AATIF INVESTOR REPORTING

Report for the quarter ending 31/12/2022

Africa Agriculture and Trade Investment Fund

Activity Report Q4 2022

Quarterly Developments

Across the continent public finances are causing major concerns. While certain countries have already agreed on conditions in exchange of being supported by the IMF, others are facing challenges which, with all likelihood, will lead to the need to find agreements with creditors. In turn, financial institutions are preparing for haircuts by increasing their capital base. A very dire picture currently applies to Nigeria. The economy faced further hurdles in the lead-up to the February 25th national elections. Officials suspended plans to scrap fuel subsidies in Q4 2022, despite initial plans to do so in April during the run up to the 2023 elections. Dwindling oil production due to oil thefts and poor pipeline infrastructure have hindered the West African economy's ability to capitalize on globally high fuel prices, while the high fuel subsidy contributed to the continued widening of the general government fiscal subsidy.

The country's headline inflation slowed for the first time in eleven months to 21.3 percent Y-o-Y in December, from a 17-year high in November. This was exacerbated by continued increases in global commodity prices, with supply lines still yet to fully recover to pre-pandemic levels. No doubts, the incoming government will have many challenges to address. In the meantime, AATIF decided to act counter-cyclically and support its growing base of Nigerian partners with liquidity.

New Investment Activities & Disbursements

In 2022, the cumulative amount of deployed capital surpassed the USD 400m mark. Eight investments were executed in 2022, committing USD 96m to AATIF's Partner Institutions, which includes renewed investments mainly for short term capital supply such as trade finance and working capital facilities.

In Q4 2022, AATIF signed a facility agreement for a USD 20m investment with an East African financial institution for which conditions precedent are expected to be finalized within Q1 of 2023. In parallel, the Investment Advisor is preparing the documentation for two further financial institutions and one direct investment. The balance of transactions in the execution stage excl. signed transactions by end of Q4 2022 stood at USD 40m.

Existing Investment Portfolio

Amsons Industries in Tanzania reported that the overall macroeconomic situation in the country was showing signs of improvement, which was cause for general optimism. Despite problems accessing forex over the previous quarter, there were reported improvements from the Central Bank to circulate to industries that were more forex-dependent, such as importers.

Global wheat prices have been dropping rapidly over the past two quarters, which is anticipated to boost the company's margins, previously depressed from the sharp increase, with further price drops anticipated going into the next quarter. Concurrently, local wheat prices have been rising within this period, which had affected the company as they sourced wheat locally to mitigate against the high international prices in December. The current drop in international prices is expected to correspond with local price drops as well, with a time delay.

Despite Zambia's economy facing rising fuel costs, Seba Foods reported that diesel prices have steadily began stabilising, reflecting more favourably on the company's distribution costs.

The company also moved to safeguard themselves against commodity price fluctuations, having secured maize and soyabean on contract by end of November. Under this arrangement, the company showed optimism about the business outlook.

CKL Africa highlights the impact of the ongoing drought situation in most parts of Kenya on their operations, with dairy farmers facing significant difficulties after the October-December short rains season failed.

The rising costs and shortened shelf lives of many crop-care inputs have also rendered them out of reach to many farmers. To this end, CKL Africa decided to give away some products for farmer use (herbicides, etc), as opposed to just disposing of unused stock. The government of Kenya launched a subsidised fertiliser scheme, but low rainfall in the region has limited their uptake.

African Milling Limited (AML) reported on the continued shortage of liquidity in the local forex market in Zambia, though the company was able to mitigate this through exports of flour and mealie mill in the region. The rising fuel prices have affected operating costs for the company. However, the intervention by the Food Reserve Agency (FRA) in selling maize to millers at subsidized prices, as well as the heightened demand for product due to shortages in neighbouring countries, has meant that business has overall been good.

The supply of maize received from the FRA has guaranteed the availability of stock until the next crop season, resulting in all three mills running at full capacity at the time of reporting.

AML's bakery is doing well – having started 18 months ago with 3 bags a day, the company now produces 110 bags of baked product a day, with further plans to scale up. The company is selling buns out of 7 its own outlets in Zambia.

