

# Old Mutual African Agricultural Fund (Luxembourg) - Société d'Investissement à Capital Variable (SICAV) Annual Report

31 December 2012



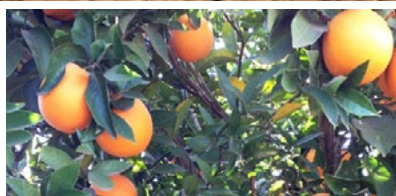
**OLD MUTUAL**

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*The Old Mutual African Agricultural Fund (Luxembourg) – SICAV (the “Fund”) holds an investment in the Futuregrowth Agri Fund I (“SA fund”) which invests in South African farmland. The Fund has also committed funds to the Old Mutual African Agricultural Fund PCC (Mauritius) (“African fund”) in order to gain exposure to African farmland investments outside of South Africa. Futuregrowth Asset Management is the Investment manager and UFF Agri Asset Management is the Investment advisor of the Fund.*

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*This annual report provides context and an overview of the Fund's operations and investments. Details of the environmental, social and governance (ESG) aspects of the Fund and its investments are covered in the accompanying 2012 Impact Report.*





# Setting the Scene

## 2012: Looking back and ahead

Paul Rackstraw, SICAV Director

In October 2012, the SICAV invested in the SA fund. All three of the SA fund's investments have run for a full twelve month cycle. This provides an opportunity to reflect on the investment model adopted in running the fund and the success achieved at this stage.

The model that was implemented is one of high involvement by the Fund Advisor (UFF), partnering with an operator to ensure that the fund's objectives are met.

In many areas such as education, housing and healthcare, the fund is breaking new ground and aiming to set a benchmark for strong social practices that support the building of a competitive farming operation.

Given the nature of the farms (past practices, location, history, timing of crops, existing infrastructure) each intervention has to be custom designed to suit the specific requirements of each farm. These challenges require innovative thinking and solutions. I am encouraged to see that the team is always up to the challenge of finding a workable solution.

Moreover, the fund has been contacted by neighbouring farms to enquire about the

programmes being implemented and whether they can run similar programmes on their farms. This is particularly exciting as the fund can act as an even stronger catalyst for change in the industry.

With respect to the close monitoring of the farming operations, it is pleasing to see that the UFF team has already been able to add value to the farms and operators in terms of requested changes to normal operations and the expansions. The SA fund is in a key phase of expansion on the farms which, although diluting performance initially, will add significant value over the term of the fund and enhance performance in the long run. The value that the fund adds to the operator is affirmed in the strong pipeline of operators wanting to work with the fund.

Looking further afield, Africa's potential is now starting to be recognised with increasing interest from overseas investors. Africa consists of about 20% of the world's land and has approximately 15% of the world's population. A key advantage is that it has 60% of the world's uncultivated arable land. Our aim, by applying the South African model to the rest of Africa, is to ensure that agricultural expansion and development in Africa is done in a responsible and sustainable way that makes a positive impact in the countries and communities where the fund invests.

Africa's agricultural sector - a **R9.09 trillion** (\$1 trillion) industry by 2030

World Bank report "Growing Africa: Unlocking the potential of agribusiness"



Panorama of new lemon and navel orange plantings

## How we add value

Duncan Vink, UFF's Managing Director

The Fund is mandated to deliver solid financial returns together with positive social and environmental impact. The Fund uses capital to invest in upgrading farmland and increasing production in rural areas, thereby creating sustainable employment in these regions. Communities are never displaced and only land that has already been earmarked for agriculture is considered.

UFF maintains a close relationship with the operators on its investment farms, providing advice related to strategy and daily operations, working in close cooperation with related third parties and institutions, and identifying value enhancing opportunities. These aspects are essential to the achievement of the Fund's financial and social objectives, and are embedded in its contractual agreements, supported by regular monitoring, farm visits and reportbacks to investors.



Harvesting at Marble Hall

Our well developed marketing and distribution networks and our expertise in both local and international agricultural best practice allow our farms to effectively compete as world-class suppliers, and to sell their produce for optimal returns.

The Fund's state-of-the-art financial and operational management and control system (used to analyse and monitor the performance of the agricultural assets on a continuous basis) makes it possible to detect underperformance at an early stage. In conjunction with the UFF agronomist, who conducts an in-depth examination of the soil, water, plantings, crop care and management information systems used, efficiencies in farming methods are implemented and arable land is put to the most productive use.

Expansion opportunities are carefully planned and financed by the Fund, and closely monitored for the duration of the investment, thereby contributing to job creation and food security. In this way, the Fund's involvement considerably enhances the performance and long-term sustainability of the farm, compared to the situation prior to our investment. Without the investment and involvement of the Fund these developments, together with our social initiatives, would not have taken place.

**A strong  
agribusiness sector  
is vital for Africa's  
economic future**

Gaiv Tata, World Bank Director  
for Financial and Private Sector  
Development in Africa

# The Fund

## 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), 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 shares 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 shares

The redemption of shares 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 share 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 promoter

Old Mutual Investment Group,  
South Africa

## Social impact

The Fund is a SRI vehicle that facilitates agricultural development, farming infrastructure, social, environmental and economic development in Africa.

The investment model addresses agricultural initiatives that lead to:

- | land development and conservation
- | environmental reform
- | employment
- | healthcare
- | community ownership
- | housing
- | education
- | food security
- | skills transfer

## INVESTMENT FEATURES

- | Real asset underpin
- | Long-term investment with current stable return component
- | Low if not negative correlation to traditional asset classes
- | Diversification
- | High correlation with inflationary measures
- | Inflation hedge / attractive risk-return profile
- | Significant direct and indirect societal benefits (food security, employment and empowerment).

## Fund model

The Fund's investments are in the actual farmland and infrastructure, which is leased to an approved operator to manage and run the farm. According to a planned expansion programme, the Fund invests capital into farms to develop additional arable land. This may include the acquisition of adjacent farmland.

Returns are generated from the lease fee escalated at the local inflation rate p.a., with the capital value increase realised upon final exit with the profit on sale of the farmland.

