AATIF INVESTOR REPORTING
Report for the quarter ending 30/06/2022

Activity Report Q2 2022

Quarterly Developments

The quarter was dominated by the fight of mainly the US Federal Reserve bank having started to combat inflation. Markets have already predicted the bold changes of the Fed trying to withdraw liquidity from the market, while the ECB's actions are regarded to be way too soft yet and it is likely that the ECB will have to follow the steps of the Fed in a much more effective manner.

Throughout Q2 interest rates continued to rise. For instance, 3m Term SOFR rose from 0.38% as of 1 March 2022 to 2.12% as of the last day of the quarter. Subsequent, the price continued to grow. For AATIF existing and future PIs and companies, this carries significant meaning. With the USD getting more attractive and national currencies losing value, heavy pressure has been put on all soft currencies that lost in value compared to the USD across the board. The shift of liquidity into higher yielding hard currencies fuels inflation across the African economies in addition to the rising funding costs.

Banks are in a crunch position being forced to increase lending rates as well as maintain an oversight of the cost structure of their clients. As all signals predict a recession, lending activity is frequently halted or is only pursued very cautiously.

We also note the upcoming elections in Kenya and Nigeria as driving factors behind slower foreign investment over the past quarter. Investors have already been deterred by the uncertainties around the pandemic and the Ukraine war and are thus seeking certainty from incoming regimes on how they will address public debt and foreign investment.

The impacts of the rising interest rates are covered in more detail in this quarter's thematic research update.

On the other side, the IMF is very active to effectively bail out private sector investors from FX denominated public debt. Agreements reached, inter alia, with Zambia should, in the long term, lead to positive changes.

New Investment Activities & Disbursements

On 18 May 2022, AATIF disbursed the first of 2 tranches to Ecowas Bank EBID with a value of EUR 15m. The remaining tranche of EUR 10m was disbursed on July 5 2022.

On July 1st, AATIF entered a tier 2 loan facility with UBN Union Bank Nigeria (UBN) in an amount of USD 25m. The transaction has been provided to support the Bank to improve its capital base and further build in a leverage to expand the bank's outreach to Nigerian agri-businesses. The expected impact is linked to the growth of serving agricultural businesses, innovate the product offering and hence contribute to the growth of a competitive Nigerian food and agricultural sector which is fully aligned with national priorities. The transaction includes an original issue discount of USD4 m. While USD 25m is to be repaid, USD 21m was disbursed, generating an expected additional income to AATIF amounting to USD 4m. In accordance with section 4.7.2 (b) of the issue document, the Board of AATIF approved the mezzanine investment given the expected additional income and the link to the ongoing restructuring of the liabilities of the previous majority shareholder of UBN, Atlas Mara Holdings Ltd. (ATMA). ATMA is the guarantor of the loan due from ABC Holdings Ltd. (ABCH) and decided to sell its shares to Titan Trust Bank, a Nigerian bank focused on technology-based banking solutions.

As soon as the original issue discount amount is being repaid by UBN, these funds are to be allocated to those C-Shareholders that suffered from the provisioning of the loan to ABCH as the USD4m shall be treated as capital payments in accordance with the AATIF waterfall. Using this mechanism, the transactions is expected to contribute up to 25% of recoveries on the outstanding principal of the non-performing loan to ABCH.

Within the Q2, the AATIF Investment Committee also approved two new investments into financial institutions with a total balance of 45m USD. Four more investment concepts received conditional approval in the corporate and commodity finance sector.

While origination of new investments is functioning, the key risk factor for AATIF comes from delays in the documentation process due to limited capacities and the requirement mainly for banks to obtain approval from central banks to take on more debt funding.

Existing Investment Portfolio

Seba Foods is currently completing construction of their new plant, expecting production to commence early in Q3. Regarding their outgrower scheme, Seba is working on expanding their extension team to recruit and train 5000 farmers in the next season, scaling up from the current 2500.

The company has also been participating in trade shows in the US to gain a better understanding of opportunities in their newest overseas market.

Mt Meru Millers announced a minimum pricing commitment to help improve the amount of cotton grown by the farmers they work with. This initiative is aimed at incentivising them to farm more cotton since the crop has been declining each year, thus addressing price-related uncertainties.

