

# Old Mutual African Agricultural Fund (Luxembourg) - SICAV

Quarterly report

June 2016

# Old Mutual African Agricultural Fund (Luxembourg) – SICAV

*Société d'Investissement A Capital Variable*

## Introduction

The Old Mutual African Agricultural Fund (Luxembourg) - SICAV (the "Fund") holds an investment in the Futuregrowth Agri-Fund 1 ("SA fund") which invests in South African farmland. The Fund has the ability to invest in the rest of Africa and is also allowed to provide working capital finance to operators. The Fund's mandate is to deliver an attractive return and provide rural economic development and empowerment.

**The Fund's investments are in the actual farmland and infrastructure, which is leased to** an approved operator to run the farm. The farmland is developed and managed in partnership with these large-scale agricultural operators to further enhance its value. 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.

Fund returns are generated from the lease fee, with the potential capital value increase realised upon final exit with the potential profit on sale of the farmland.

The choice of assets is guided by increasing real value, realised by improving yield, efficiency and management.

Aside from the stable returns generated, the social impact is significant. The investment caters for up to 6% of its lease income (equaling 0.5% of the leasable value of the land) to be spent on healthcare and educational programmes for workers. From year two of each investment, motivated farm workers are identified and provided with the opportunity to receive training in farm management skills.

(For further Fund information, see the Fund Facts page at the end of this report.)

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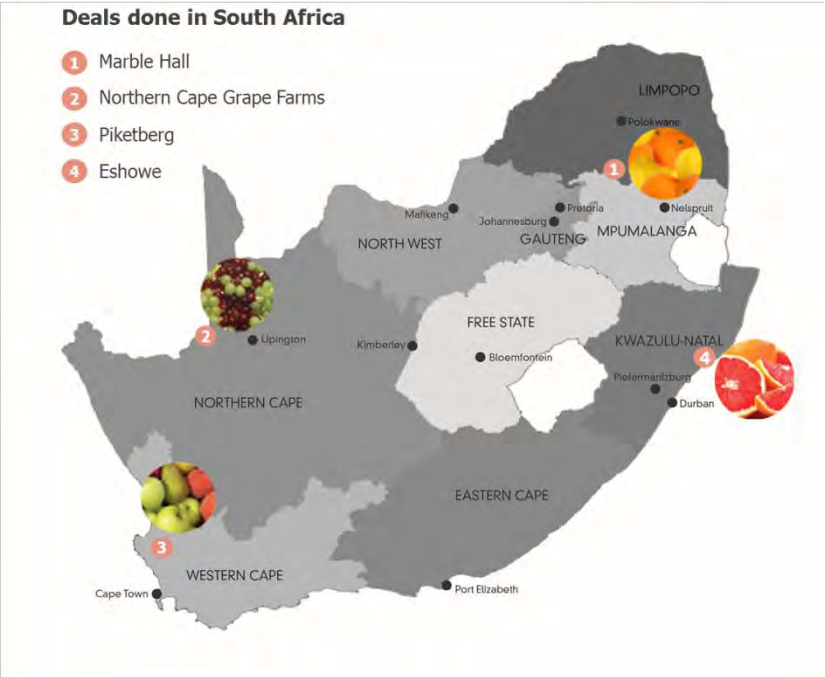
## Summary

Fund overview	The Old Mutual African Agricultural Fund (Luxembourg) - SICAV ("The Fund") holds an investment in the Futuregrowth Agri Fund 1 ("SA fund") which invests in South African farmland. The SA fund holds four farm investments: Marble Hall, Northern Cape Grape Farms, Piketberg and Eshowe, comprising a total area of 5 868 hectares (ha). This report deals primarily with the SA fund investments as there are currently no investments in the rest of Africa. The Fund also derives income from providing a working capital finance loan to an agricultural entity.
Investments (SA farm overview)	The focus during the quarter at Marble Hall, Piketberg and Eshowe was on harvesting and packing, with the new bananas at Eshowe delivering a good first crop. The Northern Cape Grape Farms were occupied with maintenance work such as pruning and spraying. The impact of the drought across the country continues to be felt, and good early spring rains are going to be essential to ease the situation.
Net asset value	Please refer to the Net Asset Value Inventory Reports on the Futuregrowth Luxembourg website for details: <a href="http://www.futuregrowth.lu">http://www.futuregrowth.lu</a>
Performance	NAV of the Fund rose 5.07% for the quarter.
Committed capital	USD 6.5 million (ZAR 62 million) to SA farmland
The Net Asset Value per share of the Fund at end June 2015	USD 79.13
Total farm workers impacted	During the quarter 235 workers received pre-paid healthcare; 1 371 workers had access to HIV/AIDS services; 98 workers received Adult Education (AET); and 16 workers received management training.

