

# Old Mutual African Agricultural Fund (Luxembourg) - Société d'Investissement à Capital Variable (SICAV) Impact 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 inaugural impact report provides an overview of the Fund's environmental, social and governance (ESG) initiatives. Details of the operations and investments of the Fund are covered in the Old Mutual African Agricultural Fund - SICAV 2012 Annual Report.*





# Introduction

## Responsible practices make profitable sense

Dafne Nienhuys, UFF's ESG specialist

The 2012 theme of the United Nations (UN) environmental programme was the Green Economy, which it defines as "low carbon, resource efficient and socially inclusive". For the Fund, sustainable and responsible investing is integral to ensuring the ongoing legacy of our investment activities, and can be encapsulated as follows:

- 1 | Sustainability is not achieved through a "tick-box" process, but requires an integrated approach to social and environmental considerations in all our decisions; and
- 2 | Responsibility refers to the accountability we take within our sphere of influence, through transparent policies and practices, in compliance with applicable laws, and ensuring that we meet the expectations of our stakeholders.

working capital. This creates an alignment of interest and helps ensure that the quality of the farmland is maintained.

Key to managing environmental risks and worker welfare is the requirement that all the Fund's farm operations meet the World Bank's International Finance Corporation (IFC) standards. On top of this, all farms have to adhere to GLOBALG.A.P. (Good Agricultural Practice). Not only do these initiatives drive responsible operations, they also maximise marketing opportunities and earnings for the farm operators.

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 farm workers. The Fund's expansion programme forms a vital part of our social upliftment strategy.

The challenge is to focus the investments in areas where they can **make a difference**.

José Graziano da Silva Director General of the UN Food and Agriculture Organisation

The Fund's investments are in the actual farmland and infrastructure, which are leased to an approved operator to manage and run the farm. In addition, the Fund invests capital to develop additional arable land and improve housing and sanitation for the workers on the farms. Stringent criteria for our operator selection include: a solid financial standing and a commitment to skills transfer and economic empowerment. The operator must also invest in

As the new orchards and vineyards mature this will drive significant job creation, and, together with our other environmental, social and governance (ESG) initiatives, contribute considerably to economic and community empowerment in regions where this is sorely lacking. Although our objectives are predominantly long term in nature, these undertakings are already demonstrating that responsible investing in farmland will yield profitable social and financial returns.

## 2012 IFC PERFORMANCE STANDARDS

- |   |  |
|---|--|
| 1   Assessment and Management of Environmental and Social Risks and Impacts | 5   Land Acquisition and Involuntary Resettlement                                    |
| 2   Labour and Working Conditions   | 6   Biodiversity Conservation and Sustainable Management of Living Natural Resources |
| 3   Resource Efficiency and Pollution Prevention                            | 7   Indigenous Peoples   |
| 4   Community Health, Safety and Security                                   | 8   Cultural Heritage  |



Investing in agriculture is essential for  
**reducing hunger** and promoting **sustainable**  
**agricultural** production.

The State of Food and Agriculture 2012 – Food and Agriculture Organisation of the United Nations

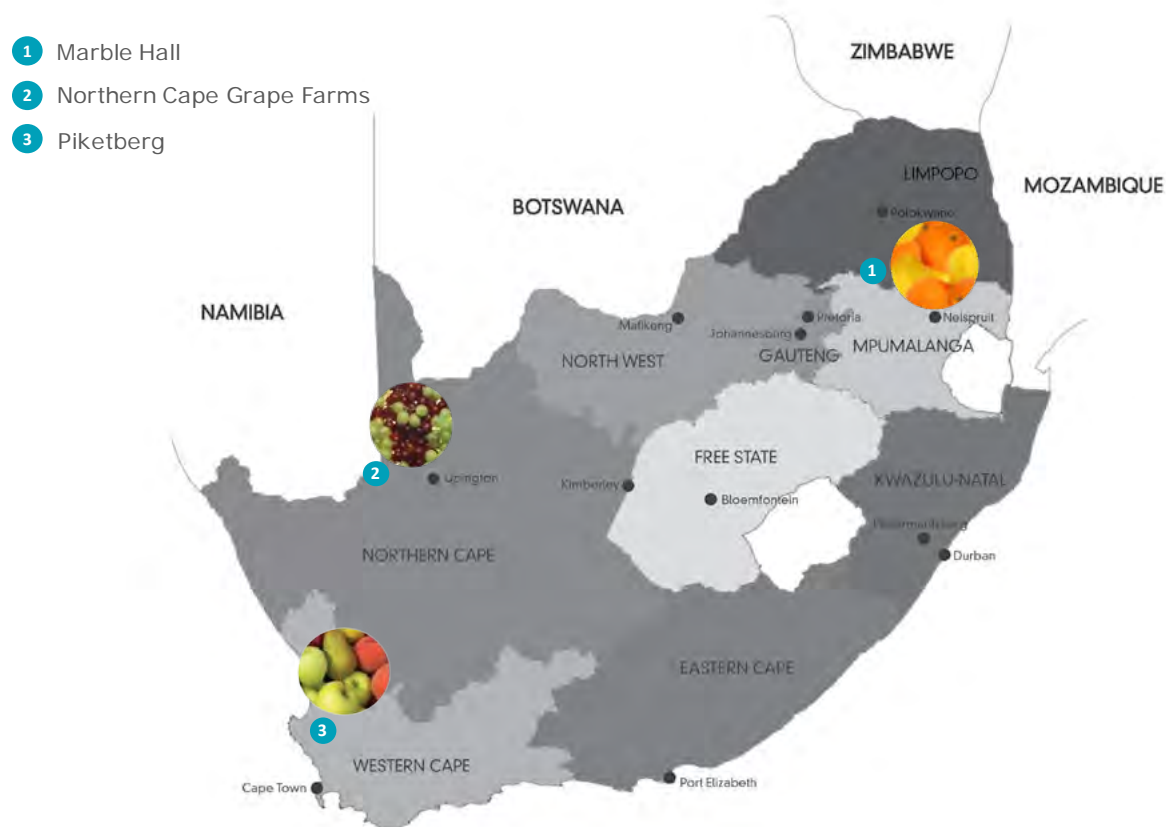




## Investment overview

### Deal overview

The SA fund has concluded three deals since inception, as shown on the map below.