Fund Performance & Liquidity

The portfolio quality of investment remains stable. There are no signs of credit quality issues now, speaking mainly to the quality of the management of AATIF's Partner Institutions. The profitability of the fund is steadily improving again. The target dividend deficiencies for all Class A shares could be cleared with the net income available for distribution, while the accruing target dividends for Class A and Class B shares could also be settled almost in full. On the other side, the deployment of capital is slow which in turn means that the clearance of the Class B dividend deficiency will require more time and will, with all likelihood, span into the next financial year. Mainly driven by the increase in the interest rate environment, AATIF's gross yield grew to about 9 percent by Q4 2022.

The European Commission paid in EUR 10m in Q3 in form of C-Shares to further support the growth of the Fund. Alongside the European Commission, AATIF sold notes in an amount of USD 10m in preparation of upcoming disbursements to new Partner Institutions. In total, AATIF's assets under management reached USD 205m.

Social and Environmental Review

To align the AATIF Social and Environmental Policy with the SFDR, the Board of Directors approved an updated version in Dec 2022. The new policy can be accessed through AATIF's website.

In Q4 2022, a number of AATIF Partner Institutions continued outreach to agricultural producers. CKL, in collaboration with the Agrochemical Association of Kenya, supported training for agro-chemicals spray service providers on appropriate handling of agro-chemicals, so far impacting approximately 70 farmers. The farmers improved record keeping which ensures correct timing between spraying and harvesting. CKL also participated in expos organized by the Agricultural Society of Kenya which provide a platform for exhibitions and networking that spur development in agriculture, trade, and allied sectors. The company plans to partner with some schools to start growing demo plots in preparation for upcoming agricultural expos. CKL also started trials with farmers of new product in potato and rice production which has resulted in a 17 percent increase in production.

Seba Foods in Zambia continued engaging smallholder farmers to join the organic soybean certification programme.

In Tanzania, following developments by the government to create an enabling environment for local production of wheat, Amsons is still keen on establishing a long-term relationship with wheat producers in Basutu as well as Iringa region, where the government plans to open up and lease farms for wheat farming.

Furthermore, AATIF Partner Institutions reported continued occupational health and safety briefings for shop floor workers and accidents and incidents reporting. For instance, Mount Meru Millers reported a 75 percent reduction in the number of accidents. Investees in Zambia compiled their bi-annual returns to the Zambia Environmental Management Agency (ZEMA) for the period between July and December 2022. In December 2022, Agrivision obtained Global GAP certificate for production and handling of maize, soybean, and wheat in Somawhe and Mkushi estates.

Regarding AATIF investments in financial institutions, NSIA obtained a label for social responsibility management, based ISO 26000. Through the labelling process, NSIA was reviewed and committed to improvements in (i) respect of human rights in its operations (including HR, procurement, financing), (ii) integration of environmental and climate aspects in operations, (iii) respect of clients' rights (e.g., grievance mechanisms, data protection) and (iv) actions towards greening the portfolio and benefiting communities. NSIA is the first African company to obtain such a certificate and the label emphasizes the bank's commitment to sustainability management.

EBID filled the vacancy for the head of its Social and Environmental Unit with an experience professional. The bank plans to further expand the team in early 2023 to deliver on its commitment to sound S&E practices across its operations.

Impact Measurement

To align the AATIF Development Impact Statement with the SFDR, the Board of Directors approved an updated version in Dec 2022. The new statement can be accessed through AATIF's website.

Technical Assistance (TA) Update

In Q4 2022, the TA Facility Manager (TAFM) successfully concluded three projects with AATIF investees. One such project was conducted with AATIF Investee Seba Foods (260 Brands) and entailed a qualitative market study to propose viable marketing strategies, product designs, and branding for the introduction of a new soymilk-based product line for local markets. The contracted consultant successfully delivered an elaborate marketing and branding strategy to Seba Foods management which has since enabled the company to launch the new product line. Seba Foods is the first company to bring locally sourced and produced soymilk products to the Zambian market, thus providing the local population with healthy and affordable alternatives to regular dairy products.