The company is currently working with around 20,000 cotton farmers. During the quarter, Mt Meru commenced a sunflower outgrower scheme, working directly with farmers to receive input. The company presently finances around 4957 farmers and is targeting a total of 10,000 farmers.

The sister company of **African Milling Ltd**, namely Nyimba Investments, has bought a large commercial farm on a going concern and fully functional basis with a capacity to produce up to 20,000MT of wheat. The farm was acquired with existing management and staff members. The company is expecting their first harvest this year, which should help secure wheat supply for African Milling. The acquisition will help to meet about half of the company's wheat demand for processing, thereby reducing the amount of wheat they need to purchase on the open market in a season. The AML bakery is currently producing over 100 bags of baked goods daily, with a capacity for up to 200 bags a day. In keeping with the continued growth, the company currently maintains 3 outlets and is targeting opening a 4th this quarter, on top of their agreed supply partnership with retailer Shoprite. There is increasingly higher demand for their buns locally as a testament to the quality of the company's product.

For **CKL Africa**, the company faced their slowest quarter of the year due to reduced rainfall in the East Africa region, affecting farmer incoming. The impact of rising inflation in the region has also affected feed inputs and fertilizer prices. Despite this, the company has continued to innovate with their products, introducing 4 new agrochemical products in the market. The company also continued to improve outreach and accessibility to farmers, becoming even more present through farmer education activities and new online platforms like TikTok.

AATIF also agreed to renew and extend the CMA facilities for Seba and AML to support the companies with liquidity given the strong link into food supply (AML) and smallholder linkage (Seba and AML for maize).

Fund Profitability

The investment activity has resumed softly with one new investment having been disbursed and two existing positions being renewed. At the same time, the existing portfolio keeps amortizing which means that the net balance of investments remained overall stable compared to the previous quarters. With more financial institutions preparing for closing, we expect the picture to change in the course of the coming quarters. Having said this, the current situation that the Fund is not able to serve target dividends on most share classes remained in the last quarter.

Investors

In June, AATIF redeemed USD 25m in notes that were held by private sector investors. With the successful redemption, AATIF has proven its ability to blend C-Shares from the public sector with a multiple of funds from private investors that otherwise would not expose capital to the African agricultural sector. Along the envisaged portfolio growth, AATIF will resume raising capital from private sector investors that are seeking for a prudent way to deploy capital in a responsible and sustainable manner. Capital demand from AATIF and the interest rates in the market will dictate the timing and size of the next tranches.

Social and Environmental Review

AATIF's most recent investee, EBID, approved a new exclusion list which is now aligned with international standards. This enabled the bank to fulfil a S&E condition precedent for disbursement. Furthermore, the bank officiated a new version of its S&E management systems manual and kicked-off implementation of the S&E Action Plan agreed with AATIF.

In Q2 2022, several of AATIF's partner institutions increased their teams managing social and environmental aspects, in addition to training their staff on related themes.

260Brands hired an EHS officer, who worked on setting up a health and safety committee (with members elected by the workers), implementing PPE awareness trainings and developing standard operating procedures for safety and health at the workplace.

Vantage added two new staff members to the team in India to advance the company's social and environmental procedures across the Africa operations. AATIF is onboarding the new staff members and exploring options to further equip them with skills and tools to manage social and environmental risks related to Vantage operations in Nigeria, Benin and Tanzania.

ETG hired a new Global lead EHS officer based in Zambia to manage implementation of the Environment Health and Safety guidelines across ETG's facilities.

CKL Africa continued implementing sessions on mental health with staff members and arranged individual sessions with a council. Last quarter, the focus was on male employees.

Finally, with the support of AATIF's TA Facility, a series of training sessions on S&E management were conducted by a consultant with NSIA staff in Abidjan. Trainings were provided to relationship managers, S&E staff and senior managers and included individual coaching sessions and field visits. S&E staff are now able to deliver this training during the onboarding process of future hires and as a refresher course to current NSIA staff.

