

# AATIF INVESTOR REPORTING

## Report for the quarter ending 31/03/2020



## Activity Report Q1 2020

### Regional Developments

COVID: With the first case in Africa reported on 14<sup>th</sup> of February 2020, two months after the first case was reported in China, Africans had the opportunity to not only educate themselves and put mitigation measures in place but also witness the severity of the virus. Across the continent, the novel virus has been responded to with severity which included closed borders, grounded flights and enforced quarantines.

The concrete impacts on supply and demand channels are complex as dependencies and the effect of interventions from regulators and governments are unprecedented. We agree to the viewpoint of the FAO expecting the impact at different points in time and to all elements of systems including primary supply, processing, trade, logistics, and, across all, labour<sup>1</sup>.

Many African countries, albeit being net importers of food, grow much of their own supply and 60% of the population is engaged in agriculture<sup>2</sup>. The continent has a unique demography and faces unique challenges. Africa has the largest proportion of young people in the world but one of the poorest health care systems. The weak healthcare systems, poor urban planning coupled with low access to amenities such as electricity and water, and high poverty levels exacerbate the situation.

Currently African borders are relatively open to cargo, which supports trade and holds up the

economies of African countries as demand for agriculture products across the continent and globally remains stable. However, owing to the series of calamities that struck the continent, from droughts and cyclones to swarms of locusts, there are concerns on the resilience of existing food supply chains. The FAO is concerned that in the near term, food production might shrink owing to the lack of inputs such as fertilisers and veterinary medicine<sup>3</sup>. We note that companies and banks are reducing payment terms and lending activities given current uncertainties. Liquidity shortages will exacerbate the lack of access to inputs in the farming sector.

The lack of liquidity supply to trading companies linking African farmers to national, regional or international markets is concerning. Traders rely on credit terms from its suppliers and off-takers. These are being cut. The development can leave many farmers without sufficient offers from buyers. In turn household income would be suppressed.

Trade is a backbone of many countries to access hard currency income. Millions of smallholders across Africa generate their income from selling produce into international markets.

Last, we believe that the recessions that began to hit all economies will cause companies to postpone investments. While most local businesses are experienced dealing with

challenges, recessions will suppress the investment climate.

In the current environment we expect three developments for AATIF. First, AATIF's investees will be confronted with financial challenges. We have noted the first cases of payment delays and insolvencies. We believe this to be the beginning and more will follow. It is yet to be seen which company will be affected in what way. Second, AATIF's offer of liquidity and capital will meet a way higher demand as soon as the current lock-downs are being lifted. Financiers tend to reduce the offer of capital during recessions. The food sector, however, requires a certain minimum of liquidity to continue functioning and investments that are being executed right now generally will need financing to be made available along their progress. Harvests, as an example, cannot be postponed and farmers need income to finance the next season.

A third development we expect is that the positive impact AATIF's capital contributions had and have will be more visible than before. AATIF's investments secure local food production as they support farmers being able to have access to off-takers and suppliers that have enough cash to buy their produce.

### New Investment Activities & Disbursements

The investment team is continues supporting new companies and financial institutions in the sector which are in need for funding

<sup>1</sup>FAO 2020: Covid-19. Channels of transmission to food and agriculture.

<sup>2</sup> BCG Fighting Covid in Africa

<sup>3</sup>FAO (2020) Novel Coronavirus

solutions during and beyond the current pandemic crisis. AATIF provided liquidity into Enda Tamweel, the Tunisian microfinance market leader along FMO. The loan is TND based and corresponds to a EUR equivalent of 10m. With Enda Tamweel, AATIF not only expanded its outreach to agricultural farmers in Northern Africa. Hedging provided by TCX allowed AATIF to offer a local currency solution to an institution with an outreach to approx. 100.000 clients active along the Tunisian agricultural value chain.



Transactions in execution stage by end of March stood at USD10m, a clear downward trend against previous developments. Investments on which a due diligence is on-going summed up to USD68m and are spread over 10 opportunities. The investment advisor expects the average investment size to shrink as capital intensive investments are being put on hold. On the other side liquidity is in urgent need by companies trying to bridge the expected recession. We observe an inflow of requests above average compared to more steady times.

