AATIF INVESTOR REPORTING

Report for the quarter ending 31/03/2022

Activity Report Q1 2022

Quarterly Developments

It has been a turbulent start into the new year with Russia invading Ukraine, and markets seeing inflation and with it, prices on essential goods as fuel and food as well as interest rates increasing heavily. The continent risks sliding into stagflation has grown significantly just when markets were expected to start to settle after the shock driven by the pandemic. The AfDB is projecting the continent's real GDP to grow only by 4.1 percent in 2022, markedly lower than the near 7 percent in 2021. The deceleration in growth highlights the severity of the impact of the Russia–Ukraine conflict on Africa's economy. [(1)] We have prepared an "insight briefing" on the impacts below.

New Investment Activities & Disbursements

On January 30, 2022 AATIF entered into a senior loan agreement with ECOWAS Bank for Investment and Development (EBID) for a funding line of EUR 25m, aimed at increasing outreach and lending to the agriculture value chain within least developed countries (LDCs) in West Africa. The bank's well-diversified regional approach and support for LDCs allow it to target countries in West Africa that rely heavily on agriculture for economic growth and employment opportunities - countries where AATIF would otherwise be unable to establish direct exposure into. Leveraging on its strong presence in rural areas, the bank's lending contributes greatly to development of the agriculture sector both directly and indirectly, including through providing necessary access to transportation, water, electricity, and communication infrastructure. AATIF also signed the facility with Vantage Netherlands for a USD/EUR 1.5m trade finance facility. The terms of the facility were already concluded in Dec 2020. However, the official signing only took place in January 2022 after the pandemic brought the trading activities of the company mostly to a halt.

The investment pipeline has a strong overweight on financial institutions in order to provide banks with capital which is more and more needed, the more liquidity becomes expensive again.

Existing Investment Portfolio

Updates on operations from the portfolio in Q1 were centered primarily on the impacts of the Russia-Ukraine war, and uncertain weather patterns.

Despite unpredictable rainfall during Q1 2022, it was Zambia's harvesting window for Soya.

Agrivision faced high demand for its soya products locally this quarter. However, as the Russia-Ukraine war continues, the company is anticipating significant impacts on the availability of inputs and wheat in the longer term. Regarding inputs, Agrivision was insulated from the lack of fertilizer in the market, having already purchased inputs for the winter at lower prices. The company now faces uncertainty over the next harvest season, with fertilizer unavailable in the market for upcoming planting seasons.

Seba Foods in Zambia has been renegotiating contracts with local farmers, who have been pushing for more money for their soy crop. The company anticipates higher costs of operations due to global inflation in transport, distribution, and fuel costs. Concurrently, the lack of increase in the Kwacha's purchasing power places more pressure on Seba's operational costs for the upcoming months.

Despite increases in wheat prices in Q1, **African Milling Limited (AML)** remained relatively unaffected, having done their procurement before the ongoing war impacted global wheat supply. To help mitigate fears around availability, the government of Zambia reduced duties on the commodity – a move that many local industry players believe is only a short-term strategy. The company is also bracing for high maize prices, as farmers are moving to soy to capitalize on its lucrative prices. With adequate stock in their warehouses, AML does not expect to face problems with maize supply this year.

Utilization of the mill is at over 75% for maize, supported by sales into the surrounding region, while wheat production is at 90%, exceeding targets.

Mount Meru Millers also faced high commodity prices as a result of the war, raising prices of edible oil. This was mitigated by demand for soya cake from the significant market in Kenya and Tanzania, allowing the company to sustain overall profitability in the quarter.

While daily soyabean crushing capacity was increased from 500 MT to 750 MT, the company operated at 80%-90% crushing capacity and 60%-65% crushing capacity in Q1, having been able to pre-order necessary soya quantities from local farmers in advance.