Aside from the stable returns generated, the social impact is significant. The investment caters for a minimum 0.5% of invested capital spend per annum on healthcare and educational programmes for workers.



## Fund overview

As at 31 December 2012 the Old Mutual African Agricultural Fund (Luxembourg) SICAV ("The Fund") had committed capital of USD 7.3m (ZAR 62m) to the SA fund, which is invested in South African farmland. Of this, USD 3.4m (ZAR 30.2m) had been drawn by the end of the year.

The invested capital is spread across three deals: Piketberg, Northern Cape Grape Farms and Marble Hall, comprising a total area of 5 154 hectares (ha).

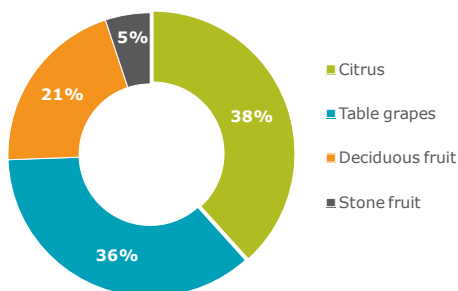
Piketberg is a consolidation of three deciduous and stone fruit farms in the Western Cape Province in South Africa, acquired in November 2011.

Northern Cape Grape Farms is a consolidation of three table grape farms in the Northern Cape Province in South Africa, bought in August 2011.

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

The Fund also has USD 7 million committed to the African fund, which has not been drawn down as yet.

## Breakdown of permanent crops December 2012



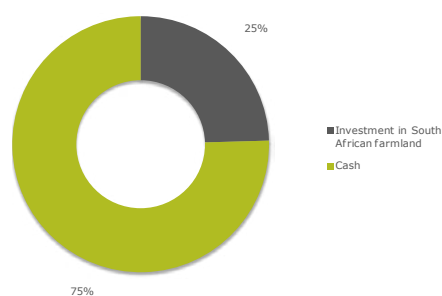
Source: Futuregrowth

## Country exposures December 2012



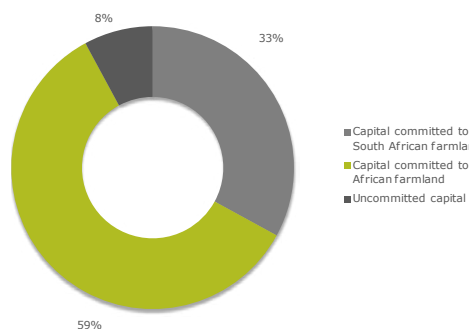
Source: Futuregrowth

## Asset allocations December 2012



Source: Futuregrowth

## Capital committed December 2012



Source: Futuregrowth

## CURRENT PERMANENT CROPS

- | Citrus: Navels, Valencias, Lemons and Soft Citrus (mandarins)
- | Table grapes: White seedless, Black seedless, White seeded, Red seeded grapes

- | Deciduous fruit: Apples, Pears
- | Stone fruit: Peaches, Nectarines, Cherries (to be phased out)

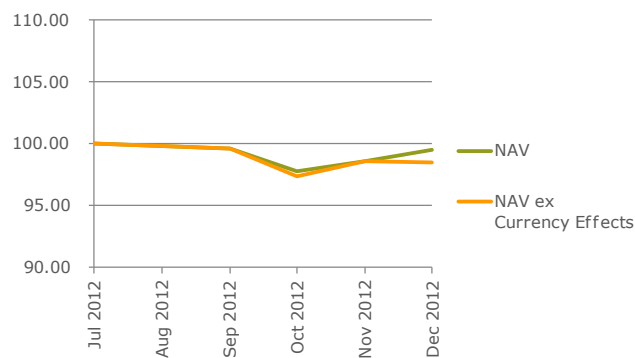


## SICAV performance

The Fund invested in the SA fund during October 2012.

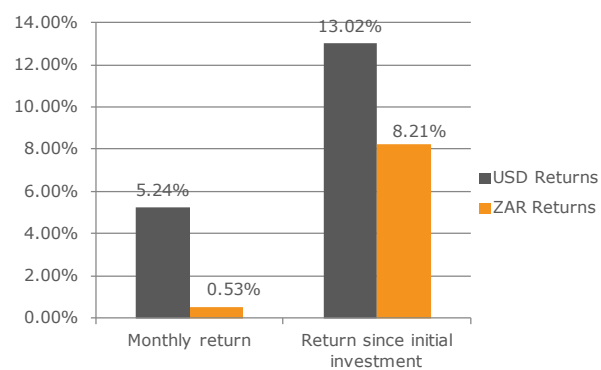
Initial expenses caused a slight drag on the Fund performance. However, the positive performance of the investment in the SA fund led to a rise in the NAV from end October 2012. The Net Asset Value per share of the Fund at end Dec 2012 was USD 99.56.

### Performance (historical NAV) December 2012



Source: Futuregrowth

### Return on the Fund's invested capital in the SA fund December 2012



Source: Futuregrowth

## SA fund performance

The Fund has a very short history; therefore an extract of the daily time weighted returns provided by the SA fund are shown on the right. The SA fund delivered a total return of 15.04% over the past year and 8.3% pa since inception. Based on the findings of independent valuers, revaluations of all three farms were done during the fourth quarter. The 15.04% return consisted of 8.16% lease income, 0.38% cash return and 6.5% capital gains on farm revaluations.

The SA fund is currently in a ramp-up phase, therefore performance is not expected to meet targets at this stage.

