuregrowth Asset Management  
Cape Town, South Africa

### Investment advisor

UFF Agri Asset Management (Mauritius)  
Mauritius

### Custodian

Credit Suisse (Luxembourg) S.A., Luxembourg

### Fund currency

The Fund currency is USD.

### Investment currency

Primarily, investments are made in USD. In certain cases, investments can be in ZAR. Local currencies are permitted on a limited basis.

### Valuation (NAV calculation)

The Net Asset Valuation is calculated on the last bank working day (banking days) in Luxembourg each month (valuation date).

### Value date

The payment of the purchase and the redemption prices is usually made within ten banking days in Luxembourg after the valuation date.

### Issue / purchase of shares

Fund units are issued monthly. Subscription requests must be submitted three banking days before the respective valuation date.

### Issuing fee

As per bank fees

### Redemption/sale of units

The redemption of units is possible at the end of any month subject to 45 calendar days notice.

### Valor

USD  
USD

### ISIN

LU0796025822  
LU0852744571

### Class

I-1  
I-2

### Denomination

The initial unit price was USD 100. The minimum subscription amount is USD 1,000.

### Returns / dividends

No distribution, proceeds are reinvested.

### Management fee

A maximum of 1.75% p.a.

### Performance fee

20% of the excess return over the hurdle rate of 12% after management fees in nominal terms.

### Sales authorization

Luxembourg, The Netherlands

### Distribution / paying agents

Credit Suisse (Luxembourg) S.A.,  
Luxembourg  
Futuregrowth Asset Management,  
Cape Town, South Africa  
UFF Agri Asset Management,  
Cape Town, South Africa

### Fund promotor

Old Mutual Investment Group,  
South Africa

## Contact details

### Futuregrowth Asset Management

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Rondebosch, 7700  
Republic of South Africa  
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Fax + 27 21 659 5337 [www.futuregrowth.co.za](http://www.futuregrowth.co.za)

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## Disclaimer

Old Mutual African Agricultural Fund (Luxembourg) ("the Fund") has been incorporated for an unlimited period under the laws of the Grand Duchy of Luxembourg as a "société d'investissement à capital variable (SICAV) under the form of a "société anonyme" on 31 May 2012 organized under Part II of the Law of 2010.

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More detailed information on the risks and investment strategy can be found in the Prospectus of the Fund.

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