In addition, during the last quarter the TA Facility Committee approved six new TA projects, including several projects with AATIF investee Export Trading Group (ETG). The company is a leading cashew nut trader and aims to build more traceable supply chains from farm to fork, starting with its cashew sourcing in Mozambique. ETG has reached out to the TA Facility Manager to support the implementation of a climate-smart and sustainable cashew sourcing model with smallholder farmers. The project activities will commence in Q1 2023 and include the collection of baseline data from farmers, the development of demo plots and tree nurseries, as well as training on biochar application and Good Agricultural Practices (GAP).

Furthermore, another project was approved with AATIF Investee Union Bank of Nigeria (UBN). The TA Facility Manager will support the bank to upgrade their Social and Environmental Management System (SEMS) and provide accompanying capacity development for staff. The project follows up on recommendations outlined by the AATIF Sustainability Advisor based on gaps identified during the social and environmental due diligence of the bank. The project is currently being tendered, with expected launch in Q1 2023.

Opening Africa's Regional Market – The Next Growth Avenue

The African Continental Free Trade Area (AfCFTA) agreement was adopted and opened for signature on 21st March 2018, entering into force in May 2019. At the start of 2021, the agreement proceeded to its implementation stage, having been signed by every AU country (bar Eritrea). Trade under the agreement officially commenced on the 7th of October 2022.

The purpose of the agreement is to promote intra-African trade through the gradual dismantling of regional trade tariffs that account for 90 percent of intra-Africa imports (1), thereby promoting regional markets as viable destinations for African goods.

Intra-African trade currently accounts for 20 percent of trade in the continent, with the agreement geared to increase this by around 15 percent by 2040 (2). If successfully (and fully) implemented, AfCFTA is poised to boost trade in goods and services, lifting over 30 million people out of extreme poverty and boosting income by more than 7 percent (USD 450bn) in the process (3). To realise the continent's full potential for economic growth, signatories of the AfCFTA must enact policies and structural reforms that leverage the full range of opportunities in the agri-food value chain, which includes agro-processing (4).

One area through which structural reforms can have positive effects on trade is through export diversification. In a continent where 45 out of the 54 countries still rely on exports of primary products (5), the need to diversify exports is a key step towards safeguarding local economies from sector-specific shocks that affect growth.

Multiple economies within SSA operate as net agricultural exporters (6), reflecting a general increase in agricultural production in a region with vast potential for the same (7). However, with most of these exports being raw materials (unprocessed coffee, cotton, tea, etc), external occurrences such as the lockdowns from the COVID-19 pandemic leave them exposed to volatile commodity pricing and overall shutdowns of export markets. McKinsey notes that the resultant decline in demand from economically developed markets (which make up around 80 percent of Africa's agricultural exports) had direct repercussions to Africa's economy (8), with agri-related exports valued at around USD 35-40bn curtailed by the closure of main export markets in Europe, Asia, and North America.

Thus, the need to diversify agricultural production presents itself across the entire value chain. To this end, agribusinesses in the continent must capitalise on the opportunities for forward linkages (i.e., value addition through processing, retail, etc) to diversify away from dependence on the sale of primary agricultural produce.

We can see this within AATIF's own portfolio, where the Fund has invested around USD 50m over the past few years into supporting grain milling industries (African Milling Limited, Mount Meru Millers, Amsons, and more) to scale up their processing operations and diversify their product offerings to capture a more diverse market. Diversification into processing opens the market for value added goods.

With the AfCFTA in place, countries can support and leverage their agricultural industries to increase production and export within the regional market. Zambia, for instance, is well positioned to leverage its position as one of Africa's largest producers of soyabeans, as it already accounts for 14 percent of intra-African soya exports (9), while Nigeria can utilise its position as one of the continent's largest producers of maize (behind only South Africa) to capitalise on regional demand for the staple crop.

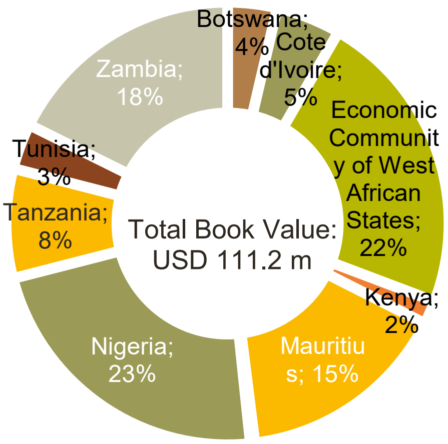
The agreement can also be a welcome umbrella under which many of Africa's least developed countries (LDCs) can be protected from the aforementioned trade shocks. With poorly diversified exports, LDCs remain the most reliant on primary commodity trade. Public-private participation is crucial here, by directing resources towards helping their industries increase value addition capacity, and gain access to patient capital for growth.