The total returns for the year can be further broken down as per the table below:

	LEASE INCOME AND CASH RETURNS	REVALUATION	TOTAL
Piketberg	1.72	4.88	6.60
Northern Cape Grape	2.14	0.27	2.40
Marble Hall	4.30	1.36	5.66
Cash	0.38	-	0.38
Total	8.54	6.50	15.04

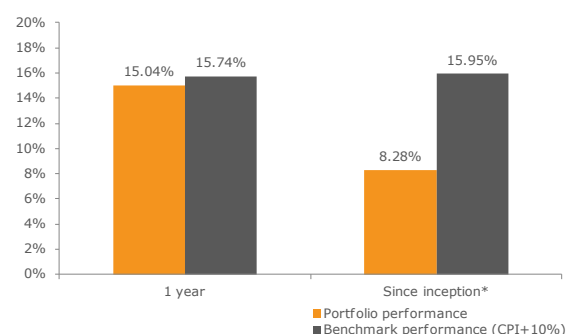
Based on the findings of independent valuers, revaluations of all three farms in the fund were done during the period. The strong revaluation on the Piketberg farm, which gained 5.25% (4.88% attributable to revaluations) drove most of the gains for the fund. Marble Hall gained 2.12% (1.36% attributable to revaluations) and Northern Cape Grape Farms gained 0.74% (0.27% attributable to revaluations).

Piketberg contributed 6.60% of the total return during the year, while Marble Hall and Northern Cape Grape Farms contributed 5.6% and 2.40% respectively.

The fund performance calculation is based on a time weighted methodology.

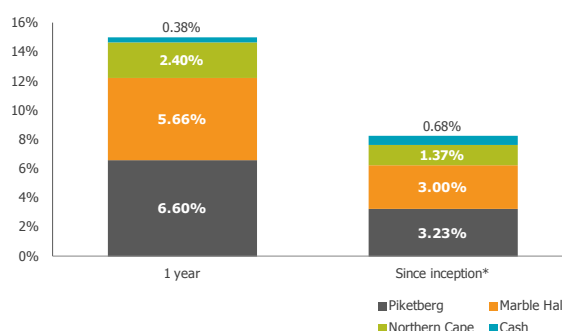
(Note: The information stated relates to the period under review and is not indicative of future returns.)

### SA fund level returns (ZAR denominated) December 2012



\*Annualised/ Source: Futuregrowth

### Farm level returns (ZAR denominated) December 2012



\*Annualised/ Source: Futuregrowth

## 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. **Note:** expansion hectares are carried at cost and not written up until fully productive.
- Social returns due to enhanced worker healthcare, housing and sanitation, job creation and skills transfer ensure that farmland quality is maintained and contribute to farm sustainability and community empowerment.
- Returns may be affected by exchange rate movements.

## Fund Manager's report

James Howard, Fund Manager, and Smital Rambhai, Product Manager

We believe that the components that drive the fund's returns are capable, over time, of not only meeting but exceeding the target 12% USD benchmark:

- | The fundamental basis of the fund's return is capital appreciation on the underlying investment properties. Farmland assets both worldwide and within South Africa historically outperform inflation in the long term through all economic cycles by at least 4.5%.
- | The second driver of the fund's return is the Consumer Price Index (CPI)-linked lease fee. When deals are concluded, the purchase of farms is indivisibly tied to the appointment of an operator who leases the farm for a period of 10 years. The lease is a fixed percentage of the purchase price of the land, escalating annually at CPI. This component provides an essential and very strong check back to the purchase price. If the purchase price is in any way over true value, the fund will not find an operator who is willing to commit to the concomitant lease for the required 10 year period.
- | Thirdly, and most importantly, the expansion potential of the investments provides a strong performance return component in itself. Each deal is required to have sufficient growth and capacity/expansion potential. This is driven by the quality of the farm infrastructure which enables the fund to develop both existing arable land, as well as to purchase additional land, deploying capital to maximise the potential available. This is why the due diligence process prior to purchase necessitates intense work on soil quality, water rights and infrastructure assessment, together with a key understanding of market dynamics. This expansion potential not only gives an increased lease yield as soon as the new land reaches production, but the capital value is also enhanced on revaluation and exit.
- | Finally, social returns are an integral component of the fund's performance. Improvements to worker healthcare, housing and sanitation, job creation (driven by the expansion mentioned above) and skills transfer ensure that the quality of the farmland is maintained. This contributes to the long-term sustainability of the operations and economic empowerment of the surrounding communities. These factors add significant value to the farmland asset over time and are expected to result in positive returns at the end of the fund term.

Invest in land. They're not making any more of it.

Mark Twain





Initially, fund investments are valued at the cost of acquisition, plus any immediate capital investment. Thereafter revaluations are conducted annually, barring any significant market events that might trigger an earlier revaluation.

Revaluations of investments are conducted by a qualified independent valuator who performs an appropriate market-based valuation to derive the Fair Value of the investment - Fair Value being the amount at which the asset can be bought or sold, in a current market-based transaction, between two willing parties.

The independent valuator utilises a number of valuation methodologies, namely:

- a) The Comparable Sales Approach,
- b) The Depreciated Replacement Valuation Approach,

- c) The Hybrid Valuation Approach, or, where the above methodologies are not deemed appropriate, and
- d) Income Based Valuation or Income Capitalisation Approach.

The stage of development of the investment is taken into account with reference to the capitalisation of biological assets and expansion capex.