Impact Measurement

In May, the Sustainability Advisor and Technical Assistance Facility Manager hosted a workshop with the Fund's Investment Advisor, Investment Committee, Board of Directors and TA Facility Committee in Frankfurt, and shared the results of an in-depth assessment of the AATIF impact measurement framework. The assessment included two external reviews conducted by third parties as well as several rounds of internal analyses. The assessment concluded that AATIF's impact measurement is well advanced vis-à-vis industry standards.

To continue staying ahead of the curve, the Sustainability Advisor and Technical Assistance Facility Manager prepared a workplan to further upgrade selected tools and procedures as well as communication initiatives related to impact management.

Technical Assistance (TA) Update

During Q2 2022, the AATIF TA Facility successfully launched several new projects aiming to support AATIF investees to improve sustainability related aspects within the companies' internal operations. One such project assists Sterling Bank in Nigeria to obtain an intelligent Environmental and Social Governance (ESG) monitoring and reporting platform that will enable the bank to better assess and report its social and environmental (S&E) performance and that of its clients. The platform will allow the bank to precisely quantify its ESG performance and leverage this data to improve its overall sustainability performance. As a result, the financial institution will have a turnkey solution to measure, analyze and report on its ESG performance as well as capacitated staff to manage and take ownership of the platform to ensure its sustainability over time.

In addition, four new TA projects were approved by the AATIF TA Facility Committee and are currently in the process of being launched. To support AATIF investee Vantage to improve its sourcing from smallholder soybean farmers in its outgrower scheme, one TA project will support the establishment of the new permanent position of an Outgrower Manager. As a result, Vantage will be able to enhance the relationship and bonding with farmers and better manage operational activities on the ground. The Outgrower Manager will also be supported by the TA Facility to undertake a diagnostic assessment of the existing organic soybean outgrower scheme in order to provide tangible recommendations for improvement and increase the overall efficiency of the supply chain.

Furthermore, following a two-year travel hiatus due to the COVID-19 pandemic, the TA Facility Manager resumed travel to AATIF investees with trips to both Nigeria and Zambia during Q2 2022. During the trip, discussions with focused on ongoing TA support and how the TA Facility may support the AATIF partner institutions further. As a result, the TA Facility Manager has a strong and diverse pipeline of possible TA projects including value chain analyses; support for upscaling a cotton outgrower scheme; social and environmental (S&E) capacity development for staff, and a pilot study for developing a carbon credit scheme.

FX Shortage – A Continent at Economic Risk

Restrictions to US dollar financing are appearing across the continent, with implications for economic growth, exchange rates stability and central bank policy.

In April of this year, the Central Bank of Kenya directed local commercial banks to limit the sale of USD to businesses and individuals looking to buy the currency. At around the same time, Nigerian commercial banks began exercising restrictions on lending out USD, reportedly requiring lead times of up to one month to process local requests for the currency. The increased demand for U.S. currency has contributed to severe exchange rate pressures to emerge across the continent. This has prompted central banks to take action to defend domestic currencies and preserve foreign reserves.

As a consequence, many local companies have found it increasingly difficult to access USD required for the day-to-day running of their operations and meeting their foreign debt obligations in time.

These developments should not come as a surprise. Firstly, in its 2022 Economic Outlook, the African Development Bank stated that the continent is at risk of sliding into a period of ‘stagflation’ – that is, a combination of slow growth and high inflation on account of the aftermath of the COVID-19 pandemic and following the effects of the ongoing Russia-Ukraine war (1).

Africa’s post-pandemic economic recovery had seemed promising following the steady easing of pandemic restrictions that had hamstrung the continent’s import and export activity. GDP growth in Sub-Saharan Africa rose by an estimated 6.9 percent in 2021 after a contraction of 1.6 percent in the preceding year.

However, the aftermath of pandemic-related restrictions left in their wake longer-term effects, even after they were lifted. With a drop in the volume of exports of local raw materials, reduced foreign direct investment, and increased government borrowing to bolster the local economic recovery, the resultant depreciation in the value of local currencies was inevitable (2).

In addition, we have witnessed the accompanying rise in inflation exacerbated by the ongoing war in Ukraine from February of this year. The war’s impact on commodity prices, the global supply-chain, and financial markets has aggravated the economic downturn in the continent, as covered in our previous feature story.