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Société d'Investissement A Capital Variable

## Fund overview



As at 30 June 2016 the Old Mutual African Agricultural Fund (Luxembourg) SICAV ("The Fund") had an investment in the SA fund, which is invested in South African farmland.

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

Eshowe, a consolidation of four farms acquired in January 2014, is located in

the Nkwalini Valley of KwaZulu-Natal, approximately 150 km from the Durban Harbour.

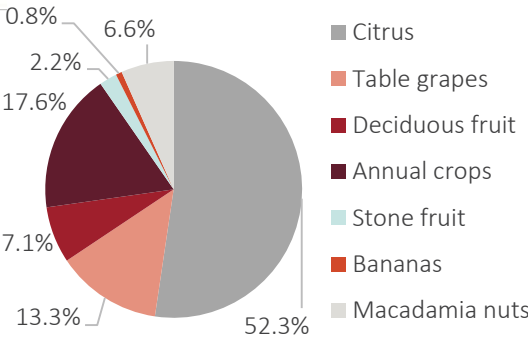
This investment offers extensive expansion opportunities in a highly sought after grapefruit and lemon production region.

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

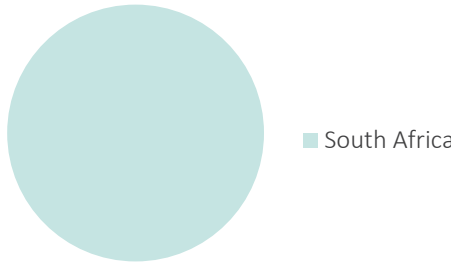
Northern Cape Grape Farms is a consolidation of three table grape farms in the Northern Cape province, bought in August 2011.

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

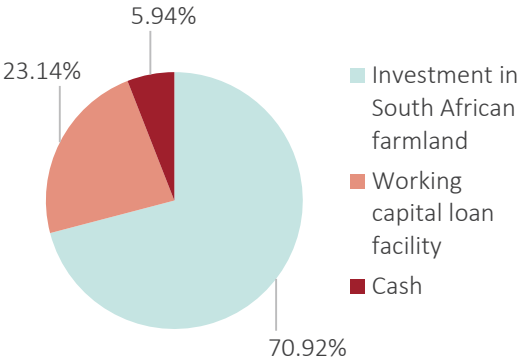
Planned crop allocation (Ha)



Country exposures



Asset allocations



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## Marble Hall investment

Acquisition date	December 2010	Operator	JV between farmer Nelus Potgieter and SAFE Farm Ventures (SFV)
Investment period	10 years	Operator company/ies	Fanchon (Pty) Ltd / Somerhoek (Pty) Ltd
Primary crop	Citrus	Property SPV	Royal Dawn Farming (Pty) Ltd
Region	Limpopo, bordering Mpumalanga	Individual farm names	Somerhoek, Loskop, Elandsdrift
Total farm size	936 ha (including natural lands)	Primary production and infrastructure area combined	714 ha (222 ha natural lands)
Farm overview	<p>The Marble Hall investment is a consolidation of three citrus farms, in in the province of Limpopo, bordering Mpumalanga. This investment provides a solid footing in citrus farming which supplies both the local and international markets. At the outset, this farm was identified as <b>having good expansion potential. New trees planted through the Fund's expansion programme start bearing fruit after three years</b> and reach their peak in eight to nine years. This means that the new orchards will be in prime condition when the Fund is ready to dispose of the farm on exit, when the return on the investment will be realised.</p>		
Farm performance <sup>1</sup>	<p>The main focus in the second and third quarters is the picking of the citrus crop. Harvesting is progressing well and good pack-outs are being achieved. It is expected that over 70% will go to the export market, compared to 55% in past seasons. This is mainly due to very little hail damage during the year.</p> <p>Traditionally, this is the dry season and the farm has not experienced any rainfall. After the very dry summer, immense strain has been placed on the farm resources. In order to save the citrus crop for the current season the farm has used all its water on the orchards and not planted any cash crops. The current water supply has been halved and further restrictions could follow if there is no early summer rain. The farm managed to buy some water from other farmers during the period. It has presented a proposal to purchase water from the Fund 2 farms in order to secure the 2017 crop in the event of no early summer rains.</p>		
Expansion update	<p>The 70 ha of new Witkrans navel oranges are looking very healthy and have now been fenced. Materials have been ordered for the final part of the development of this farm, the conversion of some fields to double line drip irrigation. The impact of this should start showing when the new season starts in the fourth quarter.</p>		
Site visits during the quarter	1, 17, 18, 28 June 2016.		