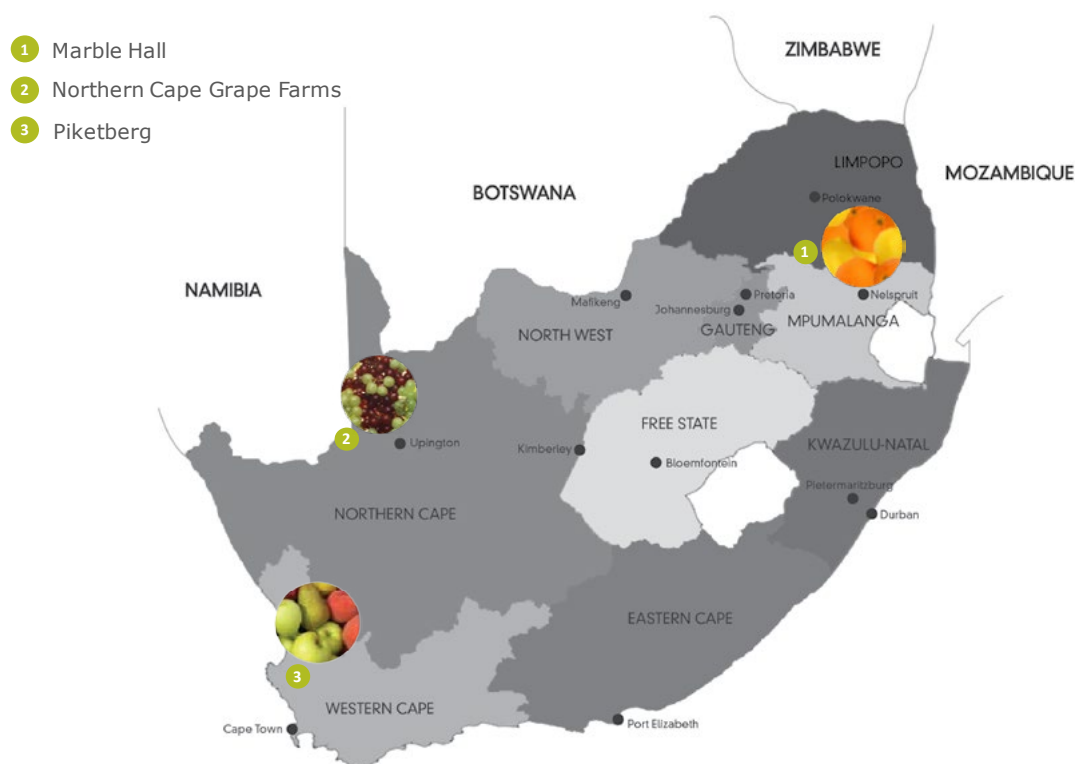
Our investments are groundbreaking in the context of the South African asset management industry and there are no established industry standards for farmland and associated assets. Therefore our valuation policy has required considerable development in response to divergent views amongst independent valutors regarding the value of undeveloped land, biological assets, water rights and improvements.



# Our Investments

## Deal overview

The invested capital is spread across three deals in the fund: Piketberg, Northern Cape Grape Farms and Marble Hall, comprising a total area of 5 154 hectares (ha).



## Summary of deals done in South Africa

FARM	ACQUISITION DATE	REGION	PRIMARY CROP	TOTAL FARM SIZE	OPERATOR
Marble Hall	December 2010	Limpopo Province	Citrus	936 hectares	JV between farmer Nelus Potgieter and SFV (Safe Farm Ventures)
Northern Cape Grape Farms	August 2011	Northern Cape Province	Table grapes	3 183 hectares	SFV
Piketberg	November 2011	Western Cape Province	Deciduous and stone fruit	1 035 hectares	JV between farmer Hugo Schreiber and IFS (International Fruit Services)

At present, a fourth deal is under consideration by the SA fund: the acquisition of four farms near Eshowe, about 150km from the Durban Harbour in KwaZulu Natal. This area has excellent potential for grapefruit and lemon production. The proposed plan is to convert existing sugarcane and fallow land into grapefruit orchards, and replace ageing existing orchards with new lemon trees.

## Approved operators

Operators appointed by the Fund are required to take over the existing workforce and provide an adequate working environment on the farm. They agree to maintain the asset and its improvements, and keep it in good condition, subject to an annual audit by UFF. They have to comply with World Bank environmental, social and safety standards, and with UFF's administration and IT monitoring system, maintain monthly reporting flows. They agree to enable UFF to comply with required information feedback and also ensure community involvement.

### OPERATOR CRITERIA FOR SELECTION

- | Solid financial standing and reputable management
- | Turnover >USD25m per annum
- | Proven access to market
- | Established track record; generally >7 years
- | A good industry reputation
- | Commitment to skills transfer & economic empowerment
- | The operator must co-invest in working capital requirements (at a risk position).

Two operators have been approved by the SA fund to date:

#### International Fruit Services (IFS)

IFS is a global shipping and logistics facilitator, founded in 1994. The company uses both conventional and containerised shipping to provide the most effective and economic means for moving produce around the world. It enables independent growers, service providers and retail to achieve the direct and sustainable supply of fruit from the farm to supermarkets worldwide.

IFS members are forward thinking farmers whose product meets the requirements of retail for high and consistent standards. They are strategically spread throughout southern Africa's fruit regions and produce a wide range of fruit varieties. Producers focus on good farming practices and adherence to ethical and social standards. The transactions with IFS will result in Greenery and Cobana Fruchtring partnering in the operating of the farms. Both companies are large scale supermarket service providers with a decade long track record.

#### South African Fruit Exporters (SAFE) | Holding Company

**SAFE Farm Ventures (SFV) | Logistics and operational management**

SAFE was established in 1997 and has grown into one of the largest exporters of fresh fruit from southern Africa. Originally, it only bought fruit from local farmers and sold this to importers in the Netherlands. However, this has greatly changed over the years. The main activities of the company are now confined to the logistical handling and the export of fresh fruit on behalf of the producers and overseas clients.

Today, SAFE manages its own production, takes care of the packing, cold storage, transport and all other activities related to the export chain. SAFE has a global customer network and plays an important role in the total fruit export from South Africa, Zimbabwe and Namibia.





## Marble Hall, South Africa

### FAST FACTS

Acquisition date	December 2010	Operator companies	Fanchon (Pty) Ltd / Somerhoek (Pty) Ltd
Investment period	10 years	Property SPV	Royal Dawn Farming (Pty) Ltd
Primary crop	Citrus	Individual farm names	Somerhoek Loskop Elandsdrift
Region	Limpopo, bordering Mpumalanga	Workforce	Permanent: 65 Seasonal: 275 at peak
Total farm size	936 ha (including natural pasture)	Potential job creation	300 new jobs (permanent & seasonal)
Primary production and infrastructure area combined	714 ha (222 ha natural pasture)		
Operator	JV between farmer Nelus Potgieter and SFV		

The Marble Hall investment is a consolidation of three citrus farms in Limpopo, totalling 936 ha in area. At the outset of this acquisition, Marble Hall was identified as having good expansion potential and 190 ha of new orchards have been planted through the SA fund's expansion programme to date. The new trees will start bearing three years after planting, and reach their peak in eight to nine years.

