

Old Mutual African Agricultural Fund (Luxembourg) - SICAV

Quarterly report

September 2017

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 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.

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.

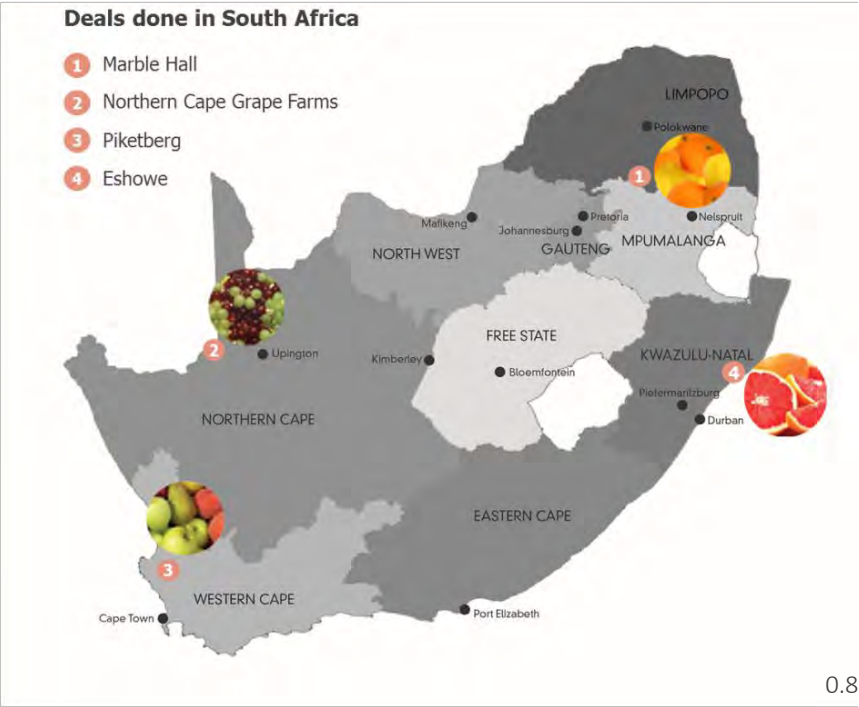
Aside from the stable returns generated, the social impact is significant. The investment caters for up to 6% of its lease income (equaling 0.5% of the leasable value of the land) to be spent on healthcare and educational programmes for workers. From year two of each investment, motivated farm workers 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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Fund overview



As at 30 September 2017 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.

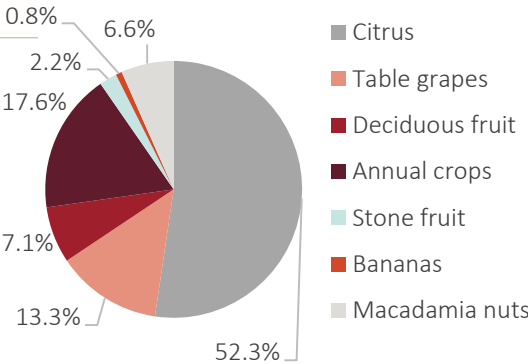
Eshowe, a consolidation of four farms acquired in January 2014, is located in the Nkwalini Valley of KwaZulu-Natal, approximately 150 km from the Durban Harbour. This investment offers extensive expansion opportunities in a highly sought after grapefruit and lemon production region.

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

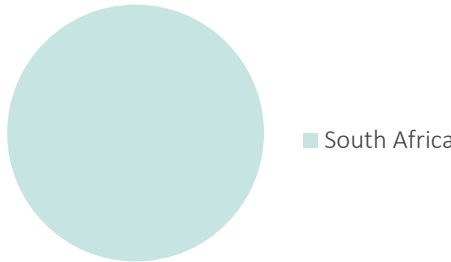
Northern Cape Grape Farms is a consolidation of three table grape farms in the Northern Cape province, bought in August 2011.

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

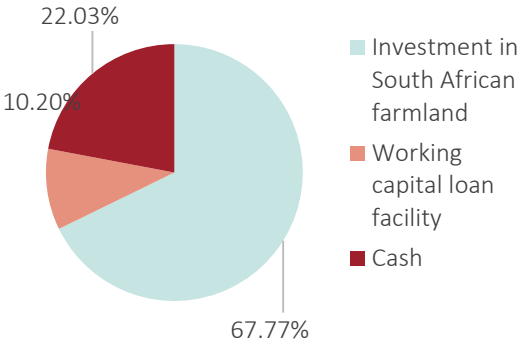
Planned crop allocation (Ha)