	Marble Hall	N Cape Grape Farms	Piketberg
Acquisition date	Dec-2010	Aug-2011	Nov-2011
Primary crop	Citrus	Table grapes	Deciduous and stone fruit
Region	Limpopo Province, Republic of South Africa (RSA)	Northern Cape Province, RSA	Western Cape Province, RSA
Total farm size	936 ha (including natural pasture)	3 183 ha (including natural pasture)	1 035 ha (including natural pasture)
Primary production and infrastructure area combined	714 ha (222 ha natural pasture)	222 ha (2 961 ha natural pasture)	147 ha (888 ha natural pasture)

## Regional demographics

### Marble Hall

The Marble Hall Municipality is located in the Greater Sekhukhuni District Municipality, close to the border of Zimbabwe. The district has high illiteracy and unemployment levels. Most of the agricultural activity in the area is subsistence farming, with only 30% of the district's land used for commercial farming, owing mainly to a general shortage of water. Only 36% of the population of Sekhukhune have access to electricity, which is a source of concern as this usually leads to an unsustainable use of resources.

### Northern Cape Grape Farms

This investment falls within the Kai! Garieb Municipality, bordering Namibia, where farms are faced with a paucity of services, including limited healthcare resources and a lack of public transport. Low productivity, infectious diseases and malnutrition tend to be prevalent among

farm workers in the region. The majority of the population in the region is young (aged 15 to 34), indicating significant potential for economic growth. Agriculture is the primary industry in the district, which has an overall unemployment rate of 34%. The Orange River flows through this region; however, the area is mostly semi-arid with temperatures reaching above 40°C in summer, and an average annual rainfall of 202mm.

### Piketberg

The Piketberg farms are situated within the Bergrivier Municipality, which extends from the Atlantic Ocean in the west to the Olifants River Mountains in the east. The picturesque Piketberg range is in the centre, with the Fund's farm situated 850 metres above sea level. With high levels of poverty among the local population, 35% of those employed work in either the fishing or agriculture sectors, both of which are seasonal in nature.

## Farm seasonality

The issue of seasonality is a pivotal factor affecting social programmes and the analysis of related data. The 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 potential for extending the production season on each farm is taken into consideration in the planning of the Fund's expansion programme. Local inhabitants are given first option to work on the Fund's farms; however, during peak seasons additional workers usually have to be recruited from other areas.

The table below depicts the seasons for the major crops currently produced on each of the Fund's farms:

### Marble Hall

Season	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Navels												
Valencias												

### Northern Cape Grape Farms

Season	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
White seedless grapes												
Black seedless grapes												
White seeded grapes												
Red seedless grapes												

### Piketberg

Season	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Apples												
Pears												
Nectarines												
Peaches												

## Impact matrix

		Marble Hall	N Cape Grape Farms	Piketberg	Total
Permanent employees (workers with contracts longer than 1 year)	At take-on:	25	94	102	221
	As at Dec 2012:	65	55	133	253
Seasonal workers, depending on season	Currently, up to:	275	950	520	1745
Projected new jobs (permanent & seasonal) due to expansion	Projected new jobs:	300	465	100	865
Employees with access to pre-paid primary healthcare	At take-on:	0	0	0	0
	As at Dec 2012:	62	0	23	85
Employees with access to HIV/AIDS services	At take-on:	63	0	0	63
	As at Dec 2012:	62	0	23	85
Employees receiving adult education	At take-on:	0	0	0	0
	As at Dec 2012:	22	41	0	63
Employees receiving management training	At take-on:	0	0	0	0
	As at Dec 2012:	0	9	38	47

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

Since acquisition by the SA fund, an additional 40 workers have been given permanent job contracts at Marble Hall. A highlight of the year was the graduation ceremony for workers at Marble Hall in September 2012, where the first workers to write Adult education and training (AET) exams were honoured by the Fund and its investors.

Uptake on the literacy programme at the Northern Cape Grape Farms was positive, with 36 workers sitting for exams during the year. The healthcare programme faced particular challenges in this region due to the remoteness of the farms. Implementation was delayed pending delivery of a mini-van to be used to transport workers to the nearest healthcare facilities, and is expected get underway in 2013.

Prior to purchase by the fund, the Piketberg farm was in liquidation for two years during which operations were put on hold. The focus in 2012 was to complete the training required to bring GLOBALG.A.P. and other certification up to date. AET is planned to start in 2013. The Piketberg farm was the first fruit farm in RSA to complete the Wine Industry Ethical Trade Association (WIETA) supervisor training programme.



## UN Principles for Responsible Institutional Investment in Farmland

### Farmland Principles

Farmland investment has emerged in recent years as a new asset class for institutional investors. The five Farmland Principles are designed to guide institutional investors who wish to invest in farmland in a responsible manner:

- Principle One* Promoting environmental sustainability
- Principle Two* Respecting labour and human rights
- Principle Three* Respecting existing land and resource rights
- Principle Four* Upholding high business and ethical standards
- Principle Five* Reporting on activities and progress towards implementing and promoting the Principles

Both Futuregrowth and UFF endorse the United Nations Principles for Responsible Investment (UNPRI) and subscribe to the Farmland Principles. Examples of implementation of each of these principles by the Fund are included in subsequent sections of this report. As signatories to the Principles, we acknowledge that farmland investments have implications for the people

and the natural environment in the places where we invest. We are therefore committed to incorporating ESG factors into our investment policy and processes where appropriate. This becomes more important as the pressure on natural resources mounts.