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



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## Northern Cape Grape Farms investment

Acquisition date	August 2011	Operator	SFV
Investment period	10 years	Operator company/ies	Onderstepoort (Pty) Ltd
Primary crop	Table grapes	Property SPV	Matlotlo Trading 27 (Pty) Ltd
Region	Northern Cape	Individual farm names	Onderstepoort, Nuweland, Oranjestroom
Total farm size	3 183 ha (including natural lands)	Primary production and infrastructure area combined	222 ha (2 961 ha natural lands)
Farm overview	<p>The Northern Cape Grape Farms investment is a consolidation of three farms in the table grape region of the Northern Cape province. This investment provides a foothold in early season table grapes which are marketed internationally. The area along the Orange River in the Northern Cape is one of the few regions in the world that can produce quality table grapes for the peak pre-Christmas demand in <b>Europe. The new hectares planted through the Fund's expansion programme will almost double the number of grape vines on the farm</b>, thereby maximising the productive use of the land and the economic benefits that will flow from this.</p>		
Farm performance <sup>1</sup>	<p>Activities during the quarter focused mainly on pruning, spraying, planting cover crops around young vines and applying compost and organic material on sections where growth has not been optimal.</p> <p>Rainfall has been normal for this period, but temperatures have been high for this time of the year. This has resulted in the plants still actively growing, therefore delaying the final pruning before they enter the winter rest. The Lower Orange River Scheme has not been affected by any water restrictions yet, but the level of the river is very low and the pH level of the water is higher than 8.5, which affects the uptake of certain fertilisers.</p>		
Expansion update	<p>The farms are at the end of their development cycle and the main focus has been on completing the netting and the last of the planting. Onderstepoort remains a challenging farm to manage. The operator has had to remove a further 16 ha from production. This has prompted the Fund to have a closer look at the property and consider other options to unlock the potential of this asset.</p>		
Site visits during the quarter	No site visits took place during the quarter.		

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Northern Cape Grape Farms AET classmates



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*Société d'Investissement A Capital Variable*

## Piketberg investment

Acquisition date	November 2011	Operator	International Fruit Services (IFS)
Investment period	10 years	Operator company/ies	Hochland (Pty) Ltd
Primary crop	Deciduous and stone fruit	Property SPV	Salestalk 173 (Pty) Ltd
Region	Western Cape	Individual farm names	Stawelklip, Voorstevlei, Hochland
Total farm size	1 035 ha (including natural lands)	Primary production and infrastructure area combined	147 ha (888 ha natural lands)
Farm overview	<p>The Piketberg investment is a consolidation of three deciduous and stone fruit farms in the Western Cape. This property has a unique micro-climate, which is ideal for fruit trees and allows the farm to yield prime quality produce at early to market peak-price times. The farm had been under liquidation for two years and was in a state of neglect when the Fund purchased it. Considerable effort has gone in to tidying the farm and bringing operations up to acceptable standards. With its attractive setting in the Piketberg mountains, this farm is now <b>one of the Fund's most picturesque investments.</b></p>		
Farm performance <sup>1</sup>	<p><b>During the quarter 78 774 cartons of the farm's fruit were harvested and packed, and 53 602 cartons of citrus were packed for other farms.</b> The high temperatures during the season resulted in a smaller fruit size across all fruit farms in the Western Cape.</p> <p>Good rains started in June and the weather started to cool down, which is important to bring the plants into dormancy. Water management has continued to be critical. The farm has depended on borehole water and it is reassuring that most of the pumps managed to keep up with the plant demand throughout most of the season. Only Voorstevlei farm had to adjust its irrigation scheduling towards the end of the season when the pumps had difficulty keeping up with the high plant demand. The season has ended with low water reserves and good winter rains will be essential for the next crop.</p>		
Expansion update	<p>Twelve new worker houses have been completed and fourteen worker houses have been renovated. Work on the remaining three units is under way. The new cold room has been completed with some electrical work still to be finalised.</p>		
Site visits during the quarter	11 May 2016.		