### Existing Investment Portfolio

Out of 14 positions, two companies have requested moratoriums on due payments in different forms. The biggest hit by the market disruptions have been taken by trading companies. As soon as markets started to dry out, shipments got delayed or

cancelled, traders began to be squeezed. Significant volatilities in FX and commodity markets have caused losses amongst trading companies. One of the first companies that was hit was the holding company of Phoenix, an AATIF investee, which has been put into liquidation citing the market dislocations as cause. The management of the operating entity, AATIF's borrower, has been kept in control so far.

### Valuation

Every week it becomes more transparent what the beginning of recessions means to AATIF's investees. Valuing the portfolio positions of AATIF at a specific point in time is an task linked with significant uncertainty. The IASB had published an educational paper on how to apply IFRS9, the standard to be adhered to when determining expected credit losses.<sup>4</sup> The paper reinforces that IFRS9 shall not be interpreted as a "mechanised approach". In response, the Board of AATIF has decided to review each portfolio position individually guided by due prudence and a case-by-case assessment. The review resulted in an increase of provisions by USD18.2m.

### Investment Restrictions

Due to the increased amount of provisions the NAV of C-Shares has fallen below the target value of 1/3. AATIF shall therefore prioritise increasing the C-Share capital before it can expand its investment activities.

The single obligor concentration limit related to the ETG investment remained also above the target value as of 31 March 2020. By 12 Mai 2020 ETG repaid USD6m as agreed reducing the exposure to USD24m. The current balance

represents 15% of Total Assets as of 31 March 2020.

Further details can be found in the section "Portfolio Risk Summary".

### Capital Raising Activities

We note the need for liquidity by existing companies and prospective investees right now. We further expect a significant jump as soon as restrictions of economic activities will start to be lifted. AATIF is therefore seeking to raise more C-Shares in order to be equipped with sufficient capital to respond to the demand adequately. While joining forces with other market participants, we fear a significant financing gap in the agricultural sector to come. AATIF continues to have USD25m in commitments from private sector lenders it can draw on in parallel to further C-Share contributions but needs C-Shares to be paid in before.



### Fund Performance & Liquidity

USD funding rates contracted throughout the first quarter of 2020. 6-months USD LIBOR rate reached 0.66% on 12 May 2020 compared to 1.9% beginning of 2020. We expect lower yields in the portfolio while markets remain volatile and companies will need cheap interest rates in the short term to lower the debt payments.

Most of AATIF's investments have short remaining maturities. Even setting aside those investments that have requested for stand-still arrangements, AATIF expects around USD57m in cash to be received from its performing

<sup>4</sup> <https://www.ifrs.org/news-and-events/2020/03/application-of-ifrs->

[9-in-the-light-of-the-coronavirus-uncertainty/](https://www.ifrs.org/news-and-events/2020/03/application-of-ifrs-9-in-the-light-of-the-coronavirus-uncertainty/)

investments. While the investment advisor expects further liquidity pressure on portfolio companies, AATIF's net cash flow profile is forecasting a surplus of USD14m until 31 March 2022. The net cash flow profile takes into account incoming cash from investments versus outflows to investors. Based on these latest simulations, AATIF would be able to meet its obligations as and when these are due. On the other side, further capital is needed to expand the investment activity as described above as an investment activity will reduce the existing surplus.

### Social & Environmental Review and Impact

During Q1 2020, improvements on social and environmental aspects of AATIF's Partner Institutions continued. Two Financial Institutions operating in West Africa – Oragroup and Banque NSIA – reached out to clients to increase the banks' knowledge of their clients' social and environmental practices, including sustainability policies, procedures, and certifications. The analysis of such aspects by the financial institutions is a requirement for the provision of sub-loans using AATIF's capital.