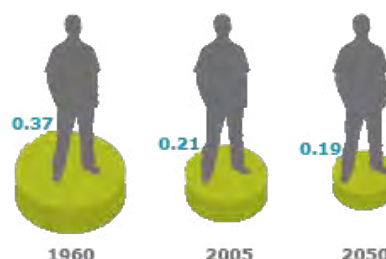
The global population is projected to grow 50% by the year 2050 to **9 billion** people. Land will be at a premium and food prices will rise significantly, with a **growing demand** for more effective and productive farming techniques.

UN report "World Population Prospects"

Signatory of:



### Arable land per capita



Source: FAO

# Environmental Protection

## Water and soil: the foundations of farm investments

### Water

One of the major constraints facing agricultural development in RSA is water availability. The situation is likely to become worse with growing demand from other sectors of the economy and the impact of climate change. In order to mitigate the risks related to this, the SA fund limits its investment to land and businesses that have secured water rights, and gives preference to farms with established irrigation systems and

water infrastructure. Moreover, it is incumbent on us to ensure that the available water is used with vigilance, precision and prudence.

So what does the fund do to achieve this? Firstly, no investment is made without an in-depth study by an experienced agronomist. In terms of this agricultural due diligence, an analysis of both surface and ground water is obtained, as well as legal proof of the water rights attached to the land. These are used to determine the availability of sufficient water for the farmland operations. Regional precipitation history and variances are also assessed in detail.



Installing the underground supply at Northern Cape Grape Farms



Drip irrigation of young lemon plantings in Marble Hall



Main storage dam at Piketberg

## WATER SUPPLY AND USE IN RSA

- | Surface water (rivers, lakes, pans and dams) meets about 66% of our water needs. We are rapidly approaching the limit of economically viable water captured in our dams.
- | About 10% of our requirements are provided by groundwater (underground aquifers and streams). Groundwater plays an important role in rural and drier areas with minimal surface water sources.
- | Currently, we require 2.25 billion litres per day to meet the basic human need for water in RSA. With the population growing by an estimated 3% per year, the demand for water is escalating by a further 6.8 million litres per year.
- | Use of water for agriculture accounts for about 62% of the national water budget. Primary agriculture accounts for 4.5% of the national GDP (gross domestic product) while the larger agro-food complex accounts for a further 9%.
- | Industry and mining are the second largest water users, with a GDP contribution of approximately 6%. Water for industrial use creates more jobs than

agriculture and is more efficient, as it can be recycled an almost infinite number of times (technology and cost permitting).

- | Moving water from agriculture to industrial use over time in a controlled and managed way may be a viable approach to sustaining economic growth while also managing the water deficit caused by the growth in human population.
- | If RSA achieved a 10% saving in water used by the agricultural sector, we would, in the short term, no longer be a water scarce country.

Since 1998, the focus in RSA has changed from looking at water as merely a source of supply to recognising water as a resource and necessary precondition to sustainable development. The main aim of integrated water resource management is to achieve a balance between the protection and use of our water resources.

Source | Hanlie Hattingh et al./CSIR

After acquisition of a farm by the Fund, the management of the water resource has five pillars:

#### 1 | Environmental Impact Assessments (EIA)

Preventing contamination of underground water sources and safeguarding sustained production is of paramount importance on farms. To this end, the Fund does a full EIA of an area prior to any development taking place.

#### 2 | Irrigation Systems

On all farms, the most efficient methods of irrigation are employed for the crops concerned, these currently being Micro-jet and Drip Irrigation on permanent crops and Centre Pivot for annual crops.

#### 3 | To Measure is to Know

Flow meters are installed at the main water supply point, which measure the total water outflow. In addition, all farms use the most up to date soil moisture monitoring equipment to measure when each plant requires water and how much it needs at the given time.

#### 4 | Irrigation Control

State of the art control systems are used to ensure that fields needing water have received the appropriate amount and that there has been no oversight that may cause water wastage and possible crop loss.

#### 5 | Suitable Crops

A policy has been adopted by the Fund to plant only crops with the most efficient water usage for a particular region. This, in turn, ensures that the crop with the highest potential for production is grown in each area.

We need a Blue Revolution in agriculture that focuses on increasing productivity per unit of water – more crops per drop.

Kofi Annan



Center Pivot being used to irrigate young plants at Marble Hall



Extracting water from the Orange River



Newly installed water filtration system at Northern Cape Farms



## Soil

The significance of soil quality in effective crop production is fundamental. However, the complexities of this element are often underestimated or overlooked.

When the Fund evaluates a farm for potential purchase, examination of the soil profile is a critical part of the horticultural due diligence process. Looking at plant growth both above and below the surface with a trained eye helps to determine whether the investment is worthwhile. This gives us insight into three important aspects:

1 | Past practices: continued use of heavy equipment, inferior water quality, poor fertilisation practices, and over irrigation can all have implications on sustainable production;

2 | Soil resilience: some degradation can be reversed through mechanical or chemical intervention, and the ability of the soil to recover will influence the long-term costs of rehabilitation;

3 | Potential for development: soil composition, nutrients, drainage, aeration and topsoil quotient are some of the factors that determine the ultimate best use of the ground.