The impact on the prospective workforce is significant. With 1.6 labourers required per hectare of citrus farming in full season, this means that 300 new jobs will potentially be created.

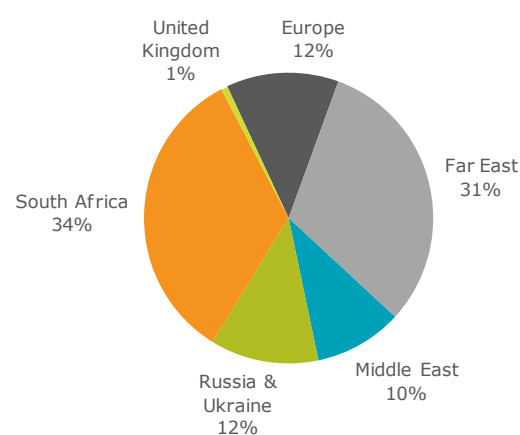
The investment provides a solid footing in citrus farming that sells to both the local and international markets.

**South Africa is the world's 2<sup>nd</sup> largest citrus exporter after Spain**

### Markets

In 2012 Marble Hall's production mainly serviced the local market and the Far East, which together accounted for 65% of the farm's consumer market.

The local market share was larger than usual, due to a combination of factors, including high local juice prices and the young (pre-prime) age of many of the orchards. Sophisticated agri-business IT systems plug the farm into well developed marketing and distribution networks, allowing Marble Hall to effectively compete as a world-class supplier.



Source: UFF

## SELLING TO THE CITRUS MARKETS

Marketing fruit is no longer a case of sending a ship full of oranges to a port and off-loading them. Containerisation, amongst other trends, has led to increasingly sophisticated end-user demands. Buyers of fruit want to know where it comes from, who produced it, how it was grown, and more. Initiatives like GLOBALG.A.P. are a manifestation of this phenomenon.

Growers are now required to send specific types of fruit to select markets in order to achieve the best prices.

In China, for example, oranges are used for ceremonial purposes and also as a status symbol, indicating affluence and abundance. The type of orange required by this market needs to be small, beautiful and smooth-skinned, with a deep orange colour. Here, local Valencia oranges have a market advantage over Californian oranges, which tend to be light yellow in colour. Taste does not matter, as the fruit is generally not eaten. Chinese customers are prepared to pay a premium for this fruit; however, it is important not to flood the market and risk driving prices down.

Customers in the Middle-East, on the other hand, want big, sweet oranges of any shape, colour or texture, as 95% of the fruit is squeezed into juice. Fruits with 'Black Spot' are tolerated by this market.

Marble Hall's sophisticated IT systems mean that it can meet these particular demands from its offshore markets, with fruit accurately tracked from the moment it is picked, to its final destination.

### Marble Hall farm performance<sup>1</sup>

In general, the management of the farm over the period was good, with the overall condition of the orchards showing a vast improvement over the previous year. Thanks to this, as well as the increased contribution from maturing young trees and relatively benign weather, carton production at Marble Hall in 2012 increased by 135% over 2011, providing the best crop in the farm's history. As there was little hail damage during the season the crop was of high quality, with the Bahianinha Navel oranges producing a particularly fine yield.

The high rainfall experienced towards the end of the year, while essential to production, also presented some management challenges. Some orchards had to be refertilised as the applied fertiliser had washed away and the timing of some pesticide sprays was affected. The resultant impact will only become apparent when the new crop matures and may lead to lower packouts. However,

the farm remains in good condition, and early signs point to a good season again in 2013.

There were almost no staff movements on the farm and labour action did not affect this production entity at all during 2012.

### VARIETIES PLANTED AT MARBLE HALL

#### 1995 to 2008

Bahianinha Navels  
Cambria Navels  
Cara Cara Navels  
Delta Valencias  
Lina Navels  
Midknight Valencias  
Palmer Navels  
Turkey Valencias

#### 2010

Bahianinha Navels  
Eureka Lemons  
Genoa Lemons  
Lisbon Lemons  
Midval Valencias  
Witkrans Navels

#### 2011 (Fund expansion)

Benny Valencias  
Lisbon Lemons  
Nova Mandarins



New orchards - January 2012



New orchards - September 2012

<sup>1</sup>The SA fund itself has no exposure to primary agricultural risk as the farms' operating performance is for the account of the operator.



Ariel view of packhouse prior to expansion



Packhouse expansion under way

### Marble Hall expansion update

The planting of the planned expansion orchards at Marble hall was completed in late 2011. Throughout 2012 the saplings displayed good growth, with the new hectares presenting an impressive panoramic view. All new plantings are closely monitored by the UFF agronomist and are progressing according to plan. At this stage no concerns are indicated. The first harvest of young lemons will start next season, with these going mainly to juice rather than export. In November 2012 a third party opinion was obtained on the condition of the expansion, the outcome of which concurred with the fund's assessment. The new orchards will contribute significantly to the production of Marble Hall from year five onwards and annual carton volumes are expected to increase exponentially, to 1.1 million over the next nine years.

The bumper 2012 crop put the packing process under immense pressure, especially during the Navel picking, and packhouse constraints impacted on volumes achieved. A proposal to extend the packing facilities was approved by the Investment Committee in November 2012. This will increase the farm's packing capacity from 14 tons per hour to a total of 34 tons per hour, which will alleviate

the problems encountered this past season and also takes into consideration the increased yields anticipated from the new plantings. Construction of the packhouse extension commenced in early December 2012.

An important seasonal housing project was completed during 2012. Some of the farms in the Marble Hall area begin harvesting as early as February, whereas the season on the fund's farm typically gets under way in May. Most workers in the region start to work on the farms that harvest early in the season and by the time harvesting starts on the fund's property there are insufficient local workers available. Therefore housing for out-of-town seasonal workers is necessary, and good quality housing is found to attract high calibre workers. A new hostel containing 40 units was completed on the farm in September 2012, giving each worker their own room and cooking amenities as well as superior ablution facilities. It is hoped to replicate this type of lodging on the fund's other farms in due course.