Food prices and freight transportation costs have skyrocketed globally, and this has coincided with an unleashing of pent-up demand following the easing of lockdown restrictions, creating an inflationary surge particularly relating to foodstuffs, which constitute a large share of consumer price baskets. With food constituting approximately 40 percent of the CPI basket in sub-Saharan Africa, this places the region at a disproportionately higher risk in the face of rising food inflation in comparison to developed markets (approx. 10 percent in the US and EU) (3).

Secondly, high public debt in the continent has also contributed to additional pressure on dwindling foreign reserves. As of 2021, the US dollar comprised 60 percent of globally disclosed official foreign reserves, portraying the continued reliance in the currency from most central banks, and cementing its place as the main foreign currency used to pay sovereign debt obligations (4).

The average debt-to-GDP ratio in Africa was forecast to increase from 60 percent in 2019 to 70 percent in 2021, reflecting increased borrowing from foreign creditors. According to Fitch, currencies such as the Tanzanian shilling and the Malawian kwacha are now experiencing increased downward pressure as governments try to meet foreign debt obligations (5).

We have also witnessed volatility in capital flows in sub-Saharan Africa, which has further compounded the vulnerabilities of local currencies. The recent crises have also deterred foreign investors from investing in the region. As the cost of loans internationally has discouraged borrowing and made loan repayments more expensive. In times of economic, financial, and political uncertainty, foreign investors are further opting to invest in safe havens such as U.S. Treasuries, which is aggravating the capital flows picture for the continent.

A flight to USD has been encouraged by a more rapid increase in interest rates by the Federal Reserve in comparison to the European Central Bank’s more cautious approach. Consequently, we have seen the US dollar move back to parity against the euro for the first time since 2002, attracting investors to seeking higher yields on U.S. dollar-denominated assets.

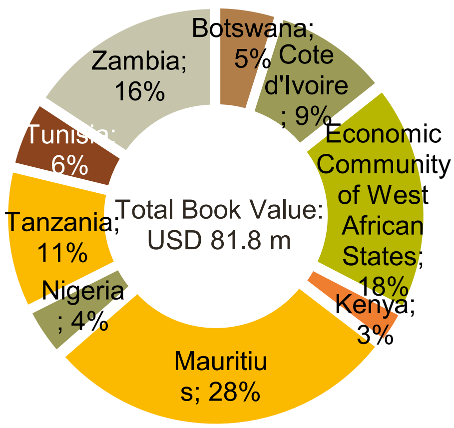
With depleted foreign reserves and the rising value of the U.S. dollar, African governments and central banks are trying to control the devaluation of their currencies. Some of the policies implemented have restricted access to the U.S. dollar domestically, giving rise to a parallel exchange market.

In Nigeria, reports of a parallel market surfaced in Q2, where the exchange rate would be as high as N 610 per USD, compared to the official rate of N 419.02 per USD (6). In Kenya too, according to the Kenya Association of Manufacturers (KAM), importers were struggling to get dollars at the official rate of KES 116 per USD, instead being forced into trading at KES 120 per USD or higher (7). Perhaps one of the most extreme examples can be found in Malawi, where the central bank took the decision to devalue the local currency by 25 percent to curb falling foreign exchange reserves and limit the feed-through into inflation.

As an impact investment fund, AATIF is also not blind to the fact that our debt has become more expensive as a consequence of these developments. The companies that AATIF lends to are likely to bear the brunt of rising servicing charges on their debt and pass these costs on to the SMEs they lend to.