In addition to that, Amsons and Phoenix presented revised Social and Environmental Action Plans, updated with activities taken in the past quarter in areas such as working conditions, sustainable sourcing, and setting timelines and responsibilities for the remaining activities as agreed with AATIF's Compliance Advisor. It is yet unclear what effect the liquidation of the holding company of Phoenix will have on this initiative for Phoenix.

Finally, as part of AATIF's impact measurement efforts, another round of Rapid Appraisals was concluded. Among those, an end line assessment found that farmers associated with the

GADCO smallholder schemes experienced increase in yields that varied between 40% and 70%, and two groups of beneficiaries (employees and smallholder farmers in the Copa Connect scheme) increasing their overall income in the period. The results of GADCO's and other PI's Rapid Appraisals are available on the AATIF website.



### Technical Assistance Update

The TA Facility portfolio currently consists of 23 operational projects with several interventions in the pipeline under development. Despite the effects of COVID-19, the TA Facility remains operational. To be ready for post COVID-19, preparation is already underway to conduct a study on the effects of the pandemic on smallholder farmers who supply AATIF investees with raw material. The study will form the basis for the formulation of appropriate future Technical Assistance interventions to mitigate these effects.

During Q1 2020, an expert consultant team visited AATIF's investee Amsons for the design of an outgrower scheme for smallholder wheat farmers to increase Amsons' share of locally produced wheat for processing. Preliminary results reported show that such a scheme would be beneficial for both participating farmers and Amsons as a commercial off taker. A larger TA programme to assist Amsons with the implementation and operation of such a scheme is currently being discussed.

A similar TA project to enhance the yields and improve the

organization of smallholder suppliers for Mount Meru Millers in Zambia is currently being prepared.

Also in Zambia, a TA Facility financed consultant has commenced his assignment in assisting the AATIF investee African Millers Ltd with a market assessment and product differentiation for cereal products.

To identify and develop new projects, the TA Facility Manager undertook a mission to AATIF's investee Sterling Bank in Q1 2020. As an outcome, several TA proposals are currently being elaborated. These include a feasibility study for the establishment of a nationwide farm radio channel and an analysis of the growing Nigerian dairy sector.



## Enda Tamweel



In March 2020, AATIF as part of a syndication arranged by FMO, agreed to provide an equivalent amount of EUR 10 m in Tunisian Dinars to Enda Tamweel. AATIF funds are to support the microfinance institution in its strategy to further increase its outreach to rural and urban micro and small enterprises along the agricultural value chain.

**Transaction:** FMO, the Dutch entrepreneurial development bank arranged a syndicated loan of an amount equivalent of EUR 60 m in Tunisian Dinars with the hedging provided by TCX. Participants include next to AATIF, BlueOrchard's Microfinance and Regional Mikro kredietpool as well as Triple Jump's Microbuild.

The syndicated loan will support Enda Tamweel to finance farmers, women, young people from disadvantaged areas, and people who need to improve their living conditions through education or housing. It will allow the microfinance institution to enhance its capacity of financing vulnerable population and to increase its active customer's number. Given the current Corona context, this loan will allow Enda Tamweel to better support impacted customers.

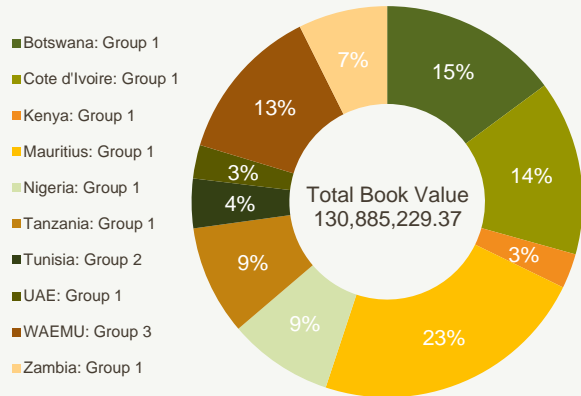
**Enda Tamweel** is a microfinance company created by the NGO Enda inter-arabe in late 2015. Enda is a leader on the microfinance sector in Tunisia with a portfolio of 390 000 active clients and an outstanding portfolio of over 720m Tunisian Dinars. The MFI is serving its customers through a network of 100 brick and mortar and 5 mobile branches through which it is able to reach the most isolated and remote areas.