The UFF agronomist reported that there was a general appreciation in the region of the fund's investment in Marble Hall, with particular notice taken of the superior worker accommodation and our healthcare offering.



Seasonal worker housing completed





## Northern Cape Grape Farms, South Africa

### FAST FACTS

Acquisition date	August 2011	Operator company	Onderstepoort (Pty) Ltd
Investment period	10 years	Property SPV	Matlotlo Trading 27 (Pty) Ltd
Primary crop	Table grapes	Individual farm names	Onderstepoort Nuweland Oranjestroom
Region	Northern Cape	Workforce	Permanent: 55 Seasonal: 950 at peak
Total farm size	3 183 ha (including natural pasture)	Potential job creation	465 new jobs (permanent & seasonal)
Primary production and infrastructure area combined	222 ha (2 961 ha natural pasture)		
Operator	SFV		

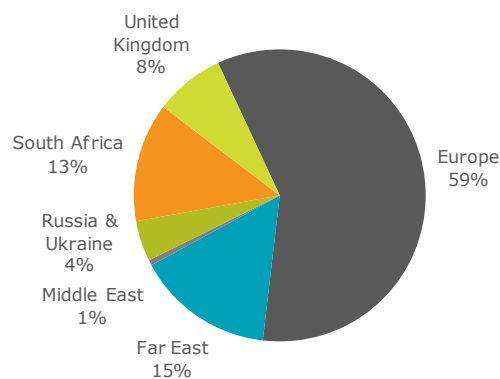
The Northern Cape Grape Farms investment is a consolidation of three farms in the table grape region of the Northern Cape covering a total area of 3 183 ha, 2 961 ha of which are natural veld. 93 ha of new vines have been planted through the Fund's expansion programme to date. The new hectares will almost double the number of grape vines on the farm.

The new vines will become fully productive after three years. With five labourers required per hectare in full season, this means that 465 new jobs will potentially be created.

This investment provides a foothold in early season grape crops that are marketed internationally. The area along the Orange River in the Northern Cape is the only region in the world that can produce quality table grapes for the peak pre-Christmas demand in Europe.

### Markets

The European market was the main destination for these grapes in the 2012 season, accounting for 59% of the farm's market, with the local market place a relatively small consumer by comparison at 13%.



Source: UFF

**The Orange River region is the 2<sup>nd</sup> largest producer of table grapes in South Africa with 30% of the country's table grape production area**

South African Table Grape Industry (SATI)

## SELLING TO THE GRAPE MARKETS

### Europe

Over the years, exports to Europe have been declining. The reasons for this are varied, but the biggest is the strong focus on food safety and Maximum Residue Levels (MRL). At the moment, a Fair Trade process is in full swing at the Northern Cape Grape Farms, which is expected to have a positive impact on marketing and sales to the UK and other European countries.

### Far East/ Asia

SAFE foresaw that this market would grow in importance, and in 2009 established a joint venture with Prestige China Development, based in Hong Kong. The company coordinates exports and sales throughout Asia. As these markets have very specific criteria it helps considerably to have local offices and management in situ.

### Middle East

In recognition of its growth potential, SAFE established a JV with Batrouni Global Fruit Trading based in Lebanon, to co-ordinate exports and sales throughout the Middle East. The company also has offices in Egypt and Kuwait.

### Eastern Europe

This market is estimated at 80% under the control of importer wholesalers and about 20% in the hands of the supermarkets. The primary destinations are Russia, Romania and Ukraine.

### South Africa

The South African market, albeit small, is growing year by year, as are other countries on the African continent. Political, socio-economic and infrastructure influences are not always stable, however, and SAFE is accustomed to fluctuating opportunities and sales.

### Northern Cape Grape Farms performance<sup>1</sup>

Exports of South African grapes were hit by bad weather in the Orange River region at the close of 2012. According to the South African Table Grape Industry (SATI), rain over the last three weeks of the year caused significant crop losses in the greater Augrabies and Kakamas areas, where the fund's farms are located. The wet summer resulted in a drop in the grape sugar content and picking was deliberately delayed by one week to allow the sugar content to improve. In spite of this, the early market advantage was still maintained; however, a significant portion of the crop could not be picked due to fungal growth and some berry splitting. A drop of 40% on the anticipated packout was reported in some sections across all three production units. With the harvest due to continue into 2013, the full impact remains to be confirmed. This points to one of the primary reasons why the fund installs larger agri-businesses to run the farms. With their size and financial means, the larger operators can withstand the effects of such occurrences.

During the initial due diligence process concerns were noted relating to the previous management on one of the three farms in this entity. The situation was carefully managed after that and the management team was replaced with no negative repercussions. The value added with the change of managers has been apparent, with considerable progress made in general housekeeping around the farm as well as improved crop and water management. In addition, the operator has rectified all the short comings that occurred in the vineyard preparations for the 2012/2013 season. Early indications are that the farm is on track for the next production cycle. UFF monitoring systems and regular farm visits were instrumental in detecting performance issues and ensured an immediate response – a testament to the efficacy of these processes.

In general, the farms are in a good state and improving with every visit. Production and maintenance activities are on track and bode well for the upcoming season. These farms have not been affected by any labour action.



<sup>1</sup>The fund itself has no exposure to primary agricultural risk as the farms' operating performance is for the account of the operator.



Netting preparation



Completed netting



New vines - September 2012



New vines - December 2012

## Northern Cape Grape Farms expansion update

The Northern Cape Grape Farms expansion programme has three main focal points: 1) vineyard expansion through establishing additional new vineyards as well as replanting some existing sections; 2) covering existing and new vineyards with netting; and 3) investment in additional fixed and moveable assets required to optimise operating activities. The programme is intended to be completed over a three year period.