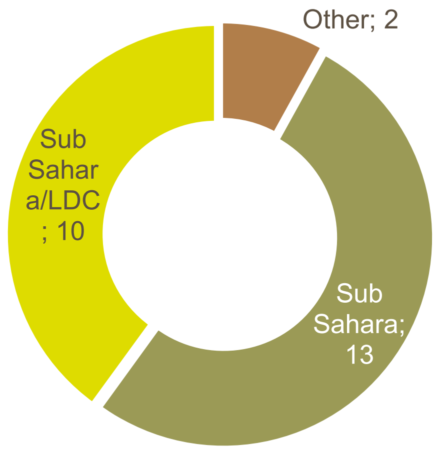
Portfolio Overview as at 30/06/2022

Book value – Country & Rating Category



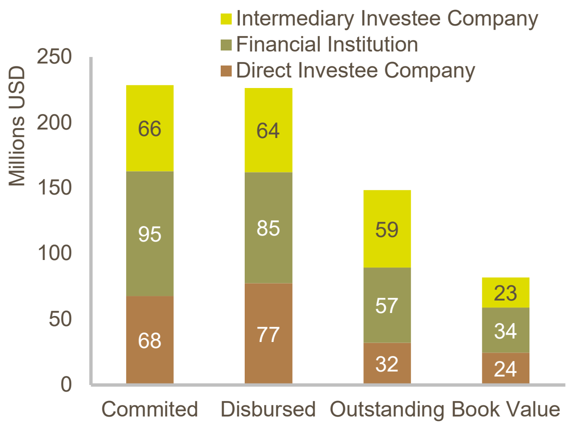
The country allocation of the investment is linked to the place where the legal residency of the investee/ the economic risk bearer is registered.

Transaction Geography (# of investees)

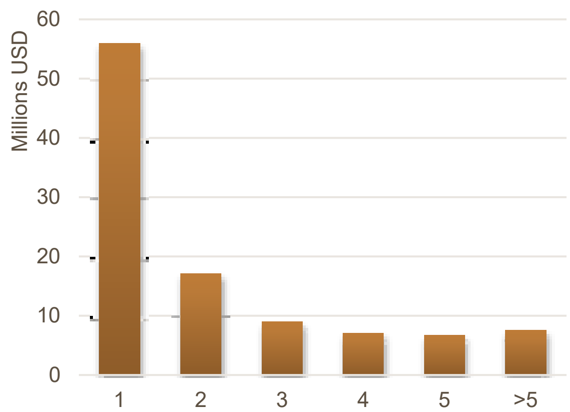


SSA: Sub-Sahara Africa
LDC: Least Developed Countries

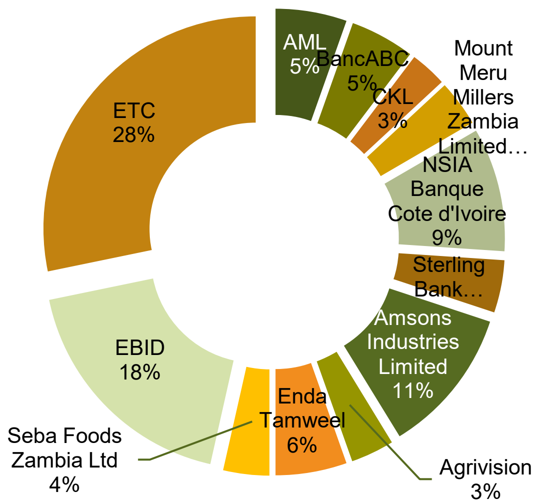
Type of Partner Institution



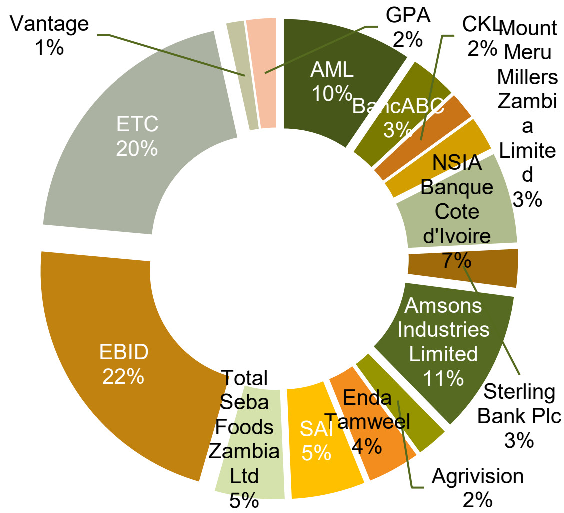
Maturities of the Portfolio (in years)