Proper soil assessments enable the Fund to see value or pitfalls when assessing potential purchases, and can thereby predict whether a farm can be revived by using good operators after the purchase. This skill and specialist knowledge has enabled the Fund to buy farmland at good valuations, with the subsequent correct farming techniques enhancing farming production, and extracting the highest potential from the land purchased.



Workers being shown correct fertilisation application at Marble Hall



Investors getting a lesson on soil

## SOUTH AFRICA'S SOIL RESOURCES

South Africa (RSA)'s soil patterns are somewhat comparable to those of Australia and countries around the Mediterranean Sea. They are completely different from those of the developed countries at the high latitudes in the northern hemisphere, such as the USA and Europe, which are dominated by plains with deep fertile soils and high crop production potential.

- | RSA has only 13% - about 14 million hectares (ha) - of arable land. Of this, only 3% is considered to be high potential land.
- | Using the international norm of 0.4 ha arable land required to feed a person, RSA can produce food for 35 million people.
- | In contrast, the USA has 350 million people, but the arable land to feed 800 million.
- | It is estimated that a maximum of 1.5 million ha in RSA can be irrigated.

- | Iran, a country the same size as RSA, has the potential to irrigate 7.5 million ha.
- | It is estimated that RSA lost 25% of its topsoil during the 20th century due to water erosion.
- | Annual soil loss of as high as 59 tons per ha due to wind erosion has been measured in the Northwest Province and northwestern Free State.
- | 5 million ha of cultivated land has been seriously acidified due mainly to injudicious fertiliser practices and inadequate lime applications.

South African soils are extremely vulnerable to various forms of degradation and mistakes in land use planning and land management can be devastating. Sustainable land use can only be achieved and degradation avoided if land use and management planning are based on correct land suitability evaluation.

Source | M.C. Laker, Retired Professor of Soil Science, University of Pretoria

## Principles in action

### Farmland *Principle One*

#### Promoting environmental sustainability

The Fund utilises environmentally sustainable methods of agriculture as we consider that agriculture's long-term viability and profitability go hand-in-hand with its ability to co-exist on a sustainable basis with the natural environment.

| In order to comply with GLOBALG.A.P., all our farms use Integrated Pest Management (IPM) Systems, which are tailored to local climate and conditions, and aim to prevent infestation or intervene without poisons where possible.

| Systems to measure water, electricity and petrol are used on all farms, with the aim of monitoring and improving fuel efficiency and reducing particulate and gas emissions.

| Warthog, monkeys, duikers, impala, rooikat, meerkat, mountain leopard, dassies, rabbits, fish eagles, blue cranes, and various other bird and snake species have been seen near waterways and on the farm land, indicating that farming operations are coexisting well with nature. Cape Nature is allowed to conduct tortoise counts on the Piketberg farm, which is also the habitat for the protected cordylid lizard.

## INNOVATION AT MARBLE HALL

On citrus farms a machine called a "bushcutter" is used to control the growth of weeds and grass between the rows of trees. However, most of the weeds tend to grow in the drip irrigation area under the tree and the bushcutter is not flexible enough to move around the tree trunk, so a herbicide is sprayed into this area by means of another machine containing a sprayer. Normally the two operations are performed separately. At Marble Hall, the management has mounted the herbicide sprayer on the bushcutter, which allows them to accomplish both operations at the same time, giving much better equipment utilisation – as well as savings in both fuel and labour.



Modified bushcutter at Marble Hall

**Sustainability is here to stay or we may not be.**

Niall Fitzgerald

A portion of the land at Piketberg forms part of an internationally recognised Ramsar Wetland site (see Glossary). Both the wetlands and the streams on the farm were infested with alien vegetation at acquisition. The farm is a member of the Greater Cederberg Fire Protection Association, which calls for members to eradicate all alien plants (assisted by fire teams and the Working for Water project). This work is ongoing. Furthermore, the farm is removing alien plants along the riverbeds to prevent the plants from choking up the water course and using up the valuable water resource. In the removal process only the alien plants are cleared, no top soil is removed, and some natural bush and grasses are left to prevent erosion. The farm acquired 130 beehives in 2012 to promote natural pollination and pest control.

At our Northern Cape Grape Farms endangered "Kraal Aloe" plants displaced during vineyard expansion were replanted according to nature conservation guidelines. A total of 48 hectares (ha) of vineyards have been covered with netting,

with a further 72.9 ha planned to be covered in 2013. Discussions are taking place between the SA fund and South African National Parks to lease 643 ha of natural pasture in the Northern Cape Grape Farms to a rhino rehabilitation project.



Kraal Aloe replanted alongside the new pumphouse at Northern Cape Grape Farms

## RESOURCE CONSERVATION: NETTING

The decision has been made to use shade netting over the vineyards of the Northern Cape Grape Farms. This is done to keep out birds, and reduces wind, hail and insect damage to the valuable crop.

In addition:

- | the production season is prolonged;
- | insurance costs are reduced;

- | temperature control improves the quality of the crop;
- | sun burn and frost damage are minimised;
- | 20–60% of irrigation water is saved;
- | the use of pesticides is reduced (fungicide is still necessary);
- | fertiliser use is reduced by 30%; and
- | it is estimated that crop yield will improve by 10%.





# Social Value

## Farm worker education and healthcare: extending the reach of the investment

### The Gift of Literacy

#### Sue Hopkins, Futuregrowth

It is estimated that 4.7 million South African adults are illiterate. Many of these tend to reside in rural areas in the poorer provinces such as Limpopo. Against this backdrop, the SA fund is mandated to offer basic adult education and has partnered with Open Learning Group (OLG) to provide literacy and numeracy training to workers on its farms. These programmes are delivered via OLG's sister company, Masithuthuke, which specialises in Adult Education and Training (AET).