In Kenya, **CKL Africa** also reported concern for local farmers, as the East Africa region faced a continued period of drought and unreliable rainfall. This had an impact on the amount of maize and wheat grown in the country, and subsequently, availability of feed for cattle. The effects of the Russia-Ukraine war have also impacted CKL, as rising oil prices have led to significant increases in operating costs. This coincided with fuel shortage in the country, further straining the company's operations.

The company also reported another challenge with the rapidly spreading BA.2 variant of COVID-19 in China, which is a key supplier of raw materials for the company.

Social and Environmental Review

AATIF Partner Institutions started the year with important achievements in Social and Environmental (S&E) management. CKL started tracking monthly data on water use, electricity use and waste generated. On the social side, the company updated its accident reporting log, and it now records near miss accidents, which helps the development of risk prevention measures.

The financial institutions in AATIF's portfolio also had improvements in S&E management. Sterling Bank increased its S&E-dedicated team by adding two new members, who will focus on supporting S&E assessment and overall reporting on sustainability aspects of the bank's operations. Moreover, the bank also has staff from other departments who join the S&E team on a short-term basis, through a job shadowing program aiming at improving S&E management capacity across the bank. Another financial institution, NSIA Banque, finalized the external audit of its Social and Environmental Management System and developed an action plan to work on the improvements recommended by the auditor. One of such areas relates to building capacity of relationship managers in conducting screening of S&E risks of new clients. AATIF Technical Assistance Facility is supporting the bank with such task, and training sessions conducted by external experts are taking place in Q2 2022.

Impact Measurement

CKL launched a new page on its website to raise visibility of its sustainability initiatives and share content on its achievements in economic, social, and environmental aspects. The company was also awarded a certificate for participation in the UN Global Compact Climate Ambition Accelerator Programme.

The Baseline Rapid Appraisal of Seba Foods was finalized in Q1 2022, providing insights on how the company can have a significant impact in the value chains where it operates. In terms of outreach to producers, Seba purchased 5% of its grain (maize and soyabeans) from about 1,300 smallholder farmers, 4% from commercial farmers and the rest from traders and aggregators in the 2021 season. The company plans to increase its direct outreach to 5,000 smallholder farmers. Smallholders selling maize to Seba, when compared to farmers who do not sell to the company, had higher average earnings (40%). For soyabean production, Seba farmers cultivated on bigger land sizes, 0.5ha (compared to 0.3ha by non-Seba farmers) and reported yields which were more than twice those of non-Seba farmers. Rapid Appraisals are also useful to identify areas where improvements can be done. As a result of this study, and upon recommendation of AATIF's Sustainability Advisor, Seba is in the process of hiring an Occupational Safety & Health expert to improve its health and safety management at the workplace. The Impact brief will be published on the AATIF website in Q2 2022.

Technical Assistance (TA) Update

During Q1 2022, the AATIF TA Facility Committee approved three new projects, with an additional project pending approval. One project focuses on the development of a Social and Environmental Management System (SEMS) and additional social and environmental (S&E) training for the AATIF partner organization Scipion Capital (the Investment Manager for the Scipion Active Index Fund (SAIF)). Based in London and Geneva, Scipion operates in the African commodity trade finance space and works with a large network of SMEs in emerging markets. Through TA support, Scipion staff will be capacitated to identify S&E TA needs of SAIF investees and contribute to the development of necessary TA measures to improve their sustainability practices with the support of the AATIF Sustainability Advisor and the TA Facility Manager.

Similarly, another recently approved TA project will assess the status of the current S&E risk management process for microfinance institution Enda Tamweel in Tunisia. Through TA support, relevant staff will be capacitated to assess and manage S&E risks and impacts in Enda's loan portfolio and be able to propose adapted mitigation measures with a sector specific approach. As a result, Enda will have a robust action plan to move towards having a fully-fledged SEMS in place.