**Agri-lending:** Enda started agricultural lending 12 years ago in 2007 focusing on livestock (cattle, sheep and goat farming) and cereals with special attention on gender lending. Today Enda offers different micro finance products related to food production or rural activities to mostly very small farmers and micro-enterprises.

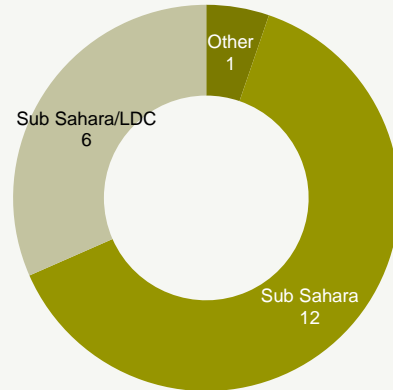


# Portfolio Overview as at 31/03/2020

Book value – Country & Rating Category



Transaction Geography (# of investees)

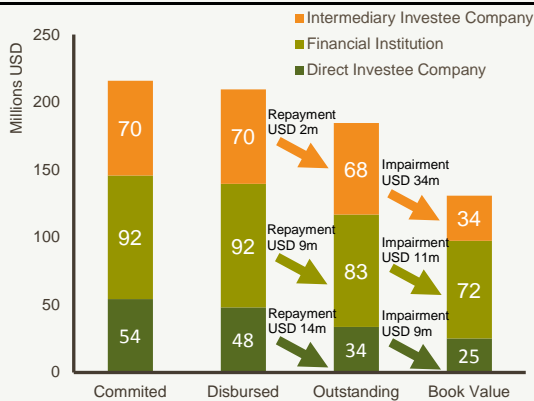


Group 1 and 2 allocation is performed based on a review of the country risks across the continent on a regular basis. Group 3 applies to Supranationals.

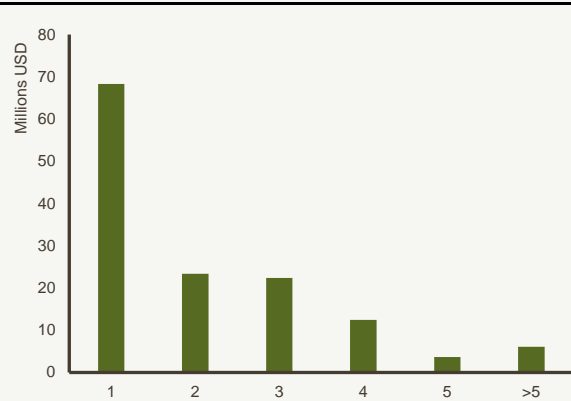
LDC: Least Developed Countries

The country allocation of the investment is linked to the place where the legal residency of the investee/ the economic risk bearer is registered.

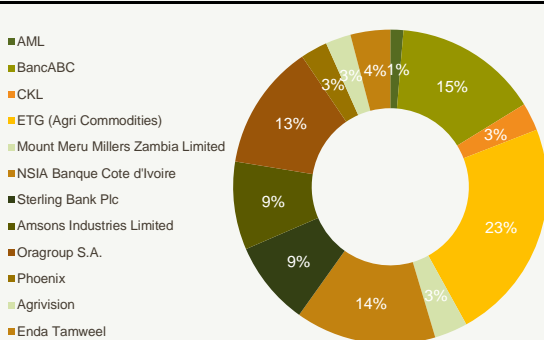
Type of Partner Institution



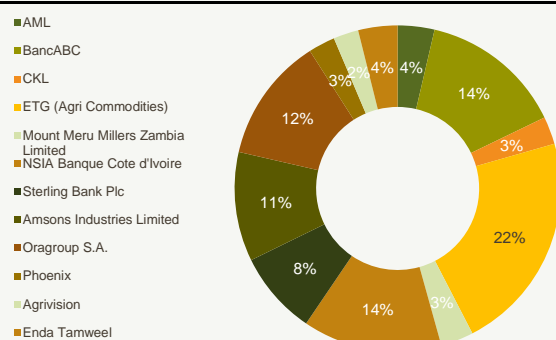
Maturities of the Portfolio (in years)