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Piketberg workers doing OCSACare training

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## Eshowe investment

Acquisition date	January 2014	Operator	Afrifresh Group (Pty) Ltd
Investment period	7 years	Operator company/ies	Fruitstar (Pty) Ltd
Primary crop	Citrus	Property SPV	Cedarpoint Trading 21 (Pty) Ltd
Region	KwaZulu Natal	Individual farm names	Mvubu, Bridgeford, Sunnyside, Thabile
Total farm size	714 ha (including natural lands)	Primary production and infrastructure area combined	407 ha (307 ha natural lands)
Farm overview	The Eshowe investment is a consolidation of four farms situated in the Nkwalini Valley of KwaZulu Natal approximately 150 km from the Durban Harbour. The sub-tropical, summer rainfall area is suitable for the cultivation of citrus, macadamias and bananas. The investment also offers extensive expansion opportunities in a highly sought after grapefruit and lemon producing region. The planting of new citrus orchards and replacement of unproductive old orchards with lemons, bananas and macadamia nuts is expected to produce considerably better yields for the farm by the end of the Fund term, when the return on this investment will be realised.		
Farm performance <sup>1</sup>	<p>In spite of the drought in the region, the harvest is looking promising. By the end of the quarter 28% of the expected volumes of lemons and grapefruit had been packed. The first of the new bananas were packed, yielding 10 336 cartons which were sold at a very good price, and will boost the cash flow of the farm.</p> <p>Rainfall has been normal for this time of the year. However, dams are critically low and if early spring rains are not good this will result in a very difficult 2017 season. Early indications are that the farm should have enough water to at least set a crop. The farm currently has enough water for its needs as irrigation demand is very low during the harvesting period.</p>		
Expansion update	<b>The new irrigation systems at the Thabile and Bridgeford farms' have been completed and tested, and the system at the Mvubu farm is 60% complete.</b>		
Site visits during the quarter	No site visits took place during the quarter.		



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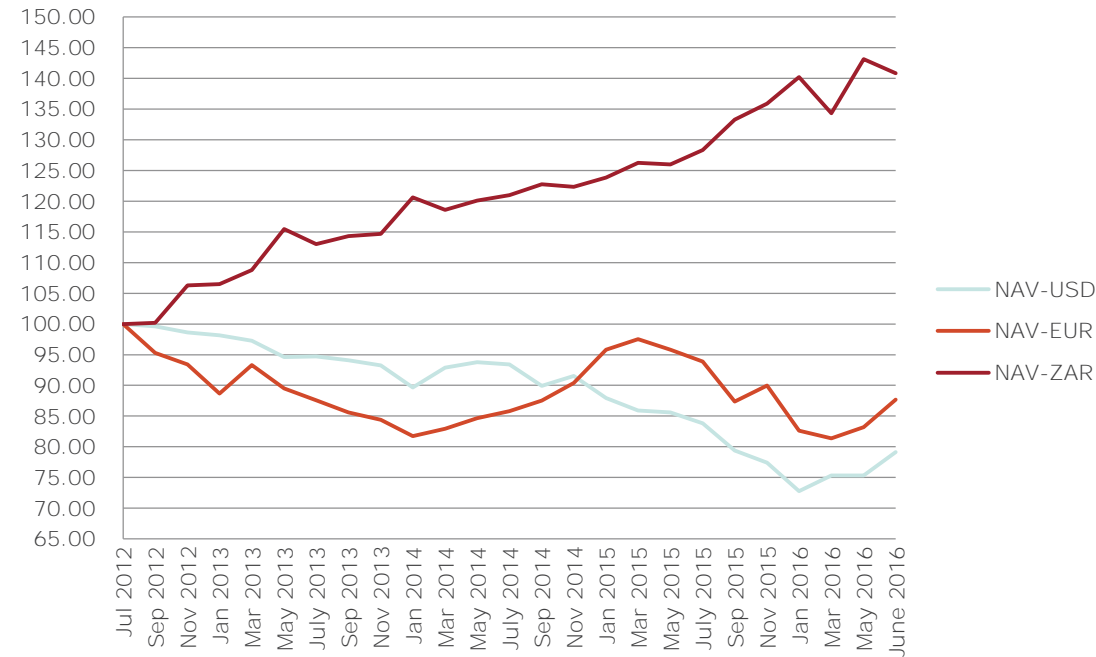
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## Fund performance