Furthermore, the TA Facility Manager recently launched a project with AATIF investee NSIA Banque in Cote d'Ivoire focused on designing and implementing a training program for relevant NSIA staff to provide insight on social and environmental risks in the agriculture and real estate/construction sectors. By the end of Q1 2022, the contracted expert consultant was developing a comprehensive training plan and curriculum in preparation for conducting training sessions in early Q2 2022.

Russia-Ukraine War – How Africa is Affected

On the 24th of February 2022, Russia invaded Ukraine, setting off a series of events impacting human lives and livelihoods. The ensuing war posed widespread implications on international supply chains, agricultural systems, transport, and logistics activities. A key front where this is evidenced is in global food systems, where the least developed are often the most affected as one can currently observe in Africa.

Ukraine and Russia hold crucial positions in international value chains as net exporters of agricultural products and inputs. In 2021 either Russia or Ukraine or both ranked amongst the top three global exporters of wheat, maize, sunflower seeds, and sunflower oil, while Russia also stood as a market leader in fertilizer exports globally. This dynamic leaves many African countries that are net importers of agricultural commodities from the Black Sea trade region heavily at risk, as exports of these key commodities from Russia and Ukraine are either no longer available at all, or prices have soared making them prohibitively expensive for local consumers.

Wheat is one such key export from both countries. Russia is the third largest producer of wheat globally, behind only the United States and India. Together with Ukraine, both countries produce 40% of the global wheat supply and are responsible for 26% of global wheat exports. The presence of Russian military forces has curtailed trading activities from Ukraine, restricting wheat exports out of the Black Sea in Q1. Russia's own wheat contingent has also been held up due to shipping companies being unwilling to operate in the region, citing insecurity and high insurance premiums. This has affected global wheat prices, with the FAO Cereal Price Index averaging 170.1 points in March - the highest level recorded since 1990. With February as the wheat planting season in the Ukraine, the typical June/July wheat harvest window could be disrupted, affecting global supply and, subsequently, pushing prices even higher.

Africa is a critical importer of wheat from Ukraine/Russia and is heavily impacted by the lack of availability of wheat. Tanzania, as example, produced 90,000 MT of wheat in the previous FY, against a projected annual consumption volume of around 1.2m MT. Given the continued rise in domestic consumption, driven in part by the country's growing milling industry, Tanzania has had to regularly source more than half of its wheat supply from Russia over the past few years (2).

At the time of writing, the country is not able to import any wheat from the Black Sea region and is looking to other global sources like the US, Canada, and Argentina. However, there the country faced global wheat prices which are 19.7% times higher in March than in February. The local milling industry is thus heavily affected, and consumers are seeing a need to diversify to other crops such as maize and/or rice (3).

A second critical commodity which is heavily affected by the war is edible oil. Russia and Ukraine are jointly responsible for roughly 80% of global sunflower oil exports and sunflower oil makes up roughly 10% of total vegetable oil in the world. Similar to wheat, Ukraine and Russia are currently not exporting sunflower seeds or oil, which has contributed to global vegetable oil prices increasing by an average of 20% since the invasion (4).

Beyond the lack of supply from Ukraine and Russia, two other factors have affected the price of vegetable oil. For one, sunflower oil makes up less than 10% of oil consumed in India which is equal to around 11% of global demand (5). India sources around 76% of its sunflower oil from Ukraine and has now diverted to produce vegetable oil with soybeans instead. As already highlighted in our last market update on soybeans there was a huge supply gap in soybeans last season causing local prices in Africa to increase by ≈200% (6).

The second factor impacting vegetable oil prices is the strong increase in crude oil prices. High fuel prices and limited availability from Russia and Ukraine have pushed several countries to opt for biofuel – using edible oils as fuel in the form of Biodiesel (7). This move is yet another added pressure on the demand for vegetable oils and could subsequently contribute to limited availability of cooking oil in households globally (8).

