

# Old Mutual African Agricultural Fund (Luxembourg) - SICAV

Quarterly report

March 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.)

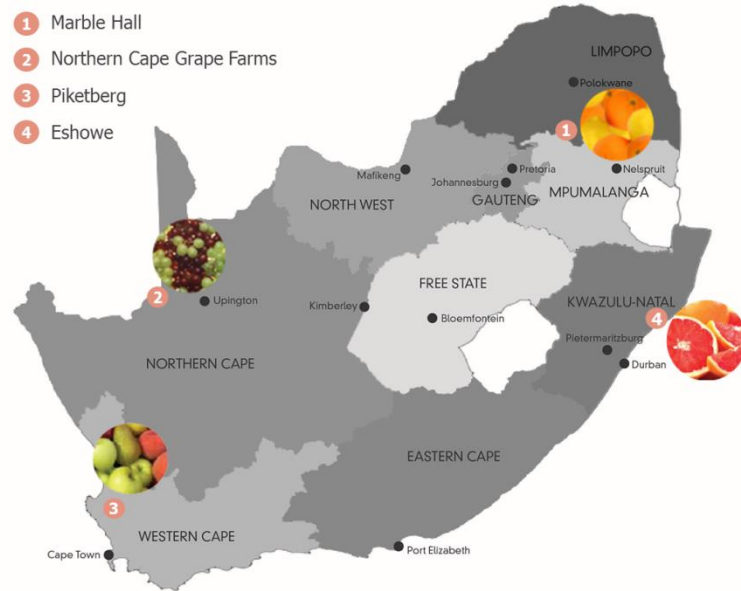
# Old Mutual African Agricultural Fund (Luxembourg) – SICAV

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## Fund overview

### Deals done in South Africa

- 1 Marble Hall
- 2 Northern Cape Grape Farms
- 3 Piketberg
- 4 Eshowe



As at 31 March 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.

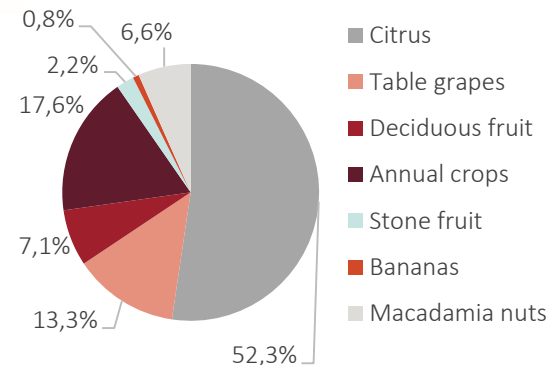
This investment offers extensive expansion opportunities in a highly sought after grapefruit and lemon production region.

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

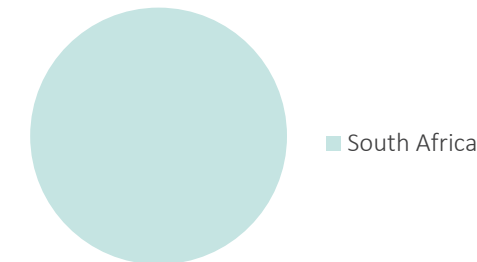
**Northern Cape Grape Farms** is a consolidation of three table grape farms in the Northern Cape province, bought in August 2011.

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

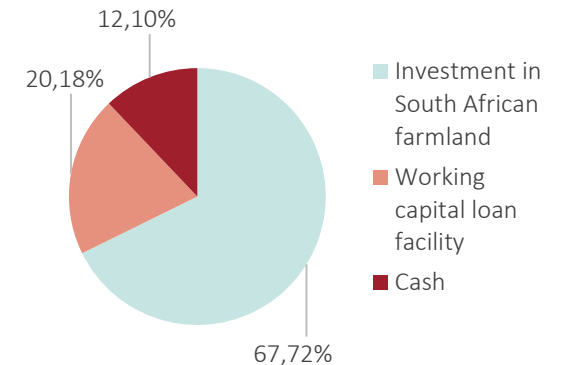
### Planned crop allocation (Ha)