In August 2012, nineteen women employed by the fund's Marble Hall farm wrote their first AET exams. Some had been unable to read or write, or even hold a pen before, and their courage and persistence were celebrated at a graduation ceremony held in their honour. They all met beforehand at the farm's packhouse to dress up for the occasion. I had met six of the women in the orchards in 2011, and re-connected with them at the graduation. The transformation was astonishing, not only in their appearance, but in their confident and cheerful demeanour, a far cry from the diffidence encountered a year before.



Marble Hall farm workers: September 2011



Marble Hall graduates: September 2012

## SOCIAL BENEFITS OF LITERACY PROGRAMMES

Illiteracy increases present and future socioeconomic vulnerability – and is a significant factor in reproducing this vulnerability in children. The benefits of attending adult literacy classes include:

- Increased confidence, self-esteem and assertiveness, which results in enhanced autonomy and resilience.
- Greater control over everyday situations e.g. finances, access to official documents, use of safety equipment.
- Less chance of becoming a victim of deception or manipulation.
- A sense of belonging to society through being able to read and understand everyday events.
- Increased capacity to respond to and make use of resources and solutions offered by society.
- Improved skills retention and levels of application, leading to more meaningful participation in the economy.
- Parents are able to support children's education in practical ways, such as meeting teachers and discussing children's progress – leading to increased school attendance.
- Creation of an environment where individuals seek knowledge and information, empowering themselves to change their lives.

# An investment in knowledge always **pays** the best interest.

Benjamin Franklin

At the start of the programme, the workers were assessed and placed on one of three courses according to their existing level of literacy.

The Pre-AET classes taught learners to write their names, describe their personal, family and work situations, and compose sentences about everyday objects and activities.

On the Level 1 Communication course, participants learned how to read and understand adverts, interpret instructions, analyse everyday situations and express their opinions.

The Level 2 Communication classes covered reading and reflecting on newspaper articles, using money and completing bank forms, responding to community and school notices, and the introduction of creative writing.

Regular feedback was provided to the fund, with comments such as "Lucia is able to exchange greetings and communicate on the phone" and "Magajane tends to misinterpret certain questions but always tries to find the answer". On receipt of the first progress report, UFF MD Duncan Vink remarked "this makes you wonder about how people's lives are restricted when you are unable to read anything. It feels that we are at least starting to make a real difference".

After the graduation ceremony, farm management reported that they had been approached by six additional workers asking if they could also be included in the literacy training – attesting to the potential of the programme as a catalyst for change.



## Healthcare programme returns

**Eveline Schurink, UFF Health Programme Advisor**

While RSA, like many other African countries, is struggling to meet the challenges of infectious diseases such as tuberculosis and HIV/AIDS, non-communicable diseases like cardiovascular disease and diabetes are on the rise, adding further stress to limited healthcare resources.

Global research on the financial returns of healthcare expenditure points to personal benefits for recipients, such as longer life expectancy and hence extended earning potential. Benefits for the funders and society as a whole include

the Fund's farms are situated, as well as a lack of access to good medical care. The product currently offered to farm workers in terms of the Fund's mandate, OCSACare, is a low-cost micro insurance product geared specifically for low income workers in rural areas.

At present OCSACare is used by nearly 20 000 blue collar workers, giving most of them access to pre-paid healthcare for the first time in their lives. The pre-paid concept is important, as people tend to delay doctor's visits when they need to pay out of their pockets. Moreover, pre-paid healthcare introduces the concept of solidarity, where everyone

## LINKS BETWEEN EDUCATION AND HEALTH

The social benefits of literacy are enhanced when accompanied by supportive interventions such as skills training and access to health facilities. The positive association between education and health includes:

- | Increased life expectancy and lower child mortality rates.
- | Lower incidence of common acute and chronic disease.
- | Better ability to understand messages and absorb knowledge necessary for self care.
- | Enhanced appreciation of the importance of good health behaviours.
- | Women tend to take a more active role in decision making around health needs.

heightened productivity and learning capacity, reduced treatment burden, and the potential to attract increased investment in the workforce and environment.

High returns can be achieved through low cost interventions, particularly in poorer countries and areas where lower-income groups with limited access to quality healthcare are targeted. This is accentuated in the agriculture sector where manual labour is prevalent. Healthy lower and middle income workers are often pivotal to the political and socio-economic stability of a country – and a correlation between improved health status of a country and a rise in GDP has been observed.

Initial social audits highlighted the generally poor socio-economic conditions of the regions in which

contributes towards the risk pool, and everyone gets access to services when needed. Expenditure for chronic diseases such as diabetes will only show a return after an extended period; however, expenditure for acute diseases like infections and trauma tend to show effect within months or even weeks. For most companies the introduction of OCSACare has significantly reduced absenteeism rates, in some cases by up to 50%.

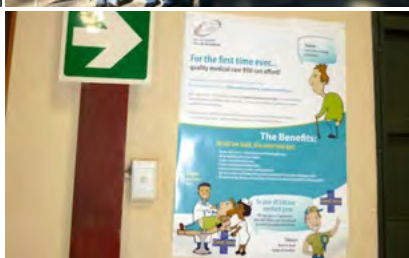
It is too early to quantify the full effect of the SA fund's healthcare programme; however, this initiative clearly has the potential to contribute to the financial status of the operating companies as well the Fund, in addition to impacting the communities surrounding the fund's farms.