Partner Institution: Net Balance Exposure



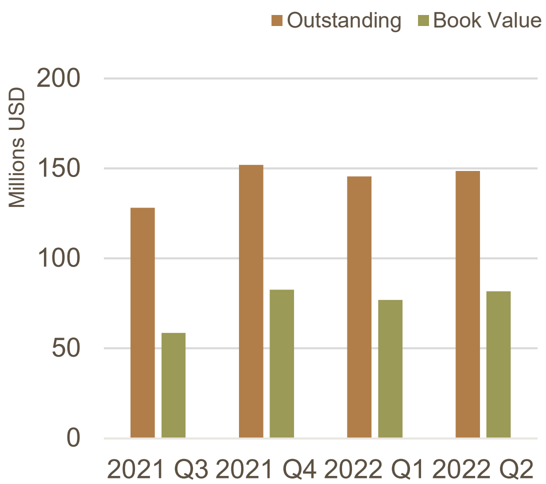
Partner Institution: Net Balance + Unused Commitment



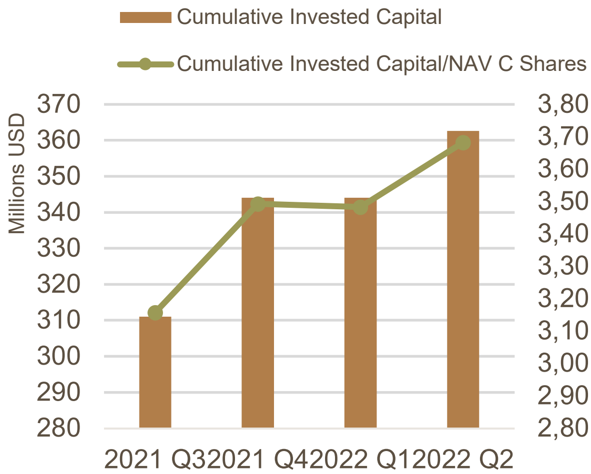
Provisioning Overview

Provisions on invested capital beginning Q2 2022	USD		68,302,114
Release of Provisions	USD	-	2,304,884
Increase of Provisions	USD	+	776,352
Write off	USD	-	0
Provisions on invested capital end of Q2 2022	USD	=	66,773,582
Net Movement during Q2 2022	USD	-	1,528,532

Investments Outstanding

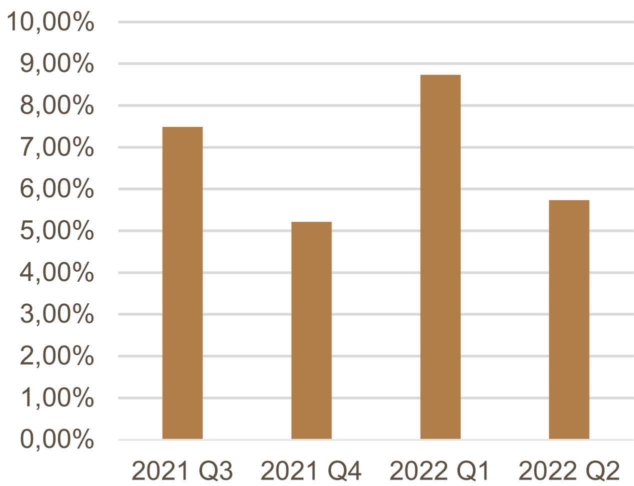


Cumulative Invested Capital vs NAV C Shares



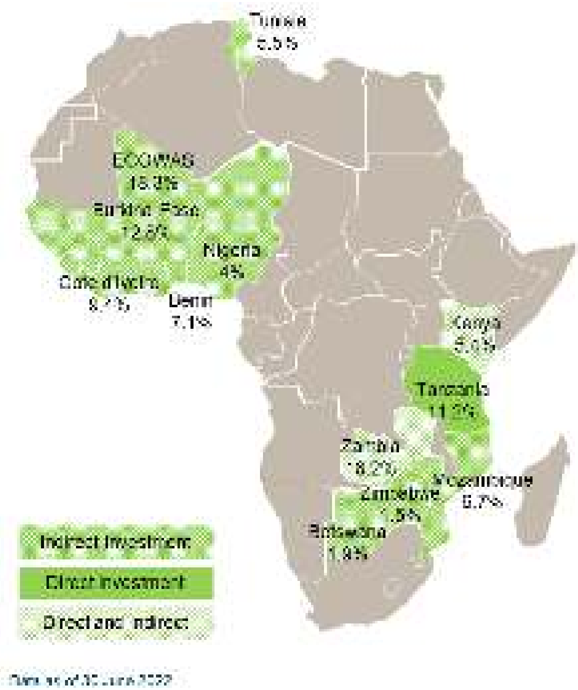
The ratio of cumulative invested Capital/NAV C-Shares decreased from 8x to 3x as AATIF raised additional C-Shares Q4 2020 for further growth of the Fund.