### Country exposures



### Asset allocations



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## Marble Hall investment

<b>Acquisition date</b>	December 2010	<b>Total farm size</b>	936 ha (including natural lands)
<b>Investment period</b>	10 years	<b>Primary production and infrastructure area combined</b>	714 ha (222 ha natural lands)
<b>Primary crop</b>	Citrus	<b>Property SPV</b>	Royal Dawn Farming (Pty) Ltd
<b>Region</b>	Limpopo, bordering Mpumalanga	<b>Individual farm names</b>	Somerhoek, Loskop, Elandsdrift
<b>Farm overview</b>	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.		
<b>Farm performance<sup>1</sup></b>	Good rains were experienced during the quarter. The Loskop Dam was sitting at 89% by the quarter end, and all water restrictions have been lifted for the coming season. The general maintenance activities are being managed well and the farm is preparing for the 2017 harvest. The early indications are that the farm should have an above average season as no serious incidents of hail have been reported.		
<b>Expansion update</b>	All development on the farm is up to date. The installation of new netting is expected to start in the second quarter of 2017.		
<b>Site visits during the quarter</b>	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.



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## Northern Cape Grape Farms investment

<b>Acquisition date</b>	August 2011	<b>Total farm size</b>	3 183 ha (including natural lands)
<b>Investment period</b>	10 years	<b>Primary production and infrastructure area combined</b>	222 ha (2 961 ha natural lands)
<b>Primary crop</b>	Table grapes	<b>Property SPV</b>	Matlotlo Trading 27 (Pty) Ltd
<b>Region</b>	Northern Cape	<b>Individual farm names</b>	Onderstepoort, Nuweland, Oranjestroom
<b>Farm overview</b>	<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 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.</p>		
<b>Farm performance<sup>1</sup></b>	<p>All the farms received between 100mm and 120mm of rain over the quarter. The weather for January and February was warm but pleasant because of the rain in area, and March was warm with cooler nights. The water supply on the farms is stable. The Orange River level is currently above average because of good rainfall in the catchment areas. Oranjestroom and Onderstepoort extract water directly from the river and have had all restrictions lifted. Nuweland draws water from a canal system and there are still 15% restrictions in place; however it is expected that these restrictions will soon be lifted.</p> <p>All farming activities are normal, in preparation for the winter lull in activity.</p>		
<b>Expansion update</b>	<p>The last of the ablution buildings at the Nuweland housing complex is near completion, after which work on the outdoor cooking facilities will be done, be the final project on the farm.</p> <p>At Oranjestroom, construction of the crèche is due to start in the second quarter. The block of Soraone grapes is being removed in anticipation of the operator replacing these at his own cost.</p> <p>At Onderstepoort, the focus is on completing the last of the netting.</p>		
<b>Site visits during the quarter</b>	No farm visits took place during this quarter.		

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Training for workers on the OCSACare pre-paid healthcare programme



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## Piketberg investment

<b>Acquisition date</b>	November 2011	<b>Total farm size</b>	1 035 ha (including natural lands)
<b>Investment period</b>	10 years	<b>Primary production and infrastructure area combined</b>	147 ha (888 ha natural lands)
<b>Primary crop</b>	Deciduous and stone fruit	<b>Property SPV</b>	Salestalk 173 (Pty) Ltd
<b>Region</b>	Western Cape	<b>Individual farm names</b>	Stawelklip, Voorstevlei, Hochland
<b>Farm overview</b>	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.		
<b>Farm performance<sup>1</sup></b>	<p>During the quarter, the area experienced above average dry and warm weather with long spells of heat waves. This resulted in lower than normal dam levels on Stawelklip, and almost empty dams at Voorstevlei. In a normal season, the farm would depend on boreholes to get through to the rainy season; however, due to the severity of the drought, some of these have dried up. Stawelklip and Hochland still have enough supply to see them through to the wet season; Voorstevlei, on the other hand, is almost without water. The farm has identified a new borehole site with the help of a hydrologist and will drill early in the second quarter. The site is expected to yield about 20 000m3 of water and this will assist in getting the farm through to the wet season.</p> <p>During the quarter, nearly 150 000 cartons of apples, pears and stone fruit were packed. All farming activities are up to date.</p>		
<b>Expansion update</b>	Six worker houses were upgraded and renovated. Asbestos roofing was removed from ten empty houses which are due to be demolished soon.		
<b>Site visits during the quarter</b>	10 January, 22 February, 23 March 2017.		