OCSACare workshop at Piketberg



**OCSA**  
*Care*  
Workers' healthcare is our business



OCSACare poster at Marble Hall





## Principles in action

### Farmland *Principle Two*

#### Respecting labour and human rights

The regions in which we invest are characterised by high levels of illiteracy and a lack of access to quality healthcare. In order to lay the foundations for meaningful worker and community empowerment these limitations need to be addressed as a matter of priority. Our goal as a Fund is to leave the farms and workers in a distinctly better state on exit than before our involvement.

The Fund invests in labour intensive farming, and through its expansion programme is able to amplify its social impact. As at the end of December 2012 there were 253 permanent workers in total on the SA fund's farms. During the year, 1 745 additional seasonal workers were employed during the peak seasons. The Fund's expansion projects have the potential to create an additional 865 jobs over time.

- | New employment contracts, in line with the Ethical Trade Handbook guidelines were implemented during 2012 for newly recruited workers at Marble Hall and the Northern Cape Grape Farms.
- | The total spent on Health and Safety measures by operators in 2012 amounted to USD20 556 (R174 405).
- | The total amount spent on healthcare by the SA fund in 2012 was USD21 062 (ZAR178 694). At year end 85 workers had OCSACare membership, giving them unlimited access to CareCross doctors, free provision of acute and chronic medicines, as well as radiology and pathology services – a necessary pre-cursor to HIV/Aids treatment. Members can also visit dentists and optometrists belonging to the CareCross network. This is a unique offering in the agricultural sector, and the SA fund is a front runner in this regard. During 2012, 21 of the workers on the healthcare program in Marble Hall undertook 37 visits to the GP.



Numeracy class at Northern Cape Grape Farms



Marble Hall graduation ceremony



Education is a **fundamental human right** and essential for the exercise of all other human rights.

UNESCO



Piketberg crèche



The SA fund's first female forklift driver!



Marble Hall worker preparing for lessons



HIV training at Piketberg



REG. 7 FACTORY KIT		
Qty	Product	Exp. Date
1	BURNSHEILD 10 x 10 cm STERILE RUBIN DRESSING	
1	PACK STERILE GAUZE SWABS (60x10)	
1	PAIR TWEEZERS (FORCEPS)	
10	PLASTERS	
1	SAFETY PINS (120)	
7	HYPOPORE PAPER TAPE (25mm)	
4	FIRST AID DRESSING (75mm x 100mm) No. 3	
1	FIRST AID DRESSING (150mm x 200mm) No. 5	
2	DISPOSABLE CPE	Exp. Date
1	WOUND CLEANER (100 ml/250ml)	
1	PACK NON-STERILE GAUZE SWABS	
1	COTTON WOOL (100gms)	
1	STANDARD FIRST AID SCISSORS	
4	TRIANGULAR BANDAGES: N/WOVEN	
4	PROFORM BANDAGE (75mm)	
4	PROFORM BANDAGE (100mm)	
1	PROFORM FABRIC ROLL (25mm x 3m)	
2	STRAIGHT SPLINTS	
4	PAIRS DISPOSABLE LATEX GLOVES (MEDIUM AND LARGE)	
1	PLASTIC BAG	
2	GRANULES SACHETS	
2	SWABS 75 x 75 (25/1)	
2	PAIRS NITRILE GLOVES (2 x MEDIUM & 2 x LARGE)	
CONTAINER: METAL BOX, PLASTIC BOX OR NYLON BAG		

63 learners in total participated in adult education programmes over the course of 2012. The total amount spent on education by the SA fund during the year was USD45 318 (ZAR384 492). At Piketberg 5 Managers, 6 Supervisors, 74 permanent workers and 17 seasonal workers attended WIETA training. The two day workshop concluded with managers and supervisors coming together to devise a joint action plan to bring about improved communication and greater participation in policy formation. One female worker at Piketberg achieved her forklift driver's certificate: the first female on the fund's farms to do so!

At Marble Hall construction of new housing for 40 seasonal workers was completed during 2012. We opted for single quarters rather than the customary dormitories, with durable fittings and finishes, thus providing more dignified and secure

living conditions. During the year a comprehensive audit of the worker housing and ablution facilities was done on all farms. Several proposals were considered by the Investment Committee and USD1.97m (ZAR16.7m) has been committed to the construction and upgrading of worker housing in 2013. This will be done in line with IFC guidelines on worker accommodation as well as national legislation governing the living conditions, health and safety of the farm workers and their families.

The crèche on the Piketberg farm was upgraded in line with South African Child Care Act requirements. External funding for this was received from the Futuregrowth CSI programme and Old Mutual's Green Hands project. The crèche is now a safe haven for 20 farm workers' children, giving them a healthy and improved start in life.



WIETA workshops at Piketberg





## Principles in action

### Farmland *Principle Three*

#### Respecting existing land and resource rights

In terms of its mandate, the Fund invests only in existing agricultural land and respects existing use and ownership rights to land and other resources. No land reform farms or farms with claims are bought without government and claimants' consent. Investors are primarily local institutions and pension funds, mitigating accusations of foreign land grabbing. Stakeholder and investor engagement requires our investments to be transparent and regularly monitored, thereby ensuring accountability.

- | Prior to purchase, checks are done that the investment will have no significant adverse impact on access to other resources, such as fishing grounds, local food or cash crops.
- | The Marble Hall land has been used for agriculture for over 100 years and there are no known land claims or cultural heritage implications. When the Northern Cape Grape Farms were turned into farmland in 1940 there were no indigenous people inhabiting the area. Likewise, the Piketberg farm is not a greenfield operation, has no known land claims and no people have been displaced. All water rights are included in the title deeds.
- | Graveyards have been found on various of the Fund's farms. These have been left undisturbed and are accessible to anyone who wishes to visit them.
- | The Northern Cape Grape farms border on the Augrabies National Park. Although the land is assigned for agricultural production, a major part is not developed and still in its natural state. Currently springbok, klipbok, gemsbok and kudu roam freely through a portion of the farm. A part of this is being considered for incorporation into the National Park for its rhino rehabilitation project.
- | All farms have health and safety committees that hold regular meetings where minutes are kept. Some farms have worker committees and housing committees. On all of the Fund's farms workers are free to join labour organisations of their choice. At present, no workers are members of any unions.