Country exposures



Asset allocations



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Marble Hall investment

Acquisition date	December 2010	Total farm size	936 ha (including natural lands)
Investment period	10 years	Primary production and infrastructure area combined	714 ha (222 ha natural lands)
Primary crop	Citrus	Property SPV	Royal Dawn Farming (Pty) Ltd
Region	Limpopo, bordering Mpumalanga	Individual farm names	Somerhoek, Loskop, Elandsdrift
Farm overview	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 having good expansion potential. New trees planted through the Fund's expansion programme start bearing fruit after three years 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.		
Farm performance ¹	No rainfall was recorded during the quarter, and with temperatures reaching up to 35 degrees, irrigation management has been critical. These conditions are normal for this time of the year. With the dam at 95% of its capacity, and this after the winter dry periods, the Loskop Irrigation Scheme is in a very good position. Therefore no restrictions have been imposed on water users. The farm has managed to pack one of the largest recorded export crops, with 615 000 cartons packed by quarter end. All farming activities are up to date with pruning and fertilisation completed, foliar feeds in progress and irrigation ongoing.		
Expansion update	The operator's target is to have approximately 106 ha of the orchards under nets before the start of the hail season, and this project is about 70% complete. The operator has also added a new pump station and dripper line in order to make the irrigation system more efficient. The boreholes on the property have also undergone repairs, thereby increasing water security on the farm.		
Site visits during the quarter	20 September 2017.		

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



The grade 7 class from Ester Maleka Comprehensive High visited the Marble Hall farm in August, where they observed the packhouse in operation, and were briefed on the importance of health and safety on the farm.

The learners were particularly interested in how the operator is able to trace the source of every single box of fruit, and asked a lot of questions about the specific preparations carried out for each particular export market.

After the tour ended, the learners had the chance to pack their own bags of oranges to take home.

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Northern Cape Grape Farms investment

Acquisition date	August 2011	Total farm size	3 183 ha (including natural lands)
Investment period	10 years	Primary production and infrastructure area combined	222 ha (2 961 ha natural lands)
Primary crop	Table grapes	Property SPV	Matlotlo Trading 27 (Pty) Ltd
Region	Northern Cape	Individual farm names	Onderstepoort, Nuweland, Oranjestroom
Farm overview	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 Europe. The new hectares planted through the Fund's expansion programme will almost double the number of grape vines on the farm, thereby maximising the productive use of the land and the economic benefits that will flow from this.		
Farm performance ¹	Rainfall over this period is normally low, with 2 mm recorded in July, 1 mm in August and 1 mm in September. The quarter started with very cold weather and frost, and by September warm and windy conditions prevailed. The farm continued with normal activities for this time of year, such as pruning, spraying, weed control and fertilisation. The packhouse was also busy preparing for British Retail Consortium (BRC) accreditation, a requirement of many leading overseas retailers, which guarantees the standardisation of quality, safety and operational criteria and provides protection for the end consumer. The water supply on the farms is stable. Oranjestroom and Onderstepoort extract water directly from the river and have had all restrictions lifted. Nuweland is supplied by means of a canal and all restrictions here have also been lifted.		
Expansion update	Most of the development work has been completed on the farms. The operator has expressed an interest in utilising the water rights on Onderstepoort more effectively and a presentation to the IC is being prepared by the Fund Advisor.		
Site visits during the quarter	No farm visits took place during this quarter.		

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



Educational tour for Northern Cape farm foremen, team leaders and supervisors, to gain a better understanding of the various facets of the agricultural and export industry, a broader outlook, and a clearer sense of their individual **roles on the farms. The group's co-workers** also benefitted as they shared their learnings when they returned home.

One of the stops was the Kelpak seaweed extract factory (above). The farms employ kelp extract to achieve a larger berry size and improved colour, as well as higher yields. The application of the extract also delivers more vigorous root and shoot growth.

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Piketberg investment

Acquisition date	November 2011	Total farm size	1 035 ha (including natural lands)
Investment period	10 years	Primary production and infrastructure area combined	147 ha (888 ha natural lands)
Primary crop	Deciduous and stone fruit	Property SPV	Salestalk 173 (Pty) Ltd
Region	Western Cape	Individual farm names	Stawelklip, Voorstevlei, Hochland
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 one of the Fund's most picturesque investments.</p>		
Farm performance ¹	<p>Although the farm has received some rain, this has only been about half of historic volumes and has not brought any relief. In order for the farm to harvest a crop in this season a number of actions have been agreed to between the operator and the Fund Advisor. These measures are to ensure the continued maintenance and survival of the asset: October strategy: servicing of all pumps; replacement of irrigation emitters; testing of open boreholes with compressed air; opening of closed boreholes with "Stampboor" (the cheapest option available on the mountain); drilling of a new hole on Tierloof; the appointment of an irrigation consultant to monitor the ground water status at least weekly; a walk around and meeting with staff and management to ensure that water is being saved; and lime to be spread by mid October. November strategy: night time irrigation to take place; all citrus, pear and apple orchards to be mulched with straw; aggressive fruit thinning to be done on all varieties; the tops of the Pink Lady, Golden Delicious and Granny Smith trees to be lopped; water supply to the stone fruit trees to be cut by half after picking; and prune to be completed early. All pruning, fertilization and pest control is on schedule as agreed with Peter Dall, the Specialist Advisor appointed by the farm.</p>		
Expansion update	<p>Most of the effort during the quarter went into ensuring that the farm was farmed correctly and that the crop was set for the coming season. The farm is going to drill two further boreholes to enhance water security. No further expansion was undertaken during the quarter.</p>		
Site visits during the quarter	1 July, 10 August, 14, 25 September 2017.		