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## Eshowe investment

<b>Acquisition date</b>	January 2014	<b>Total farm size</b>	714 ha (including natural lands)
<b>Investment period</b>	7 years	<b>Primary production and infrastructure area combined</b>	407 ha (307 ha natural lands)
<b>Primary crop</b>	Citrus	<b>Property SPV</b>	Cedarpoint Trading 21 (Pty) Ltd
<b>Region</b>	KwaZulu Natal	<b>Individual farm names</b>	Mvubu, Bridgeford, Sunnyside, Thabile
<b>Farm overview</b>	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.		
<b>Farm performance<sup>1</sup></b>	<p>This region experienced very high temperatures during January and February, which is normal for this time of the year. Of greater concern is the very windy conditions during the quarter. This required the farm to be very vigilant of the plant water requirement, especially on the new plantings. The Irrigation Scheme is still on an 80% water restriction. The Bridgeford farm is particularly challenged over weekends, when the canal used to supply water to the farm's irrigation dams is closed. Water quality is very poor, due to low water levels in the Goedertrouw dam. The dam level picked up from 17% to 30% over January and February, due to good rains in the catchment areas. The Scheme is still in a water crisis as the rainy season is coming to an end. With a 30% dam level it is highly unlikely that restrictions will be lifted very soon.</p> <p>The general maintenance activities are being managed well and the farm is preparing for the 2017 harvest.</p>		
<b>Expansion update</b>	The planned planting of Macadamias in the second quarter is under consideration, given the water situation, and a proposal in this regard will be discussed with the investment committee.		
<b>Site visits during the quarter</b>	6 February 2017.		

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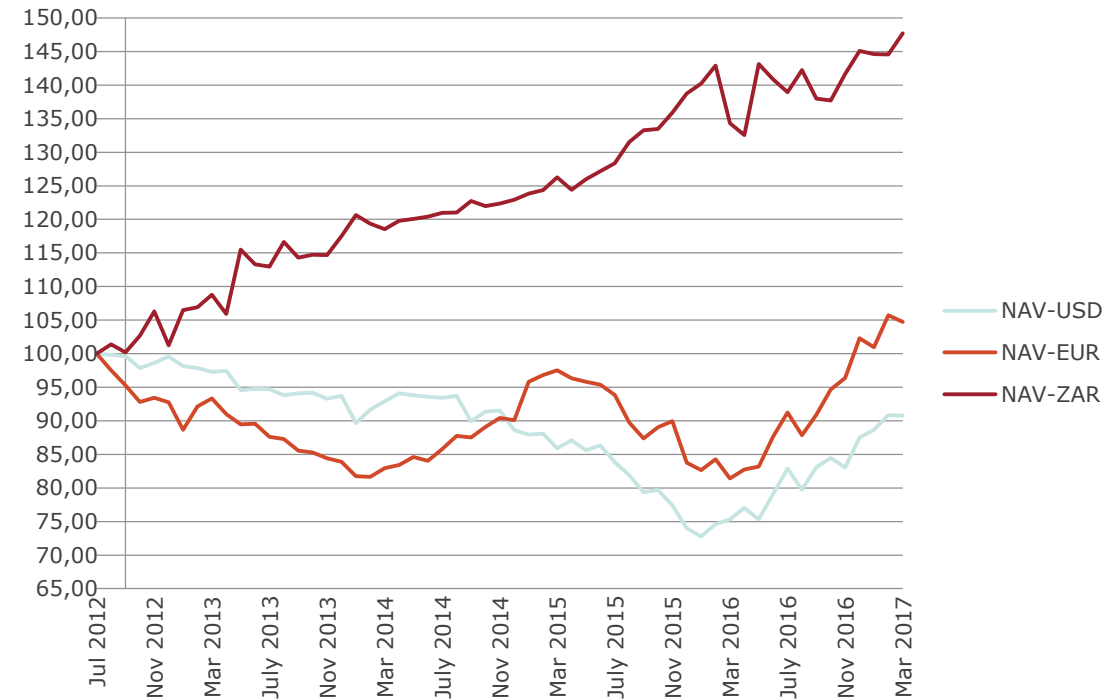
*Société d'Investissement A Capital Variable*

## 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 NAV increased by 3.69% during the quarter. The returns were mainly attributable to the leasing income received from the underlying investments in Futuregrowth Agri Fund 1, which acquires farmland and lease this to large scale operators.



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## SA Fund performance

The SA fund delivered a return of 3.39% this past quarter and 13.34% over the past year. The investment performance of the Fund reflects 8.37% 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.