Our work with the ECOWAS Bank for Investment and Development (EBID) in Western Africa, for example, is directly affiliated with providing this kind of support to LDCs. The Bank's outreach and support for LDCs that rely heavily on agriculture, and the subsequent impact on the agri industries in the region, could reasonably stand to benefit from AfCFTA policies to increase trade and investment in Africa.

Ultimately, the AfCFTA agreement is poised to spur the kind of regional and continental economic growth that Africa needs, and frankly, has been slowly marching towards. Whereas the planned reforms to other broader infrastructural and technological sectors remain crucial, the role of agriculture and trade remains no less important to its success. Private sector interventions are just one cornerstone to success under this agreement, and this is what AATIF's ongoing investment activity builds on.

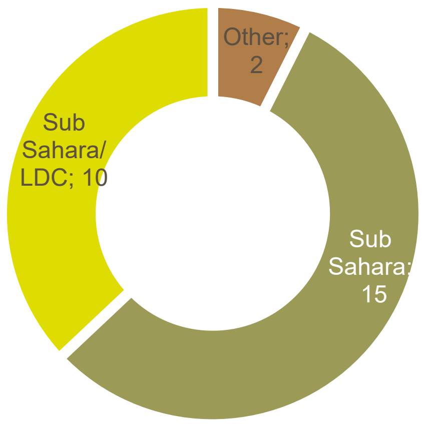
Portfolio Overview as at 31/12/2022

Book value – Country & Rating Category



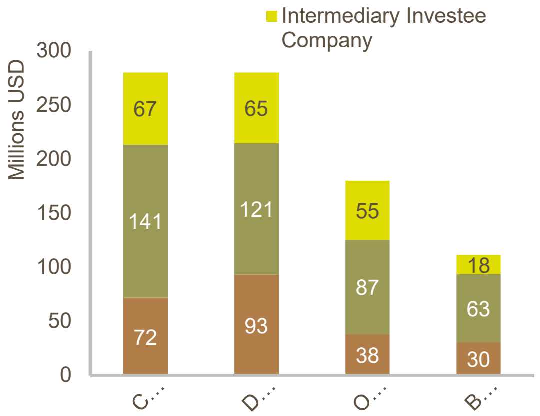
The country allocation of the investment is linked to the place where the legal residency of the investee/ the economic risk bearer is registered.

Transaction Geography (# of investees)