### The components that drive returns

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

Performance (historical NAV)



The ZAR currency remained relatively flat over the quarter. The returns during the quarter were attributable to the lease fee income net of costs as well as the positive tax adjustments in the underlying South African Farmland investment.

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## SA Fund performance

The SA fund delivered a return of 7.47% this past quarter and 8.17% over the past year. The investment performance of the Fund reflects 7.32% per annum for the period since inception.

It must be noted that investments in the SA fund are long-term in nature and the **fund's** mandate is to deliver a maximum return on exit, ten to twelve years from inception. This will primarily be achieved through increasing the value of the farms over the fund term. These types of investments tend to be capital intensive in the early years while expansion is completed.

Operators also only start paying lease fees on new plantings when these start producing crops. Therefore, return expectations during the first few years tend to be lower but as time progresses the returns follow a J-curve.

The J-curve effect is less pronounced than private equity investors are accustomed to, due to the lease income stream generated by the farmland assets after their acquisition.

It should also be noted that the valuations of expansions are done at cost and only marked-to-market once the orchards or vineyards come into production.

The returns during the quarter were attributable to the lease fee income net of costs as well as the positive tax adjustments.

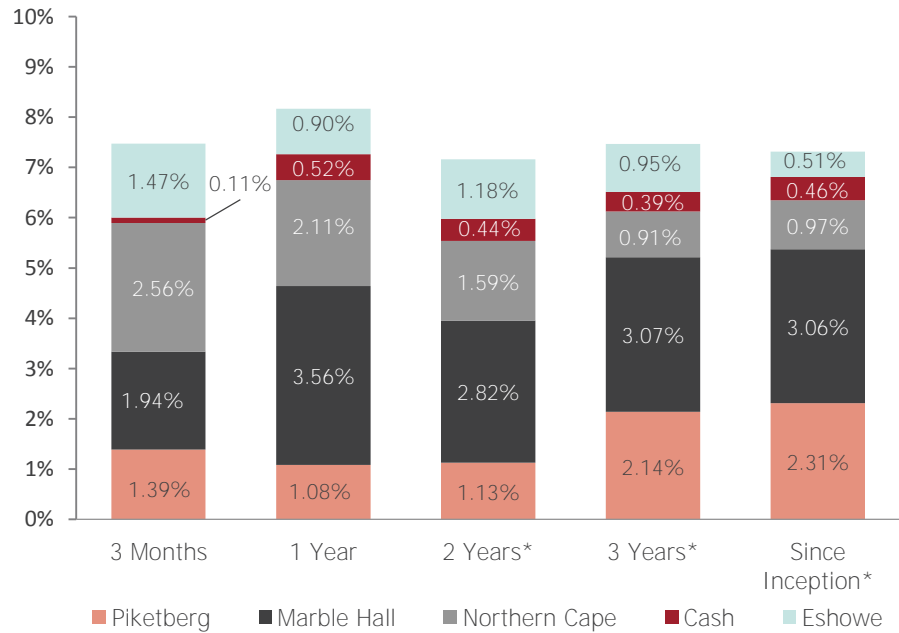
The performance calculation is based on the daily time weighted returns methodology.