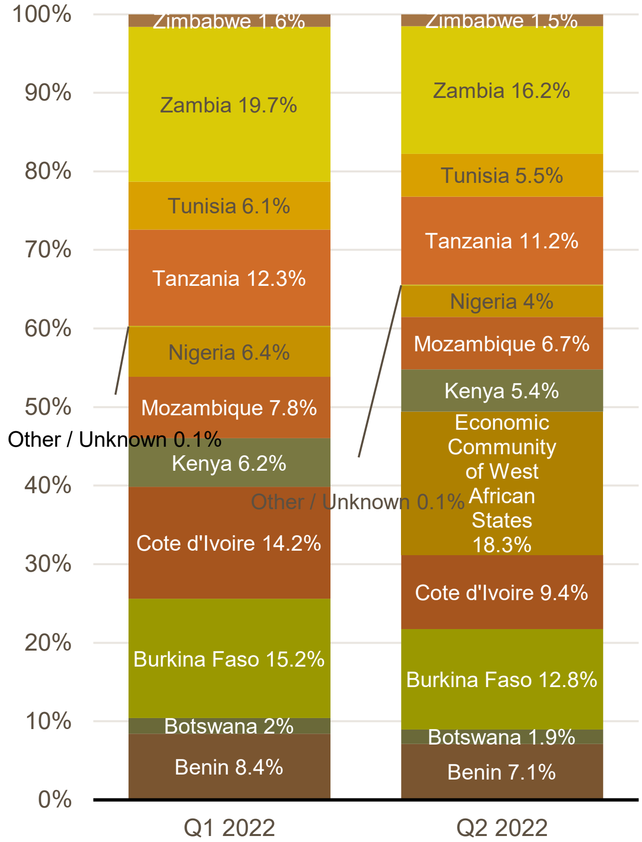
Gross Yield



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.

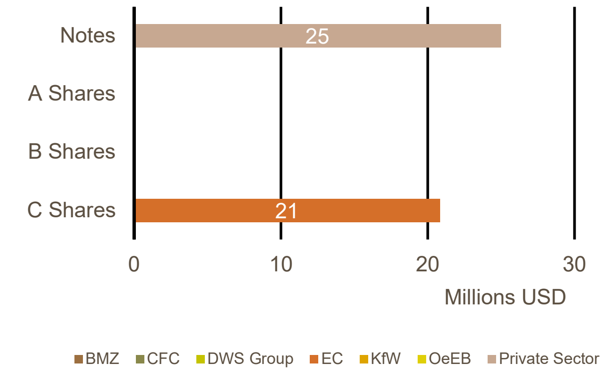




The “Use of Funding Allocation” applies the following methodology:
The net loan balance (after redemptions, provisions or write downs) is being used;
For direct investment companies (DICs), the country allocation is determined by the purpose of the loan;
For intermediary investment companies (IICs) and 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.

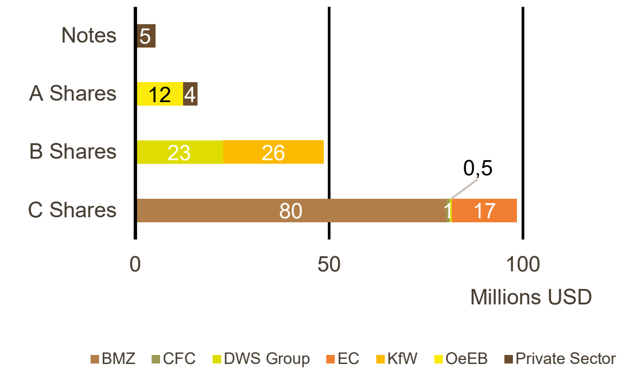
Investor Capital Structure as at 30/06/2022