These farms are spread across a wide area, including areas situated close to the Orange River and parts that are remote and relatively inaccessible. The expansion programme is therefore fairly complex and needs to take specific conditions on each of the original farms into account. As the new vineyards reach full production, expansion of the packhouse and related infrastructure and equipment is required. Worker housing expansion and improvements are also included in the programme.

The vineyard expansion project involved soil preparation, drainage installation and the construction of a pumphouse prior to the planting of the new vines, all of which took place at various stages during the course of 2012. At year end, land and irrigation preparations were on track and

new vineyards were generally achieving the desired growth. Special attention was paid to the quality of the planting material and design of the irrigation system as these are crucial aspects of the project and can impact long-term yields. The high silt content of the soil in one portion presented a challenge, with some erosion occurring due to the rain. The new plants in this section were allowed to spread out on the ground to encourage the roots to spread and take firm hold, and only after that were trained vertically on to trellis. The effect of this remedial action will become apparent in coming months. The late summer rain resulted in some damage in the newly planted areas, causing some ploughed areas to erode. These areas are quite localised and will be easily repaired.

Nearly 47 ha of vines have been covered with netting, with an additional 73ha to be netted in 2013. Netting provides grape farmers with many advantages, especially in the Northern Cape where spring hail storms and birds tend to damage the crop. Netting has been found to increase the production yield of the vineyards by 25% and the operator income by 40%. Nets have a lifespan of ten years, after which the netting needs to be replaced; however, the infrastructure that supports the netting can remain. (Further information on the value of netting is provided in the accompanying 2012 Impact Report.)



Completed new pumphouse



Vines planted in high silt soils trained onto the trellis structure



## Piketberg, South Africa

### FAST FACTS

Acquisition date	November 2011	Operator company	Hochland (Pty) Ltd
Investment period	10 years	Property SPV	Salestalk (Pty) Ltd
Primary crop	Deciduous and stone fruit	Individual farm names	Stawelklip Voorstevlei Hochland
Region	Western Cape	Workforce	Permanent: 133 Seasonal: 520 at peak
Total farm size	1 035 ha (including natural pasture)	Potential job creation	100 new jobs over time
Primary production and infrastructure area combined	147 ha (888 ha natural pasture)		
Operator	JV between farmer Hugo Schreiber and IFS		

The Piketberg investment is a consolidation of three deciduous and stone fruit farms in the Western Cape, totaling 1 035 ha, of which 888 ha are natural veld.

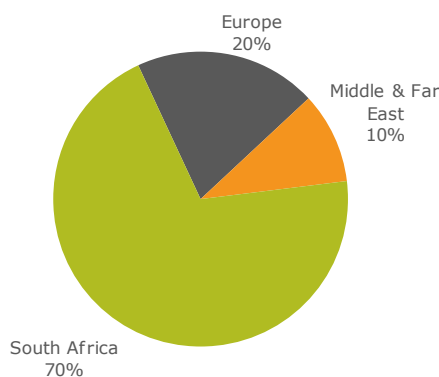
The investment has significant expansion potential, with excess water rights, and it is anticipated that 100 new jobs will be created over time.

This property lies 850 metres above sea level, providing a unique and ideal micro-climate within the fruit industry. This allows the farm to yield prime, early to market, top quality produce, with

the advantage of global peak-price marketing opportunities

### Markets

Piketberg mainly services the local market at 70% of the farms' output. This is marketed directly to premier South African retailers such as Pick n Pay, Checkers and Shoprite. The farms are GLOBALG.A.P and Hazard Analysis Critical Control Point (HACCP) certified. The remaining 30% of production is shipped directly to offshore clients in Europe and the Middle and Far East.



Source: UFF

Up to **800 000** apples are **packed** daily during the season at our Piketberg farm

Farm Manager

## Piketberg farm performance<sup>1</sup>

At acquisition the Piketberg farms had 142 hectares of developed fruit orchards in full production. These were mainly apple orchards (45%), followed by pears (25%), peaches (25%) and cherries (5%). The cherries are to be phased out as they are not sufficiently profitable.

At the start of 2012, with only one month of ownership by the fund, the business continued to grow, pack, cool and distribute its products directly from the farms, as before the transaction. The dry summer resulted in a heavy crop but impacted negatively on the size of the fruit. Fortunately this did not impair the marketability of the harvest, as local demand for the produce was high. Harvesting was well managed and fruit was picked on time, with IFS marketing platforms working exceptionally well. The dry summer and late winter rainfall resulted in dams reaching critically low levels during the year. The operator had to manage the water resources carefully, minimising wastage and cutting down on irrigation. This risk will be

addressed by increasing the water storage capacity at the farm and refurbishing existing boreholes. After good late winter rainfall, dams were full and the farm had an abundance of water to see it through the ensuing summer months. A good stone fruit harvest was achieved at the end of 2012, and the pear and apple harvest in early 2013 promises to be above average. New equipment purchased in the final quarter helped in both production and harvesting, and the farm was one of the few that were able to meet additional market demands over the busy December period.

In November labour action flared up in the region, together with other areas in the Western Cape. The staff on the farm did not participate in any protests and helped protect the property by patrolling at night. A number of preventative measures under the guidance of the South African Police were implemented on the farm to protect the employees and the asset. Only one day of production was lost during the unrest, after which there were no further problems.

## INDABA AT OUR MOUNTAIN FRUIT FARM

SUE HOPKINS

Driving in the early morning up the magnificent Versfeld mountain pass to reach Piket-Bo-Berg and finding yourself surrounded by lush orchards of crisp, juicy apples and succulent pears at the summit, you may imagine you have arrived in mythical Shangri-la.

A contingent of nineteen interested parties converged on the farm in April, on the occasion of the fund's first combined Investment and Advisory Committee and Partners' meeting, and in situ shareholder report back.