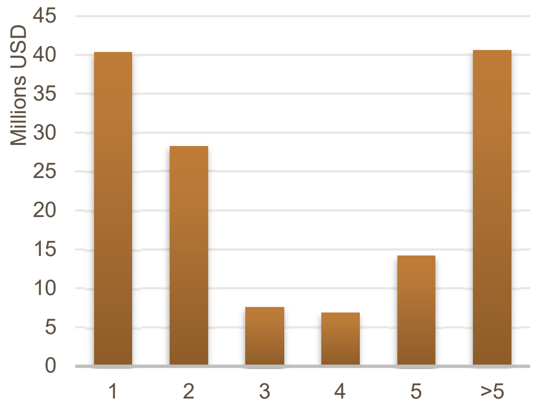


SSA: Sub-Sahara Africa
LDC: Least Developed Countries

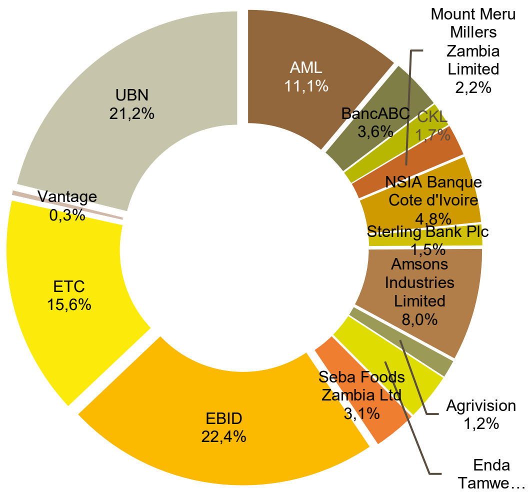
Type of Partner Institution



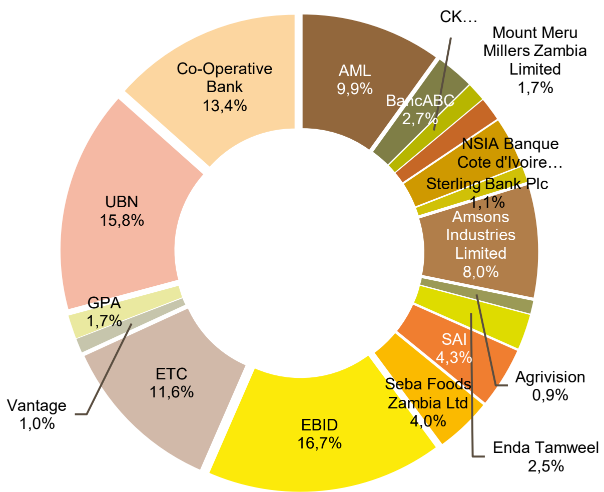
Maturities of the Portfolio (in years)



Partner Institution: Net Balance Exposure



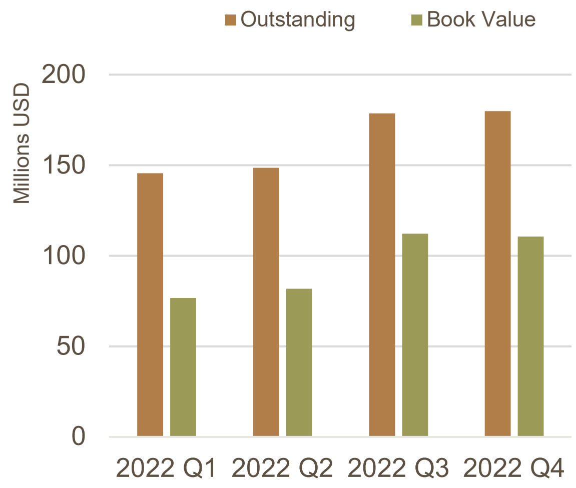
Partner Institution: Net Balance + Unused Commitment



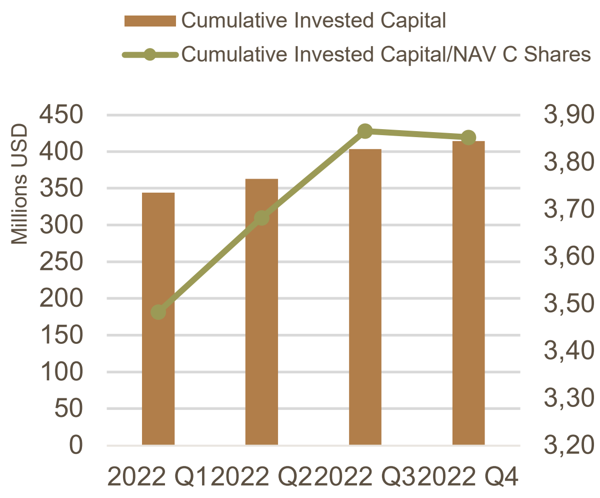
Provisioning Overview

Provisions on invested capital beginning Q4 2022	USD		66,454,772
Release of Provisions	USD	-	536,511
Increase of Provisions	USD	+	3,478,525
Write off	USD	-	0
Provisions on invested capital end of Q4 2022	USD	=	69,396,786
Net Movement during Q4 2022	USD	+	**2,942,014**

