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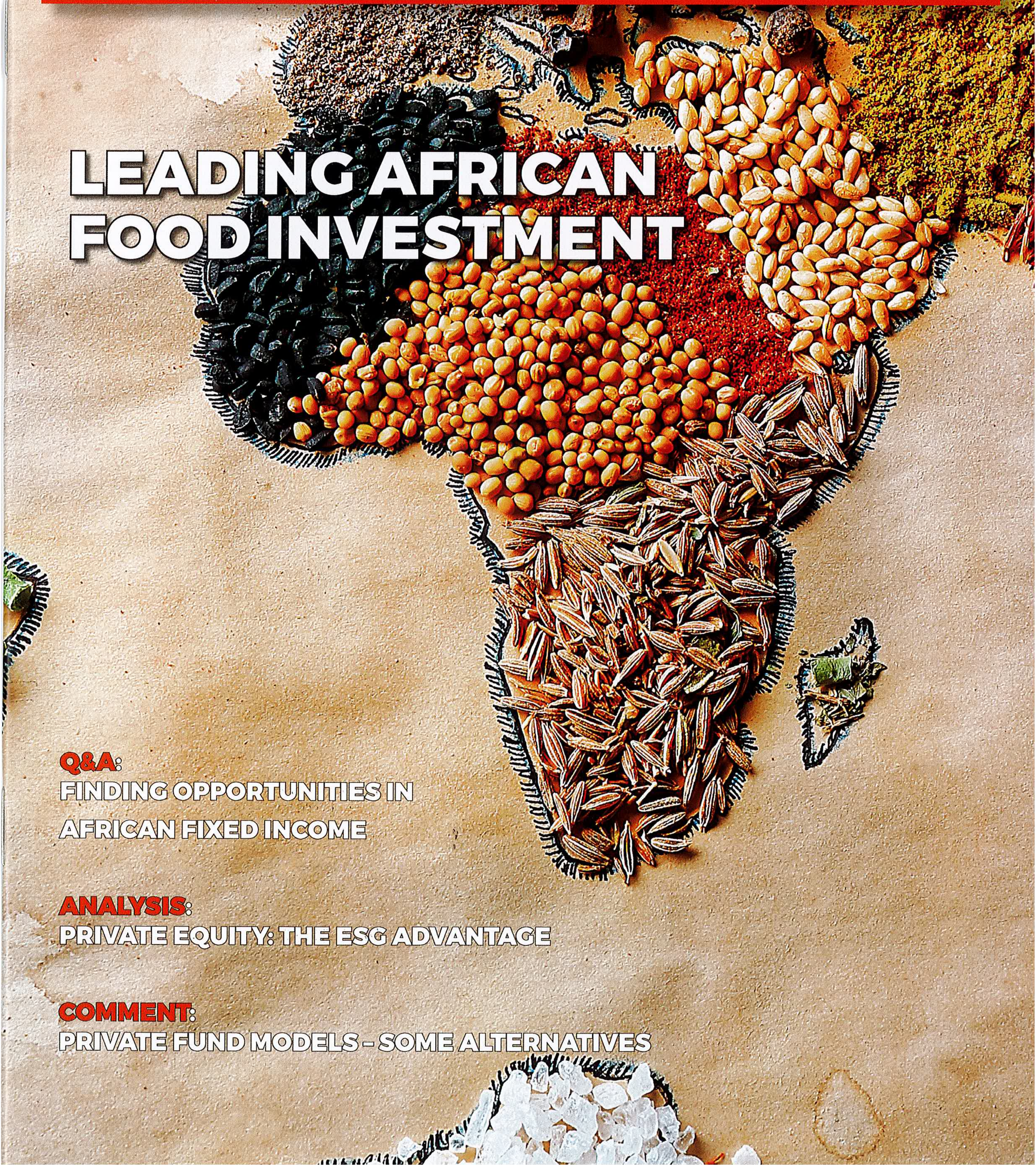
AFRICA GLOBAL FUNDS



LEADING AFRICAN FOOD INVESTMENT

Q&A:
FINDING OPPORTUNITIES IN AFRICAN FIXED INCOME

ANALYSIS:
PRIVATE EQUITY: THE ESG ADVANTAGE

COMMENT:
PRIVATE FUND MODELS – SOME ALTERNATIVES

LEADING

African Food Investment

AFG is talking to Eugene Stals, Chief Investment Officer, Phatisa. Eugene is a seasoned private equity and investment professional with deep operational experience. He was a senior partner at Ethos Private Equity in Johannesburg, South Africa. During this time, Eugene was instrumental in the formation of Ethos. In all, he spent 18 years in executive, board and investment committee capacities at Ethos. He has a successful track record over the whole private equity value chain. More recently, he has fulfilled roles as an executive in, and consulted to, companies on strategic and operational issues

ANNA LYUDVIG (AL): EUGENE, YOU JOINED THE PHATISA TEAM AS CHIEF INVESTMENT OFFICER IN NOVEMBER 2018; AFTER ALMOST A YEAR BACK ON THE CONTINENT, WHAT ARE YOUR IMPRESSIONS ON THE GROWTH OF THE ASSET CLASS IN YOUR ABSENCE?