Undrawn Commitments



Total amount of undrawn capital: USD 39m

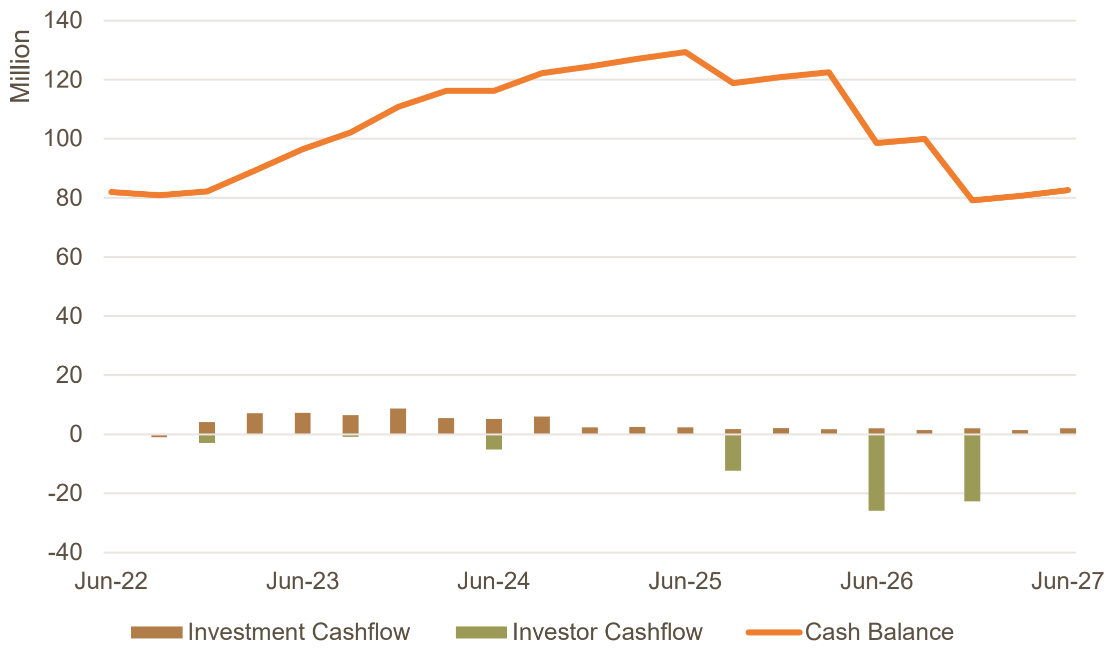
Net Asset Value (NAV) of Outstanding Shares



NAV of the Fund includes cash and other value elements

Asset-Liability Cash Flow Profile

Cash Flow Forecast as of 30/06/2022



Contact persons

Fund

Africa Agriculture and Trade Investment Fund SICAV-SIF, S.A.
31 Z.A. Bourmicht,
L- 8070 Bertrange

Investment Advisor

Gabriele Krause-Zens
Alternatives Investor Relations,
Germany | Alternatives Coverage Specialists

DWS International GmbH
Mainzer Landstraße 11-17
60329 Frankfurt am Main
Germany

Tel. +49 69 910-40777
E-Mail: mailto:gabriele.krause-zens@dws.com

Custodian, Paying Agent, Account Bank

Citibank Europe plc, Luxembourg Branch
Cindy Fuchs / Emilie Jacot
Client and Investor Services Team,
Transfer Agency, Luxembourg Fund Administration 31,
Z.A Bourmicht, L-8070 Bertrange, Luxembourg

Phone +352 45 14 14 207 or 316 (TA main line)
Fax +352 45 14 14 332
Email cindy.fuchs@citi.com

Complaints

complaints@aatif.lu

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.

Imprint

Africa Agriculture and Trade
Investment Fund
31 Z.A. Bourmicht
L-8070 Bertrange
Grand Duchy of Luxembourg
www.aatif.lu
info@aatif.lu