Workers' spokespeople at Marble Hall



Northern Cape Grape Farms worker committee



Members of the housing committee at Piketberg



# Governance Measures

## Principles in action

### Farmland *Principle Four*

#### Upholding high business and ethical standards

In recent decades, the concept of governance has gained increasing prominence on the development agenda. We believe our responsibility is vested not only in transparent policies and practices, but also in compliance with all applicable laws and ensuring that we meet the expectations of our stakeholders.

| Annual ESG assessments take place on site at all of the Fund's farms. During this process, interviews are conducted with a sample of staff at all levels: managers, office staff and general workers. A detailed report is produced for the Investment Committee, including details of the visit, verification methods used, documents sighted, and findings benchmarked against IFC standards. Labour and production data is also collected and verified.

| During the initial due diligence performed on all new investments, gaps are identified and a process is set in motion to address these, using a checklist with target dates agreed with the operators for completion. Follow up visits are conducted and feedback on progress is presented to the Fund's Investment Committee.

| The operators on our farms are contractually obliged to maintain the farm in good order and comply with all municipal, health and safety and other relevant regulations, regardless of whether these are enforced or not. UFF uses a state-of-the-art financial and operational management and control system that allows for detailed analysis and monitoring of the performance of various agricultural assets on a continuous basis, making it possible to detect underperformance at an early stage. The Fund may conduct full compliance inspections, issue directives and if necessary step in to remedy the situation.

Good corporate governance is about 'intellectual honesty' and not just sticking to rules and regulations.

Mervyn King (Chairman: King Report)



GLOBALG.A.P. certified produce can be traced all the way from farm to fork!



Investors inspecting new worker housing at Marble Hall



Emergency plan displayed at Piketberg



Basic Conditions of Employment displayed at Marble Hall

- Monthly management accounts for each of the investments are drawn up by UFF. All capital expenditure is executed by UFF after written approval by the Fund's Investment Committee, which comprises two members from the Fund Manager, an investor representative and two independent members.
- In addition to IFC standards, UNPRI and Farmland Principles, the Fund endorses the Code for Responsible Investing in South Africa (CRISA) and the UN's Food and Agriculture Organisation (FAO) Voluntary Guidelines on the Responsible Governance of Tenure. UFF follows the OECD Guidelines for Multinational Enterprises on the prevention of bribery and corruption, and adheres

to various guidelines and acts as set out by South African law, as well as the World Bank's Worldwide Governance Indicators and the Corruption Perceptions Index.

- All farms in the Fund are GLOBALG.A.P. certified and audited once a year by independent qualified auditors. Certified farms are given a unique GLOBALG.A.P. Number (CGN), which can be traced online (<https://database.globalgap.org>).
- Site visits were conducted by Fund staff on the following dates in 2012: 8, 10, 28 February; 1, 2, 3, 13 March; 16, 17 April; 7, 8, 17, 18, 23 May; 10, 23, 31 July; 1, 14 August; 25, 26, 27, 28 September; 10, 17 October; 23 November; and 4, 5 December.



General signage on display at the farms

## Principles in action

### Farmland *Principle Five*

#### Reporting on activities and progress towards implementing and promoting the Principles

The King III Report on Governance for South Africa advocates reporting on the impact of the company's core business activities on society, the environment and broader economy, with a focus on transparency and accountability. The Farmland Principles provide us with a useful framework for this.

The Fund has been working on streamlining and refining reporting requirements for our investors. Along with our commitment to sustainable development and continuous improvement of conditions on our farms we are committed to continuous improvement in the way we communicate and report on our activities.

- | Quarterly reports are produced for investors and other interested parties, giving an overview of Fund performance and conditions on the Fund's farms, as well as any significant events during the quarter. A quarterly scorecard is also produced for each investment giving an update on various indicators organised under the broad headings: Healthcare, Education, Job Security and Labour Conditions, Food Security and Reduced Environmental Impact. In addition to the numbers provided, comments and explanations of any variances are included.
- | Four Investment Committee meetings were held during 2012. At each of these the UFF team gave the committee a detailed verbal update on conditions on the farms, the expansion programme and the ESG initiatives.
- | This 2012 Annual Impact Report is the first by the Fund to report on activities relating to the UN Farmland Principles. Progress in implementing the principles will be reported annually from now on. In August 2012, Futuregrowth and UFF completed the pilot on-line UNPRI Annual Indicator reports.
- | Reporting publicly via various media on our activities and progress is done on an ad-hoc basis, taking into account appropriate confidentiality considerations.