The third most critical commodity in the agricultural value chain currently affected by the war are fertilizers (specifically nitrogen, phosphorus and potassium fertilizers). Russia is a major supplier of potash, ammonia and urea, accounting for 14% of global fertilizer exports and used to produce nitrogen-based fertilizers, a key fertilizer used in Africa. Since the onset of the war, fertilizer prices have doubled - continuing a trend of price increases started during the COVID-19 pandemic. Since 2020, urea prices have increased by 4 times globally, with potash and phosphate increasing by about 3 times.

The effects of this price increase are particularly detrimental as the effects will be felt in the long run. Not only will it lead to a decrease in yields in the upcoming harvest seasons amongst the smallest farmers who will decide to plant without fertilizer first as they cannot afford the cost, but secondly it will impact global food prices across all commodities as the cost of production will increase. As a continent Africa imports 85% of its food commodities and will need to absorb the price increase (9).

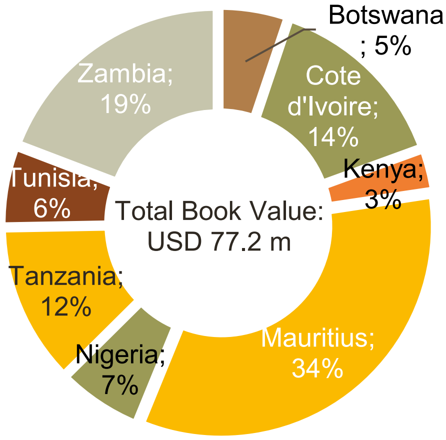
Lastly, crude oil futures have seen an increase of 38.5% since the onset of the war as Russia supplies 11% of global crude oil. This spike in prices has increased the cost of processing and transport, especially in Africa, where a lot of processing and transport is based on crude oil (diesel-run generators, trucks and railway systems). In some countries e.g., Kenya there has been an actual shortage of fuel as governments often subsidies fuel prices but are unable to keep up with the prices increases in recent months. The lack of fuel locally has limited transport of food from upcountry to the urban centres directly impacting farmers offtake markets (10).

As AATIF we have been able to closely observe the impact of the above-mentioned value chains in our portfolio. PIs like CKL Africa and Agrivision reported on the adverse effects of the lack of fertilizers and other inputs in the market as having potential medium- to long-term effects on the farmers they work with, affecting their productivity and purchasing power. Conversely, AML managed to remain relatively unaffected by the spike in demand and pricing for maize, which found renewed popularity as a wheat alternative for flour and animal feed, having secured significant maize stock in their warehouses in advance. Mount Meru, similarly, found relief from the ballooning prices of edible oils by selling their soya cake to in Kenya and Tanzania. This disparity is a testament to the diverse nature of our portfolio companies, their ability to weather the storm and adapt to changing macroeconomic trends. Time will tell how long they will have to stave off the long-term effects of this war.

All in all, the effects of the war have revealed the interconnectedness of global supply chains and especially Africa's reliance on global imports. This reliance makes the continent especially vulnerable to global crisis's and directly impacts food insecurity in the region. The Horn of Africa is in the midst of the region's worst drought in the past 40 years, and increased prices of food are set to further affect the prevailing situation in the region. What the long-term effect will be is yet to be seen and depends heavily on the length of the war and to what extent global food production will be affected in the current and upcoming planting seasons.