Partner Institution: Net Balance Exposure



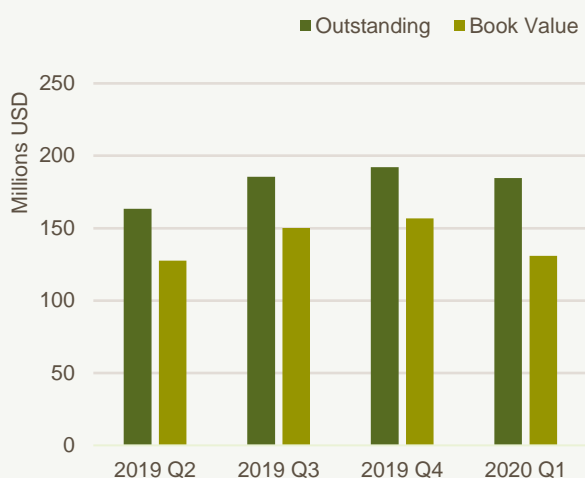
Partner Institution: Net Balance + Unused Commitment



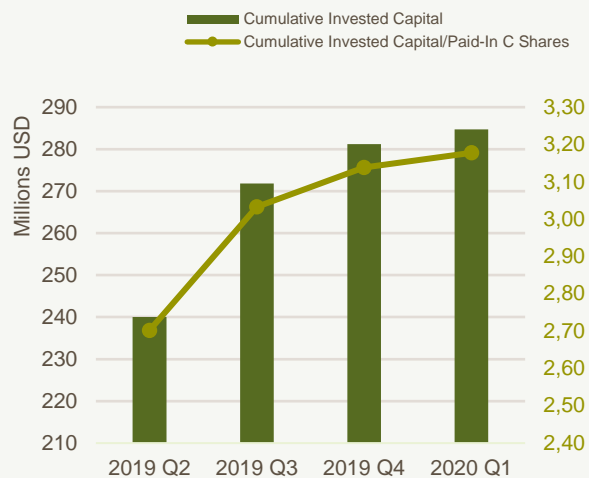
### Provisioning Overview

Provisions on invested capital beginning Q1 2020	USD	35,526,177
Release of Provisions	USD	0
Increase of Provisions	USD	18,168,742
Write off	USD	0
Provisions on invested capital end of Q1 2020	USD	53,694,919
Movement during Q4 2019	USD	+18,168,742