A key challenge for leadership is to make sustainability issues **mainstream.**

King Code of Governance for South Africa



View of the Orange River, Northern Cape Grape Farms



In order to stay abreast of and involved in local and international developments UFF and Futuregrowth staff participated in a number of events during 2012:

- | Private Equity in the Global Economy presentation by Kathleen Danohar (CFA, Director of the Committee on African Studies for Harvard University), Cape Town - April 2012
- | ISO 26000 Standards Workshop on ethical standards and responsible investments, Cape Town - May 2012
- | We Need Ethical Food Labels live broadcast event hosted by WWF, SAFM and Fairtrade Africa, Cape Town - May 2012
- | A Strategic Perspective on Water presentation by Dawid Bosman (Senior Manager: Advisory Services, Trans Caledon Tunnel Authority), Cape Town - June 2012
- | UNPRI reporting framework pilot webinar - August 2012
- | PRI SA ESG Africa Forum, Johannesburg – August 2012
- | MN Capital Annual Africa ESG Forum, Johannesburg – August 2012
- | Innovating for Sustainability presentation by Professors Robert G. Eccles and George Serafeim (Harvard Business School), Cape Town - September 2012
- | Global Energy Basel meeting, Cape Town - October 2012
- | ESG and sustainable finance Europe 2012, Amsterdam, Netherlands - October 2012
- | PRI SA Annual Network Event (roundtable discussion), Cape Town - October 2012
- | The Principal Officers Association of South Africa (POA) /IFC manager engagement on Sustainable Returns Project, Cape Town - November 2012
- | Carbon and water risks to securities in South Africa presentation of research findings commissioned by the WWF South Africa by Trucost, Cape Town - November 2012
- | Super Returns Africa 2012 Private Equity Conference, Morocco - December 2012
- | World Trade Organisation (WTO) World Toilet Summit conference on sanitation, Durban – December 2012
- | ImpactBase - Global Impact Investing Network (GINN) related database for Responsible Investors in LANDac Research (participation financed by the Ministry of Foreign Affairs in the Netherlands) - ongoing
- | AfricaSIF ESG Investment in Africa survey-ongoing
- | Aidenvironment research - ongoing



Workers at Marble Hall, making good use of bags received from OLG and CareCross

# Glossary

TERM	DESCRIPTION
AET (previously known as ABET)	Adult Education and Training - an outcomes-based education programme that provides basic learning tools and access to nationally recognised qualifications. (Not to be confused with Agricultural Education and Training.)
CareCross	CareCross Health – the company contracted to supply customised primary healthcare services to the farms in the SA fund.
Corruption Perceptions Index	A ranking by Transparency International of countries and territories based on how corrupt their public sector is perceived to be, on a scale of zero (highly corrupt) to 100 (very clean).
CRISA	The Code for Responsible Investing in South Africa (CRISA) aims to provide the investor community with the guidance needed to give effect to the King Report on Corporate Governance South Africa (King III) as well as the United Nations-backed Principles for Responsible Investment (PRI) initiative.
Equator Principles	A risk management framework for determining, assessing and managing environmental and social risk - intended to provide a minimum standard for due diligence to support responsible risk decision-making.
Ethical Trading Initiative (ETI)	ETI Base Code standards include the following: Employment is freely chosen; Freedom of association and the right to collective bargaining are respected; Working conditions are safe and hygienic; Child labour shall not be used; Living wages are paid; Working hours are not excessive; No discrimination is practised; Regular employment is provided; No harsh or inhumane treatment is allowed.
The Ethical Trade Handbook	A guide to fair labour practices, developed with the support of UK retailers and Fruit SA member associations.
Food and Agriculture Organisation (FAO)	A guide to fair labour practices, developed with the support of UK retailers and Fruit SA member associations. It summarises the ethical code principles and the associated laws and best practice. It is available in English and Afrikaans to all fruit growers.
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.
Greenfield	A green field investment or operation is one that is a new venture, started from the ground up. (The term originally referred to building on a pasture that was literally a "green field".)
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.
IPM	Integrated Pest Management System. Organisations with local expertise are licensed to provide IPM systems tailor made for the specific region, product and context concerned, to ensure that pest control actions have favourable economic, ecological and sociological consequences.
Masithuthuke	Masithuthuke (Pty) Ltd is a BEE level 1 certified subsidiary of Open Learning Holdings and specialises in addressing gaps in terms of life skills, literacy, communication and numeracy among disadvantaged groups in RSA. It offers accredited AET programmes, with learners receiving Independent Examinations Board (IEB) certificates on passing their exams.
OCSACare (Occupational Care South Africa)	A product developed by the CareCross Health Group, which offers quality primary healthcare via the CareCross network of General Practitioners (GP's), dentists and optometrists, many of whom are based in rural areas. Full OCSACare benefits include unlimited GP visits, medicines, X-rays, blood tests, basic dentistry, basic optometry, and chronic disease treatment and medication.
OECD (Organisation for Economic Co-operation and Development)	The OECD is an inter-governmental organisation that has forged global standards, international conventions, agreements and recommendations to promote governance and the fight against bribery and corruption, corporate responsibility, development assistance, global investment, international taxation, and the environment.
OLG	Open Learning Group is a subsidiary of Open Learning Holdings, specialises in accredited, distance learning academic programmes, and partners with Masithuthuke to deliver AET to farmworkers in the SA fund.
Permanent workers	Workers employed on the farms, with contracts longer than one year.
Ramsar	The Convention on Wetlands of International Importance, called the Ramsar Convention, is an intergovernmental treaty that provides the framework for national action and international cooperation for the conservation and wise use of wetlands and their resources (adopted in the city of Ramsar in 1971).
Seasonal workers	Workers employed on the farms with contracts of less than one year.
UNESCO	United Nations Educational, Scientific and Cultural Organisation with a mission, amongst others, to provide international leadership to create learning societies with educational opportunities for all populations.
WIETA	Wine Industry Ethical Trade Association - a voluntary association of stakeholders in the South African wine, fruit and flower industries, which promotes good practice in agricultural employment. WIETA training is based on the ETI Base Code.
Worldwide Governance Indicators	Six key dimensions of governance: Voice and Accountability; Political Stability and Lack of Violence; Government Effectiveness; Regulatory Quality, Rule of Law, and Control of Corruption, measured in over 200 countries and updated annually.

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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**