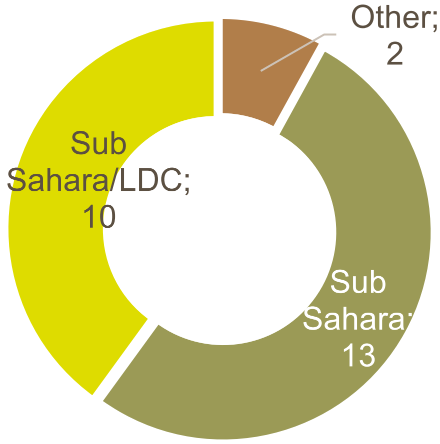
Portfolio Overview as at 31/03/2022

Book value – Country & Rating Category



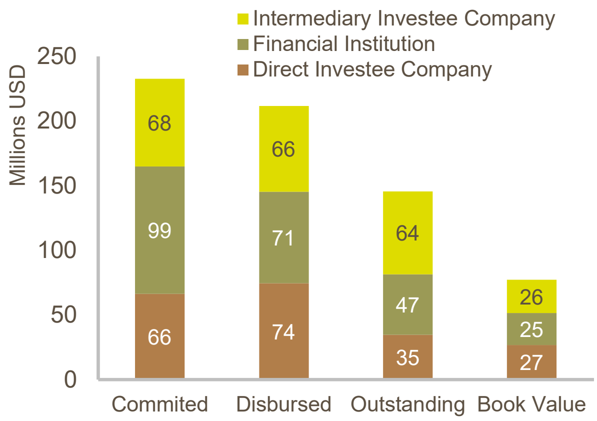
The country allocation of the investment is linked to the place where the legal residency of the investee/ the economic risk bearer is registered.

Transaction Geography (# of investees)

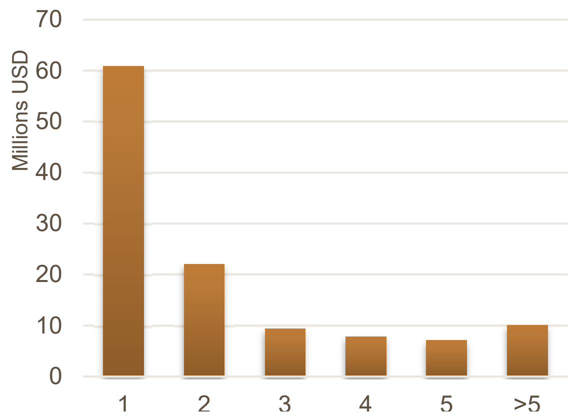


SSA: Sub-Sahara Africa
LDC: Least Developed Countries

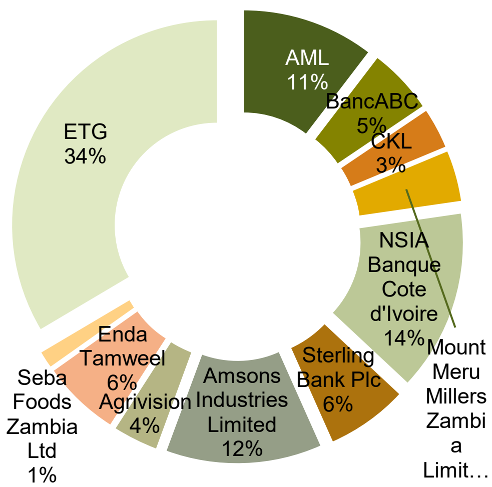
Type of Partner Institution



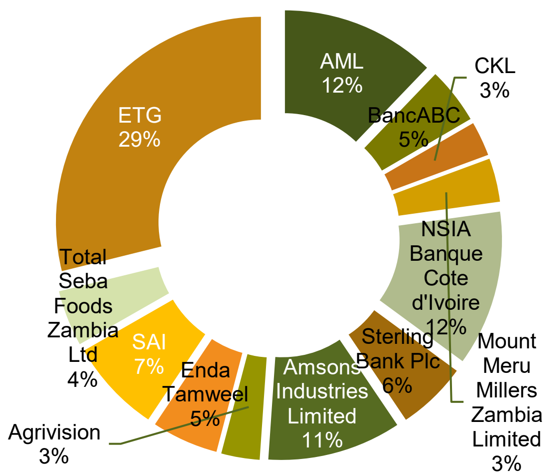
Maturities of the Portfolio (in years)