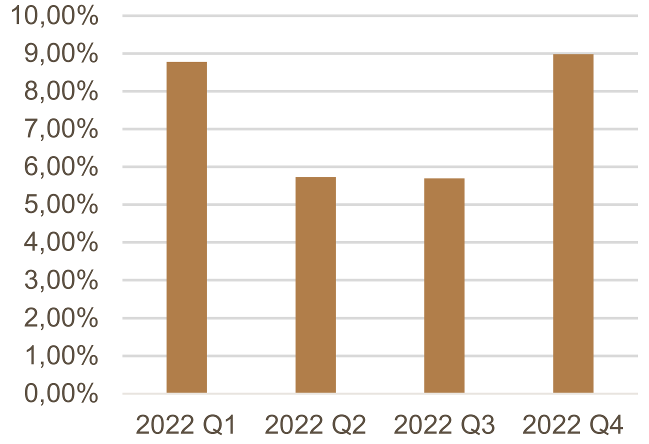
Investments Outstanding



Cumulative Invested Capital vs NAV C Shares

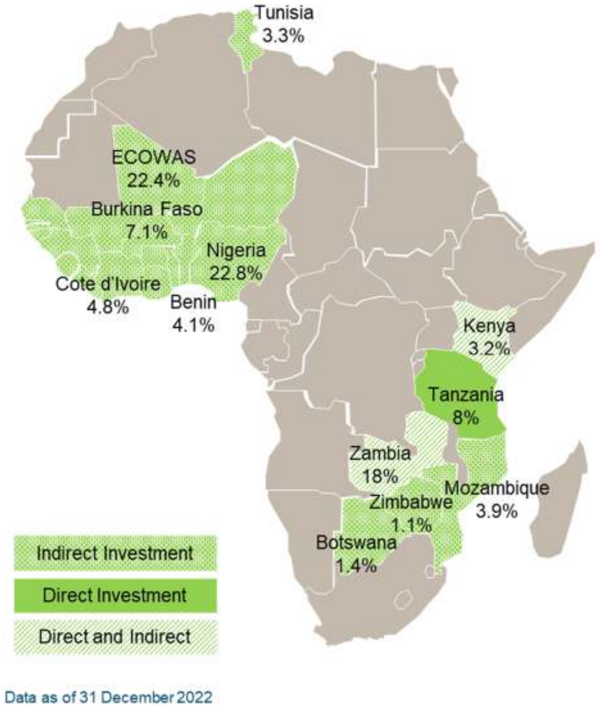


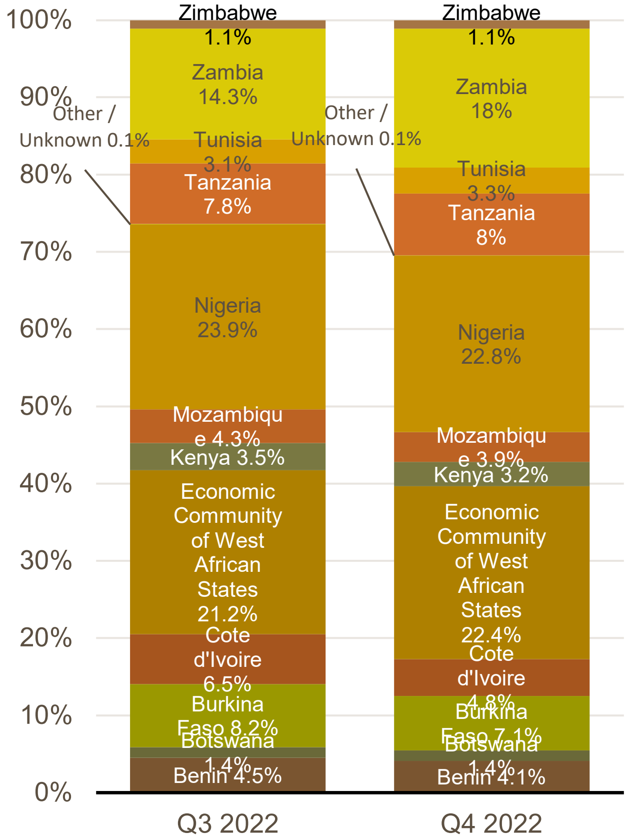
Gross Yield



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.