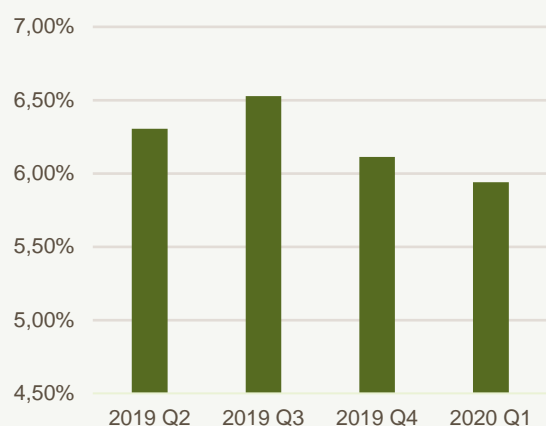
### Investments Outstanding



### Cumulative Invested Capital vs C Shares NAV

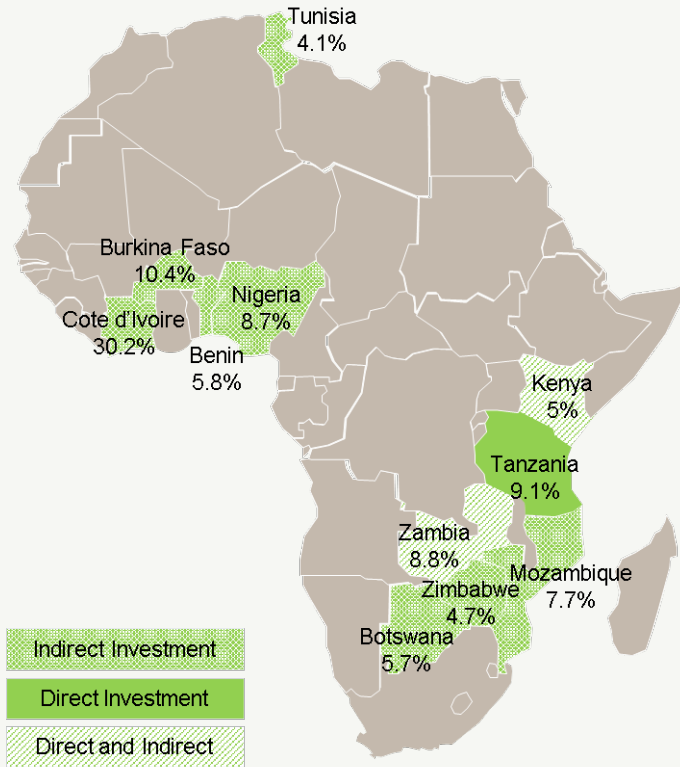


### Gross Yield

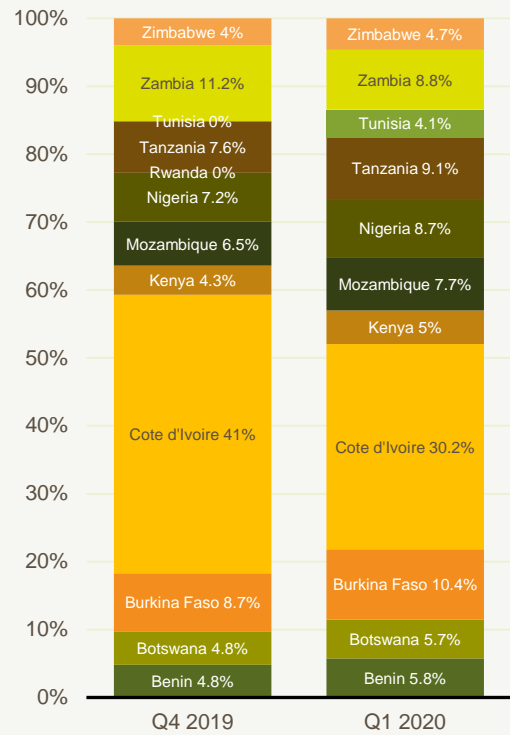


## Regional Use of Funding (Data as of different dates)

Data from investees may refer to different dates on when these are available. Hence, changes over time are to be used as an indication of a trend rather than consistent composition at a fixed point in time. The methodology used by the Investment Advisor to allocate the funding into the respective countries is explained below.



Data as of 31 March 2020

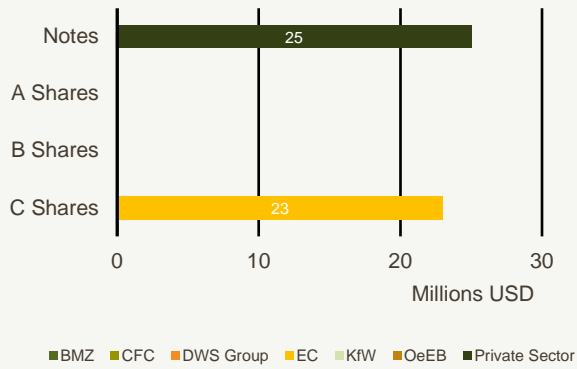


The "Use of Funding Allocation" applies the following methodology:

1. The net loan balance (after redemptions, provisions or write downs) is being used;
2. For direct investment companies (DICs), the country allocation is determined by the purpose of the loan;
3. For intermediary investment companies (IICs) and financial institutions (FIs), the country allocation is determined applying the distribution of the reported reference portfolio of loans to borrowers that are part of an agricultural value chain to the net value of AATIF's investment.