Partner Institution: Net Balance Exposure



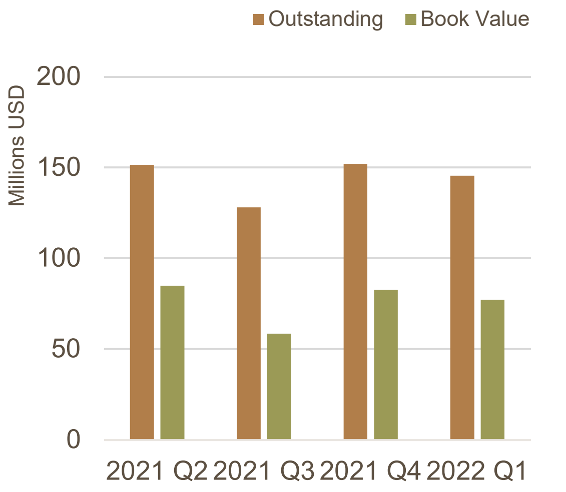
Partner Institution: Net Balance + Unused Commitment



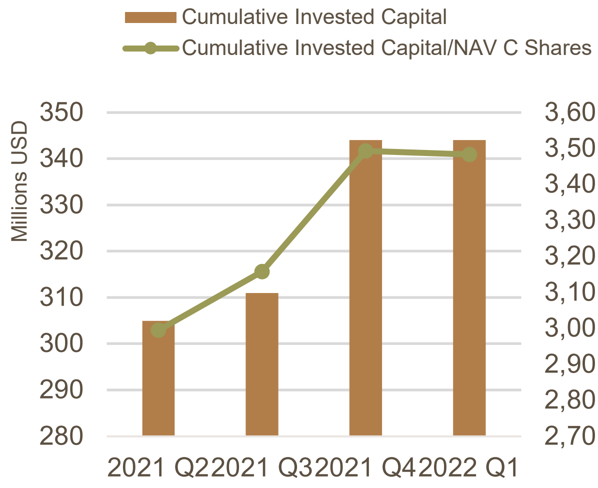
Provisioning Overview

Provisions on invested capital beginning Q1 2022	USD		69,284,177
Release of Provisions	USD	-	982,063
Increase of Provisions	USD	+	0
Write off	USD	-	0
Provisions on invested capital end of Q1 2022	USD	=	68,302,114
Net Movement during Q1 2022	USD	-	982,063