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Piketberg orchards during the quarter.

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Eshowe investment

Acquisition date	January 2014	Total farm size	714 ha (including natural lands)
Investment period	7 years	Primary production and infrastructure area combined	407 ha (307 ha natural lands)
Primary crop	Citrus	Property SPV	Cedarpoint Trading 21 (Pty) Ltd
Region	KwaZulu Natal	Individual farm names	Mvubu, Bridgeford, Sunnyside, Thabile
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 ¹	The farm received very little rain during the quarter. The Goedertrou Dam has 31.2% of its capacity and the farm has been allocated 20% of its water right for the year. The farm completed all picking and packing during the quarter and managed to pack 182 755 export cartons over the season. The farm embarked on an intensive pruning programme in 2017 in an effort to reduce the height of the trees and allow for better light penetration into the canopy. The fertilisation programme started in July, with the application of foliar feeds. Pest management started early, in order to get on top of the situation before it becomes hard to control.		
Expansion update	The Fund Advisor and operator decided to postpone the planting of macadamias and the last of the lemons until the drought in the region is over. The lemon trees on order for this the development have been relocated onto another farm belonging to the operator in the Marble Hall area. The operator is investigating options to increase the packing capacity of the current packhouse in the meantime.		
Site visits during the quarter	22 September 2017.		

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The Eshowe harvest.

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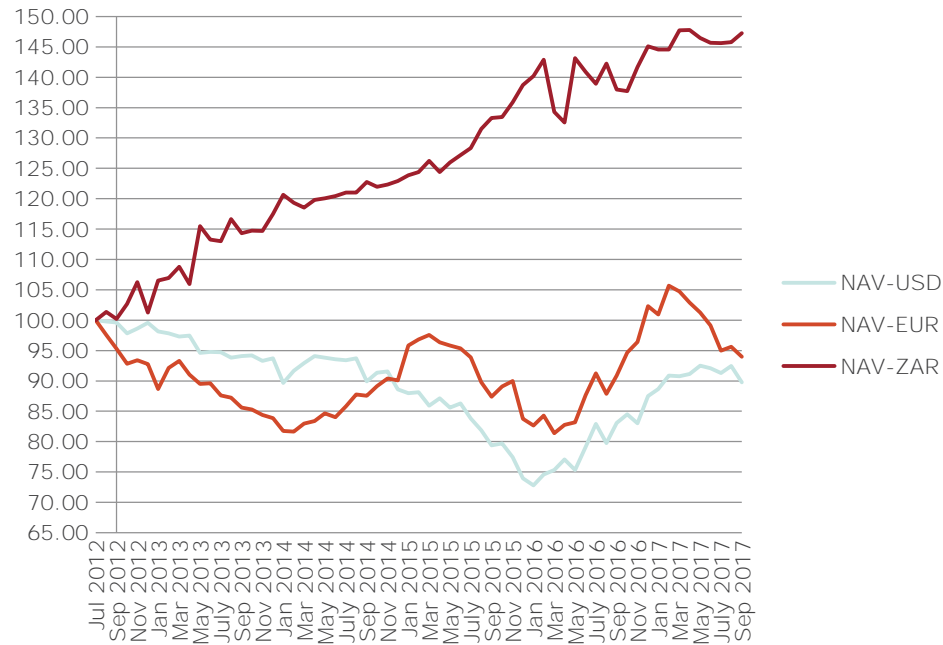
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Fund performance

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 weakened by 3.9% relative to the USD. Political uncertainty in South Africa continues to weigh-in on the currency and the economic situation also points to further deterioration. The underlying assets in the Futuregrowth Agri-fund I will undergo a revaluation in November 2017.

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SA Fund performance

The SA fund delivered a return of 0.64% this past quarter and 11.21% over the past year. The investment performance of the Fund reflects 7.90% per annum for the period since inception.

It **must be noted that investments in the 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.