SA fund level returns (ZAR denominated)



\*Annualised

Farm level returns



\*Annualised

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*Société d'Investissement A Capital Variable*

## Social impact

		Marble Hall	Northern Cape Grape Farms	Piketberg	Eshowe	Total
Permanent employees* (workers with contracts longer than 1 year)	At take-on:	25	94	102	83	304
	At 30 June 2016:	57	138	121	85	401
Seasonal workers*, depending on season	Currently, up to:	450	950	520	440	2360
Projected new jobs (permanent & seasonal), due to expansion	Projected new jobs:	300	465	100	212	1077
Employees with access to pre-paid primary healthcare	At take-on:	0	0	0	0	0
	At 30 June 2016:	61	0	77	97	235
Employees with access to HIV/AIDS services	At take-on:	0	0	0	0	0
	At 30 June 2016:	463	241	212	455	1371
Employees receiving adult education	At take-on:	0	0	0	9	9
	At 30 June 2016:	29	49	12	8	98
Employees receiving management training	At take-on:	0	0	0	0	0
	At 30 June 2016:	11	5	0	0	16

The table above tracks the main social impact initiatives underway on **the SA fund's** farms. Our aim is to effect permanent change, rather than a tick-box approach. For this reason, the Fund's programmes are long-term in nature, and the primary beneficiaries are the workers on our farms – particularly those with long-term contracts (permanent workers). In our experience, ongoing contact and continuity are keys to achieving a meaningful result. For example, an HIV/Aids intervention has a far greater chance of success if an understanding of basic health care and a level of trust between doctor and patient has been built beforehand. The education and training initiatives are geared to empower workers and broaden their horizons and self-esteem. In this way, workers can make a more profound contribution in their families and communities, and a ripple effect is created.

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## Seasonal impact

The SA fund currently has four labour intensive fruit farm investments, which present a greater opportunity for social impact than other (less labour intensive) types of farming. The Fund's expansion programme forms a vital part of our social upliftment strategy.

The seasonal nature of fruit farming means that labour requirements tend to fluctuate significantly during the year, with a resulting impact on job creation, housing, healthcare and training. The permanent workforce is maintained and grown where possible, and the needs of employees and the surrounding community are integrated where applicable. Local inhabitants are given first option to work on the Fund's farms; however, during peak seasons additional workers may have to be recruited from other areas.

The operators make a concerted effort to keep as many workers employed for as long as possible during the year, via work on general maintenance 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 programmes.

It is foreseen that over a thousand additional permanent and seasonal jobs may be created over the life of the Fund, based on current expansion plans. Once all the newly planted trees and vines are bearing fruit at full capacity, the full potential of the Fund's investments to contribute to both food security and job creation will be realised – for farm labourers as well as their communities.

Marble Hall												
Season	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Navels												
Valencias												
Lemons												
Job trends (permanent plus seasonal)												

Northern Cape Grape Farms												
Season	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
White seedless grapes												
Black seedless & white seeded grapes												
Red seedless grapes												
Job trends (permanent plus seasonal)												

Piketberg												
Season	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Apples												
Pears												
Peaches & nectarines												
Job trends (permanent plus seasonal)												

Eshowe												
Season	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Grapefruit												
Lemons												
Navels												
Macadamias												
Bananas												
Job trends (permanent plus seasonal)												

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## Fund facts and general information

### Price publications and regular information

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

### Fund domicile and type

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

### Inception date

August 1, 2012

### Central administration

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

### Investment manager

Futuregrowth Asset Management  
Cape Town, South Africa

### Investment advisor

UFF Agri Asset Management (Mauritius)  
Mauritius

### Custodian

Credit Suisse (Luxembourg) S.A., Luxembourg

### Fund currency

The Fund currency is USD.

### Investment currency

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

### Valuation (NAV calculation)

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

### Value date

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

### Issue/purchase of shares

Fund 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 promotor

Old Mutual Investment Group,  
South Africa

# Old Mutual African Agricultural Fund (Luxembourg) – SICAV

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## Contact information and disclaimer

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### Disclaimer

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

Futuregrowth Asset Management (Pty) Ltd ("Futuregrowth") is a licensed discretionary financial services provider, FSP 520, approved by the Registrar of the Financial Services Board to provide intermediary services and advice in terms of the Financial Advisory and Intermediary Services Act 37 of 2002. The fund values may be market linked or policy based. Market fluctuations and changes in exchange rates may have an impact on fund values, prices and income and these are therefore not guaranteed. Past performance is not necessarily a guide to future performance. Futuregrowth has comprehensive crime and professional indemnity in place. Performance figures are sourced from Futuregrowth and I-Net Bridge.

The Fund quarterly report 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 quarterly report 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 quarterly report 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 quarterly report 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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