Investments Outstanding

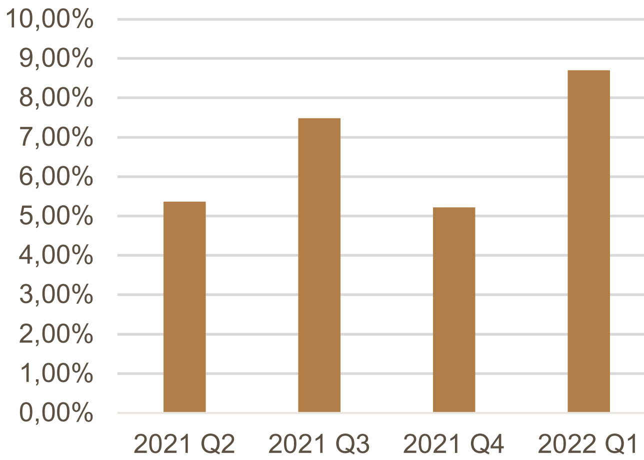


Cumulative Invested Capital vs NAV C Shares



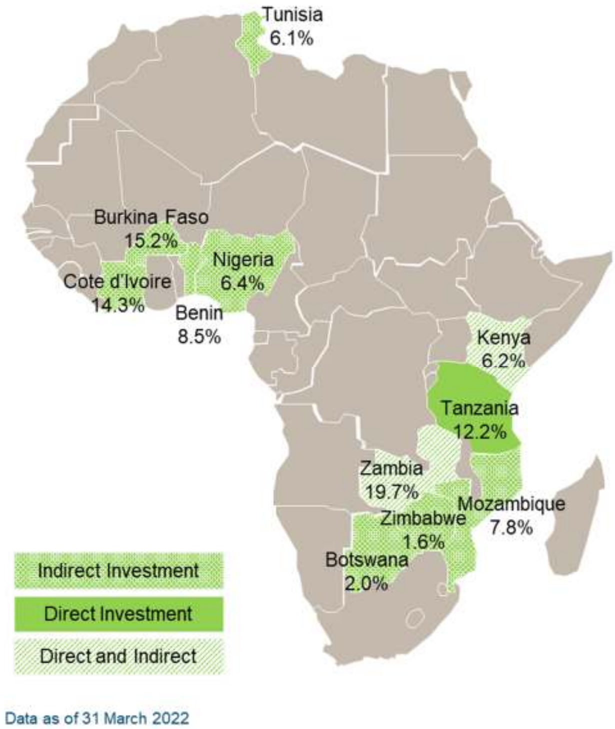
The ratio of cumulative invested Capital/NAV C-Shares decreased from 8x to 3x as AATIF raised additional C-Shares Q4 2020 for further growth of the Fund.

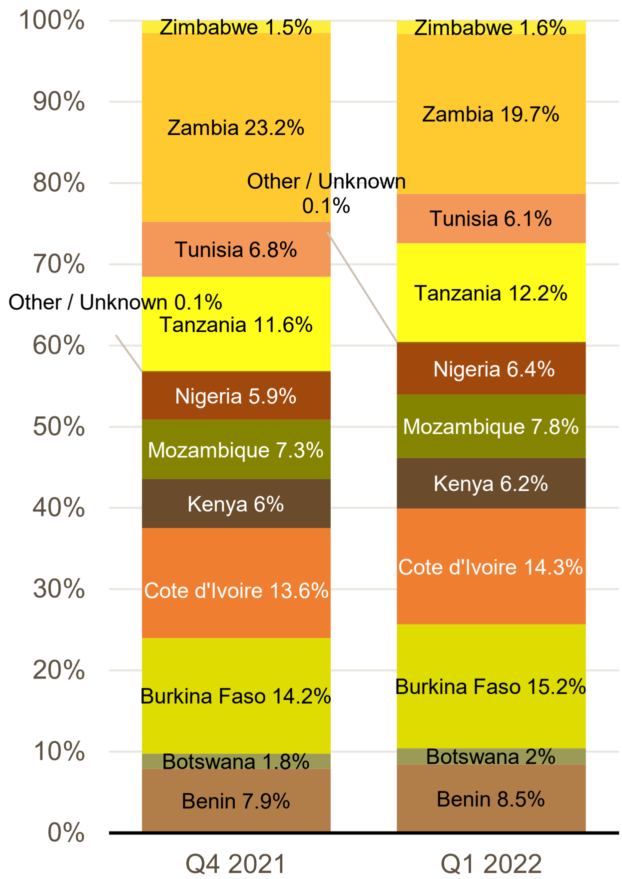
Gross Yield



Regional Use of Funding (Data as of different dates)

Funding from AATIF is generally used by investees across the region of their activities. Trading companies, for example, report the use of funding from AATIF in accordance with their revenues generated from their trading activities in respective countries. Due to the seasonality of the agribusiness, revenues linked to a specific country change throughout the year. While loan documentation limits the regional use of funds to the African continent, the single country allocation changes respectively. The methodology used by the IM to allocate the funding into the respective countries is explained below.



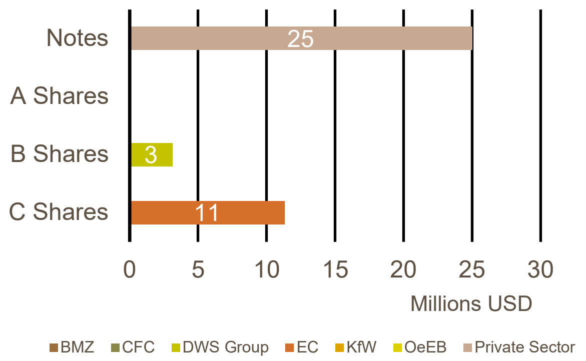


The "Use of Funding Allocation" applies the following methodology:

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.