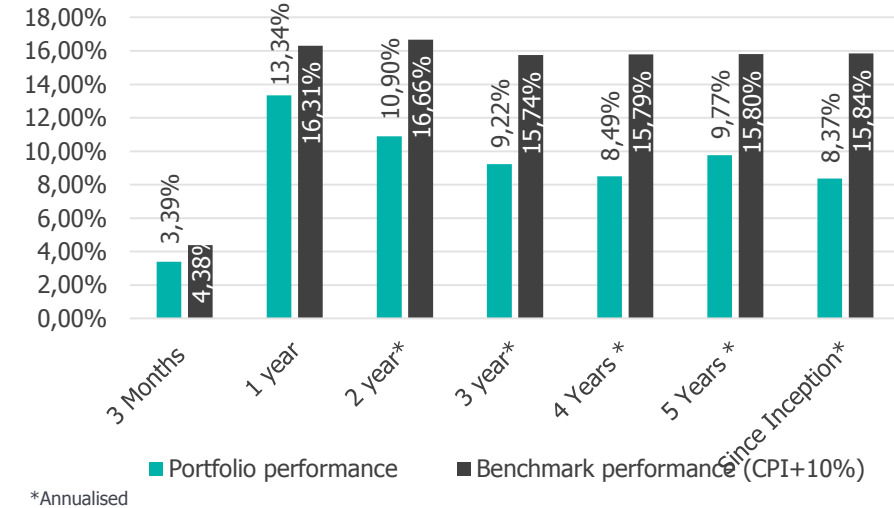
The J-curve effect is less pronounced than private equity investors are accustomed to, due to the lease income stream generated by the farmland assets after their acquisition.

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.

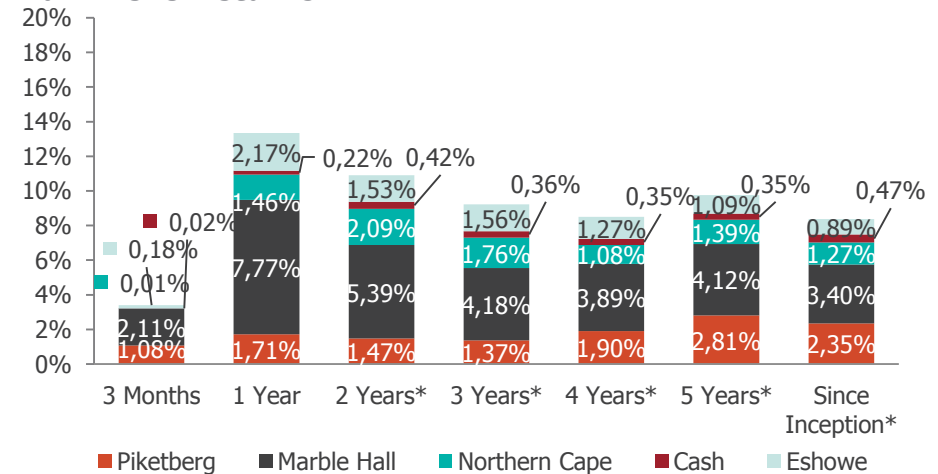
The returns during the quarter were attributable to the lease fee income net of expenses.

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

### SA fund level returns (ZAR denominated)



### Farm level returns



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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
	<b>At 31 March 2017:</b>	<b>116</b>	<b>73</b>	<b>140</b>	<b>143</b>	<b>472</b>
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
	<b>At 31 March 2017:</b>	<b>61</b>	<b>0</b>	<b>104</b>	<b>141</b>	<b>306</b>
Employees with access to HIV/AIDS services	At take-on:	0	0	0	0	0
	<b>Currently, up to:</b>	<b>468</b>	<b>545</b>	<b>310</b>	<b>205</b>	<b>1528</b>
Employees receiving adult education	At take-on:	0	0	0	9	9
	<b>At 31 March 2017:</b>	<b>21</b>	<b>33</b>	<b>12</b>	<b>0</b>	<b>66</b>
Employees receiving management training	At take-on:	0	0	0	0	0
	<b>At 31 March 2017:</b>	<b>8</b>	<b>1</b>	<b>4</b>	<b>0</b>	<b>13</b>

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

# Old Mutual African Agricultural Fund (Luxembourg) – SICAV

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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](mailto:srambhai@futuregrowth.co.za)

[www.futuregrowth.co.za](http://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](mailto:duncan.vink@uffagri.nl)

[www.uff.co.za](http://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.omigsa.com](http://www.omigsa.com)

Mutualpark  
Jan Smuts Drive, Pinelands  
7405, South Africa