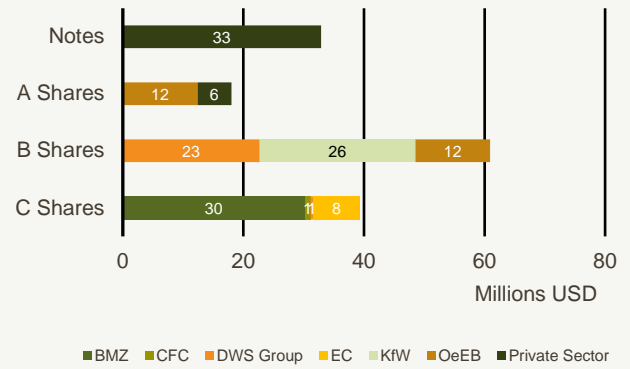
## Investor Capital Structure as at 31/03/2020

### Undrawn Commitments



Total amount of undrawn capital: USD 48m

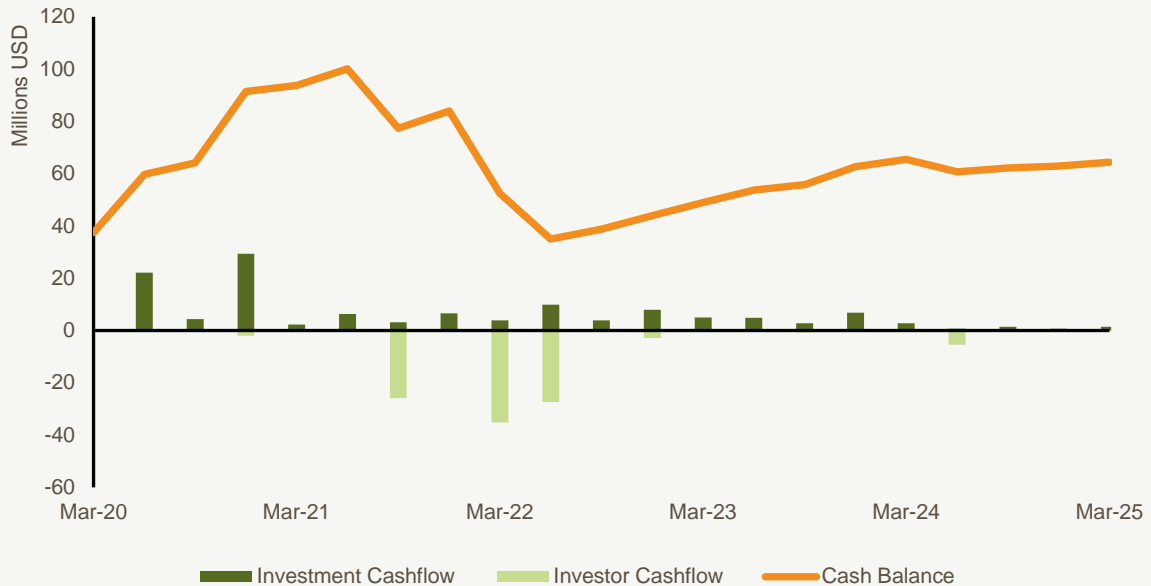
### Net Asset Value (NAV) of Outstanding Shares



NAV of the Fund includes cash and other value elements

## Asset-Liability Cash Flow Profile

### Cash Flow Forecast as of 31/03/2020





## Contact persons

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## Collaboration Partners and Selected Investors

### Initiator:



### Collaboration Partners:



### Investors:



## Disclaimer

All statistics, data and values presented in this report, unless otherwise specified, are based on non-audited figures of the financial model and reporting tool of the Africa Agriculture and Trade Investment Fund. Care has been taken in preparing the financial model and the statistics presented in this report but no representation, warranty or undertaking (express or implied) is given or will be made and no responsibility or liability is or will be accepted by the Africa Agriculture and Trade Investment Fund or any of their respective officers, directors, employees, collaboration partners, service providers or agents in relation to or concerning the content, completeness or accuracy of any information, opinion or other matter contained in this report.

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