After welcoming us with coffee, operator Hugo Schreiber and members of his management team gave us a tour of the farm. Committee members and investors were able to observe, first-hand, the journey of an apple from the tree to the supermarket packet: walking among the pickers moving silently with their ladders between the tall trees; running the various types of soil between our fingers (accompanied by a lesson on soil significance

from fund agronomist Andre Botha); experiencing the temperatures inside the different cold storage facilities; and looking down on the activity in the extensive packing house from the gallery walkway, we learned a multitude of interesting facts about the farm itself and fruit production in general. I don't think any of us will look at fruit in the shop in the same way again.

The formal meetings followed and extended over a delicious lunch prepared on the farm, during which the group was able to engage further on topics of common interest with the farm management. All too soon it was time to depart, with much appreciation extended to our hosts.

The consensus was that the day had been extremely valuable - and brought our investment to life in a very enjoyable way.



<sup>1</sup>The fund itself has no exposure to primary agricultural risk as the farms' operating performance is for the account of the operator.



Clearing of alien vegetation



Stream running for the first time due to alien eradication

### Piketberg expansion update

Until now the investment has been focused on the purchase of equipment to supplement the aging current fleet and to optimise returns from the 2012/13 crop. The expansion programme will start after harvesting has been completed and will focus on upgrading the packing infrastructure, land preparation and water security – with a phased approach to avoid over-extending the capability of the operator.

Clearing of alien vegetation started before the fire season in the final quarter of 2012 and improvements were made to the farm crèche. (More information on these aspects is covered in the accompanying 2012 Impact Report.)



New refrigerated van



New state-of-the-art sprayer

# Our People and Process

## Fund management

The SICAV is managed by Futuregrowth Asset Management. UFF Agri Asset Management (Mauritius) is the Investment Advisor.

### SICAV Directors

Paul Rackstraw  
Duncan Vink  
Andrew Canter

### The Futuregrowth team

Smital Rambhai	Product Manager
Sue Hopkins	Administration and reports
Ryan Kieser	Compliance Officer (1 April 2013)

### The UFF team

Duncan Vink	CIO and Joint Managing Director
Erwin Bouland	Joint Managing Director
Miné van Wyk	Chief Financial Officer
Paul Parea	Investment analyst
Tsito Raharison	Investment analyst
Theo van der Veen	Investment Business Development
Andre Botha	Agronomist
Dafne Nienhuys	ESG Specialist
Eveline Schurink	Health Programme Manager

## Governance

The Agri-Fund Investment Committee approves all agricultural assets to be included in the Fund, not only from a commercial perspective, but also from a social and environmental perspective. The Committee is advised by at least two representatives from UFF and Futuregrowth who present the investment proposal but have no voting rights.

## African Fund Investment Committee members

Henk Beets	Chairman
Peter Colesworthy	Independent
Paul Rackstraw	SICAV

## Investment process

To qualify as an agricultural asset for the Fund, the asset must successfully pass through an evaluation process and be approved by the Investment Committee.

In brief, the process commences with an eligibility and risk analysis of the proposed investment. This results in an initial investment proposal which is submitted to the Investment Committee for approval. Should the investment be conditionally approved, an in-depth due diligence is performed consisting of a full financial, legal and tax review of the business as well as a full technical and agronomical assessment of the property. The Investment Committee then deliberates and votes for final approval.



## Glossary of terms used

TERM	DESCRIPTION
Expansion	Additional orchards planted or improvements built within the borders of the existing farm; and/or additional farmland or assets purchased, that will increase the total farm size.
Fixed assets	Long-term tangible assets that the SPV owns and uses to create income, typically being the farmland and improvements.
GLOBALG.A.P	Global Good Agricultural Practice - a private sector body that sets voluntary standards for the certification of production processes of agricultural products around the globe; the standard primarily designed to reassure consumers about how food is produced on the farm.
HACCP	Hazard Analysis and Critical Control Points – an international principle defining the requirements for effective control of food safety.
IFC	International Finance Corporation - a member of the World Bank Group, which aims to reduce global poverty through the application of environmental and social development standards.
Lease fee	The upfront agreed fees with the selected operators, linked to the valuation of the land purchased. This is in the order of 8% to 10% of the land value and escalates annually with CPI. Other movable assets are leased on a higher, but market related, fee.
Net asset value (NAV)	The value of an entity's assets less the value of its liabilities.
Permanent crops	Crops that are generated from plants and trees that have a productive life over many seasons.
Permanent employees	Workers employed on the farms, with contracts longer than one year.
SPV	Special Purpose Vehicle: used for holding farm assets.

## Contact details

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# Appendix

## 2012 Annual Financial Statements

The 2012 Annual Financial Statements are available on our website - [www.futuregrowth.lu](http://www.futuregrowth.lu)

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 "societe d'investissement a capital variable (SICAV) under the form of a "societe anonyme" on 31 May 2012 organized under Part II of the Law of 2010. Futuregrowth Asset Management (Pty) Ltd ("Futuregrowth"), a licensed financial services provider in the Republic of South Africa, in terms of the Financial Advisory and Intermediary Services Act 37 of 2002, produced the Fund Factsheet in good faith. Although the information in the Fund Factsheet is based on sources considered to be reliable, Futuregrowth makes no representation or warranty, express or implied, as to the accuracy or completeness of the Fund Factsheet, nor does it accept any liability which might arise from making use of this information. The Fund Factsheet is for information purposes only and is not intended as an offer or recommendation to buy or sell or a solicitation of an offer to buy or sell a financial product or security. The recipient is advised to assess the information with the assistance of an advisor if necessary, with regard to its compatibility with his/her own circumstances in view of any legal, regulatory, tax and other implications. The Fund Factsheet is expressly not intended for persons, who due to their nationality or place of residence are not permitted access to such information under applicable law. Neither the Fund Factsheet nor copies thereof may be sent to the United States of America, or any of its territories or possessions or areas subject to its jurisdiction, or to or for the benefit of a U.S. person. Neither the Fund Factsheet nor copies thereof may be sent to the United Kingdom, or any of its territories or possessions or areas subject to its jurisdiction, or to or for the benefit of a citizen of the United Kingdom.

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

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**OLD MUTUAL**