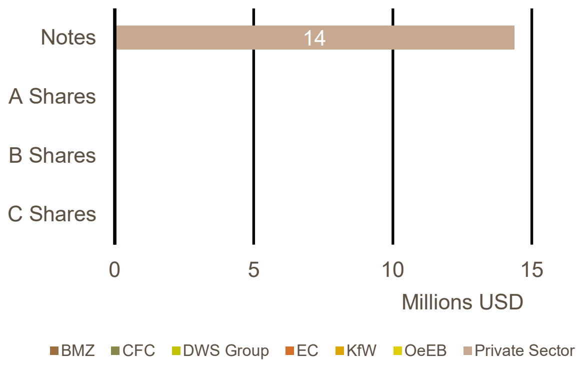


The "Use of Funding Allocation" applies the following methodology:

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.

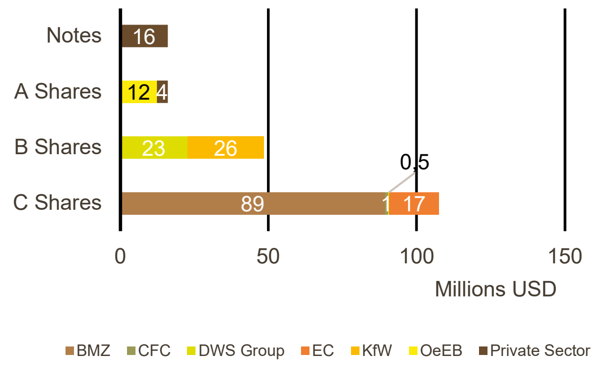
Investor Capital Structure as at 31/12/2022

Undrawn Commitments



Total amount of undrawn capital: USD 14m

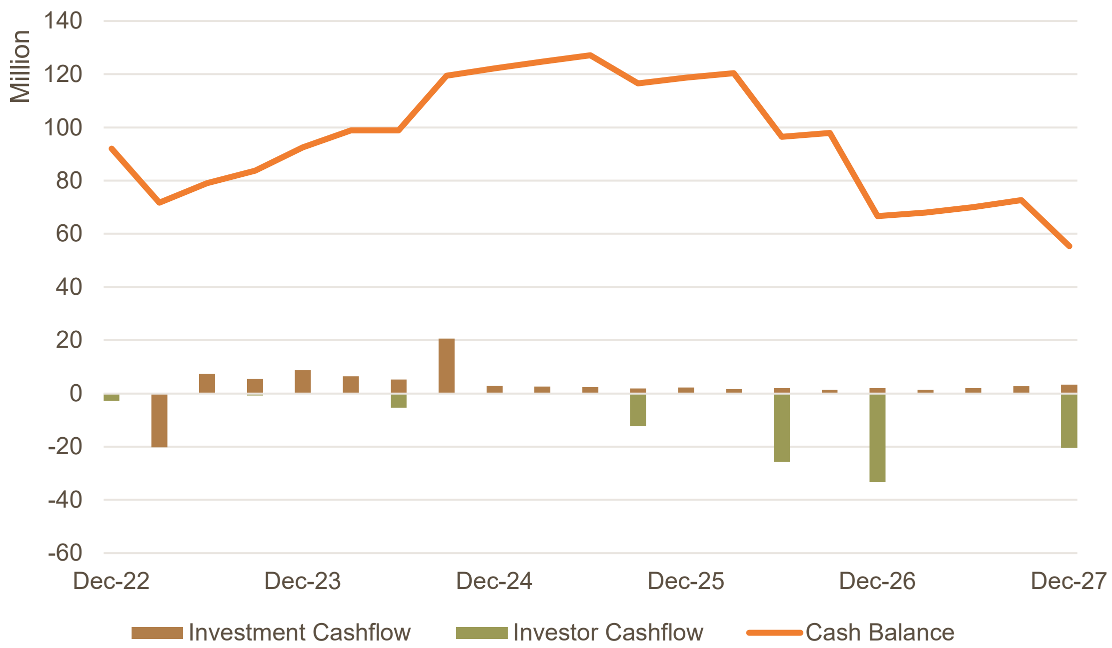
Net Asset Value (NAV) of Outstanding Shares



NAV of the Fund includes cash and other value elements

Asset-Liability Cash Flow Profile

Cash Flow Forecast as of 31/12/2022



Contact persons

Fund

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

Investment Advisor

Johannes Heickmann
Senior Product Specialist,
Private Debt | Sustainable Investments

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

Tel. +49 69 910-42542
E-Mail: johannes.heickmann@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:

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

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