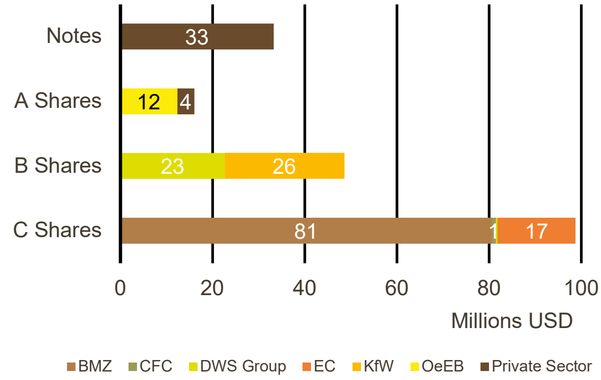
Investor Capital Structure as at 31/03/2022

Undrawn Commitments



Total amount of undrawn capital: USD 39m

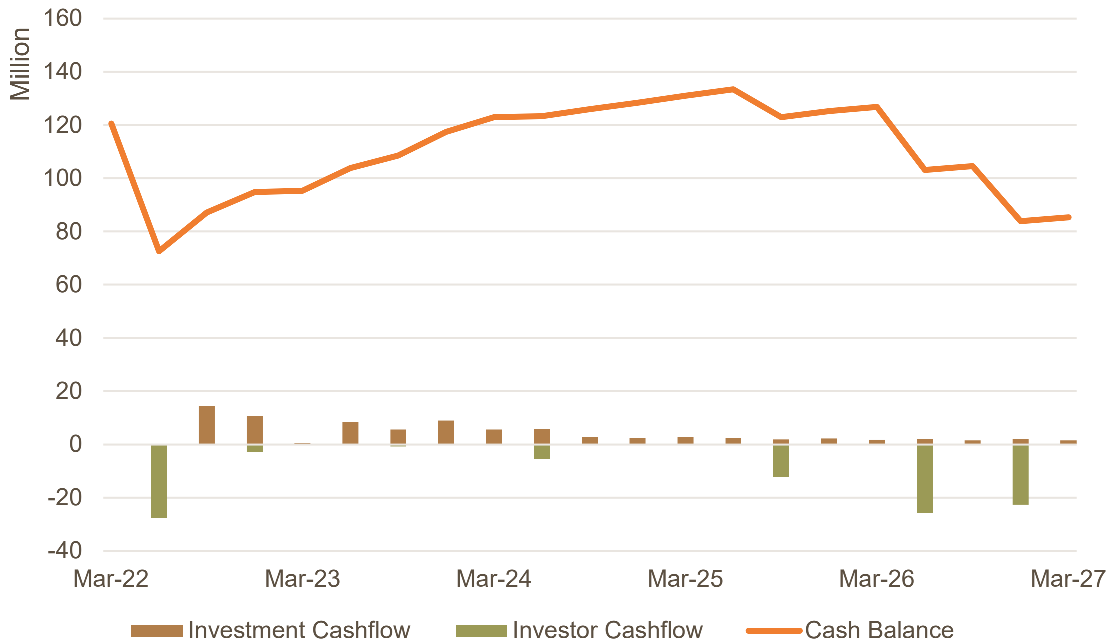
Net Asset Value (NAV) of Outstanding Shares



NAV of the Fund includes cash and other value elements

Asset-Liability Cash Flow Profile

Cash Flow Forecast as of 31/03/2022



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Collaboration Partners and Selected Investors

Initiator:

Federal Ministry for Economic Cooperation and Development

Collaboration Partners:

KFW DWS ILO UN environment CFC common fund for commodities

Investors:

KFW OeEB European Commission DWS CFC common fund for commodities

Disclaimer

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