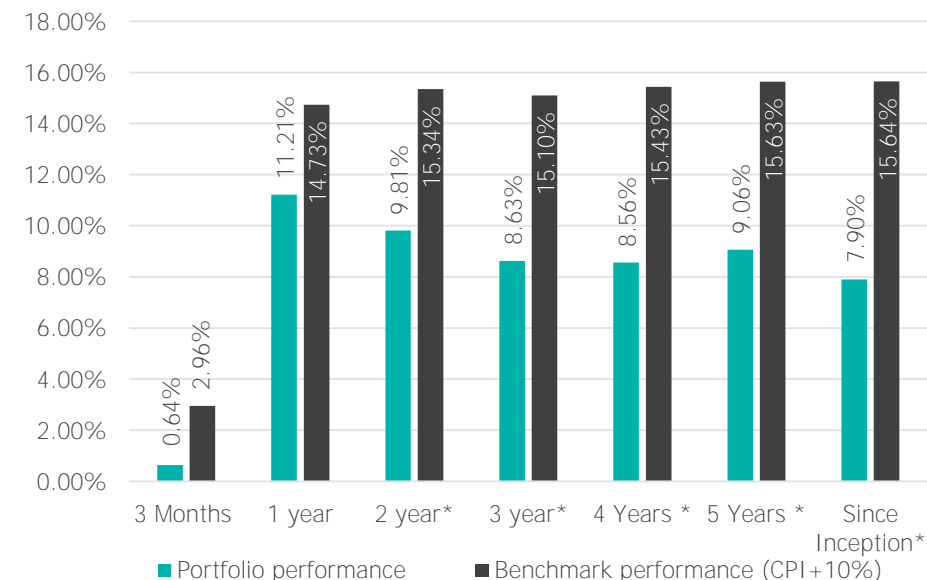
The J-curve effect is less pronounced than private equity investors are accustomed to, due to the lease income stream generated by the farmland assets after their acquisition.

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 expenses.

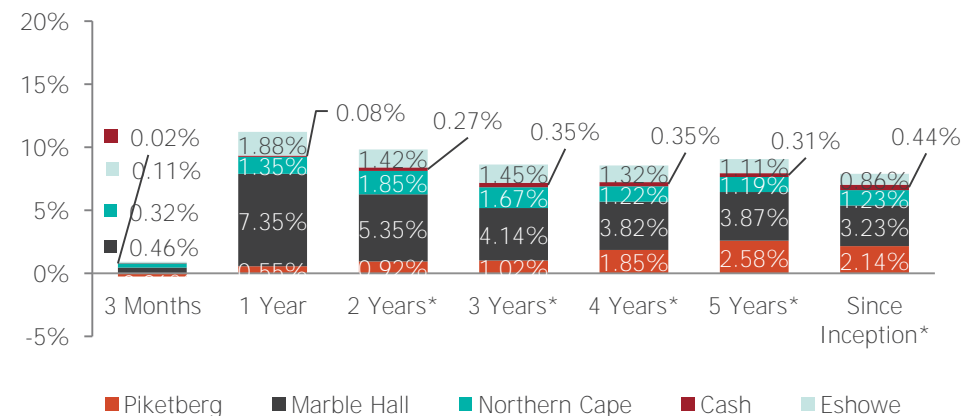
The performance calculation is based on the daily time weighted returns methodology.

SA fund level returns (ZAR denominated)



*Annualised

Farm level returns



*Annualised

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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 Sep 2017:	103	78	148	139	468
Seasonal workers*, depending on season	Currently, up to:	450	950	520	440	2 360
Projected new jobs (permanent & seasonal), due to expansion	Projected new jobs:	300	465	100	212	1 077
Employees with access to pre-paid primary healthcare	At take-on:	0	0	0	0	0
	At 30 Sep 2017:	103	87	106	142	438
Employees with access to HIV/AIDS services	At take-on:	0	0	0	0	0
	Currently, up to:	103	581	203	223	1 110
Employees receiving adult education	At take-on:	0	0	0	9	9
	At 30 Sep 2017:	17	28	13	9	67
Employees receiving management training	At take-on:	0	0	0	0	0
	At 30 Sep 2017:	2	11	42	0	55

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 and job creation

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), 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

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Contact information and disclaimer

Futuregrowth Asset Management
Smital Rambhai
3rd Floor, Great Westerford, 240 Main Road,
Rondebosch, 7700
Tel + 27 21 659 5300
Fax + 27 21 659 5337
srambhai@futuregrowth.co.za
www.futuregrowth.co.za

UFF African Agri Investments
Duncan Vink, CFA
Groothandelsgebouw Business Centre
Weena 737
3013 AM Rotterdam
Tel +31 10 2680 669
Cel +31 6 55 36 3856
duncan.vink@uffagri.nl
www.uff.co.za

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.

PO Box 878, Cape Town, 8000
Tel: +27 21 509 5022, Fax: +27 21 509 4663
www.oldmutual.co.za

Mutualpark
Jan Smuts Drive, Pinelands
7405, South Africa