EUGENE STALS (ES): I think the asset class in Africa is still working towards finding its own characteristics and nuances. The exuberance of a few years ago has changed into a realisation that it is a difficult market with unique challenges requiring unique solutions. What is noticeable is the scarcity of pure commercial investors (LPs) for most fund managers (GPs). The market is driven largely by developmental and development finance institution capital at the moment, who are playing a critical role in developing and shaping the asset class in Africa. There are still questions about whether the traditional fund model is appropriate for Africa at this stage of its development; more people are considering the merits of longer dated funds or permanent capital vehicles. However, I am very optimistic about the future of the asset class in Africa. The emergence of extremely successful local and regional funds and the overall broadening of the talent pool and experience among African-based funds and people are amazing.

AL: HOW DOES YOUR PHILOSOPHY MEET UP WITH PHATISA'S CORPORATE VISION AND GOALS?

ES: Private equity in Africa, in my view, is about capacity building, growth and having a positive impact on the broader community. Do that well and follow traditional private equity disciplines and you should deliver the required returns to your investors. Similarly, at the heart of Phatisa's investment philosophy is development equity, which encompasses moving beyond traditional private equity to consider the impact we create. Phatisa follows a blended-value approach, where financial value is considered within the broader context of creating lasting positive economic, environmental and social value. Phatisa's goals are primarily aligned with the UN Sustainable Development Goals 1 and 2: to attract capital to invest in emerging markets to alleviate poverty, and contribute to food security in Africa through responsible and sustainable investments. We believe that meaningful focused impact enhances returns.

AL: PLEASE TELL US ABOUT THE INVESTMENT OPPORTUNITIES YOU SEE IN AFRICA'S FOOD VALUE CHAIN?

ES: There is both a demand and supply angle to the opportunities. According to the World Bank, the African food requirement is expected to double in the next 30 years. Demographics, including urbanisation, will drive demand for food security. On the supply side, the world's food demand is also growing and Africa has fertile (underutilised) land, abundant water in certain areas and relatively cheap labour. There are compelling opportunities in the whole value chain: improving yields at input through seed selection, fertiliser, mechanisation and contract farming; food processing and manufacturing; food services, including logistics, cold chain and aggregation; food distribution; wholesale and specialist retail. We also believe technology is going to play a major part in the future of the food value chain in Africa. We are looking at opportunities, for example, involving organic and bio foods and drone technology. As a sector-specific fund, Phatisa has the luxury that our portfolio value-add partners are not generalists but people who have run and been operationally involved in some of the major food companies operating in Africa. Africa is big and diverse and opportunities differ from market to market. The key is to understand the dynamics, the driving forces and competitive landscape of each market. Having people who have been actively involved in operations in those countries in our team is a tremendous advantage.

AL: IN APRIL, YOU SIGNED OFF YOUR FIRST EXIT FROM THE AFRICAN AGRICULTURE FUND (AAF). HAVE YOU DELIVERED MORE DIVESTMENTS SINCE THEN OR ARE YOU PLANNING TO EXIT ANY INVESTMENTS SOON?

ES: The Meridian exit you refer to was a successful investment for our LPs and proved the point that focused strategic impact initiatives lead to enhanced returns. We are well advanced with a further exit which should close at the end of 2019. A process for the third one has started with a target date of end of the first quarter 2020.

AL: PHATISA WAS ONE OF THE FIRST AFRICAN FUND MANAGERS TO FOCUS ON IMPACT GENERATION OVER AND ABOVE FINANCIAL RETURN. HOW DID THE AAF'S TECHNICAL ASSISTANT FACILITY HELP TO ACHIEVE DEVELOPMENT IMPACT AND ENHANCE FINANCIAL RETURNS?

ES: Phatisa was indeed a pioneer in deploying a so-called side-car fund. We think it is a model that works very well and intend to continue the concept in Phatisa Food Fund 2. In TechnoServe, we had an extremely competent and dedicated implementing agent for AAF's (our Fund 1) Technical Assistance Facility. Over 79 projects were undertaken across various AAF portfolio companies and impact was measured on an ongoing basis. For example, a TAF project for Meridian was designed to develop and market tailor-made fertilisers in Malawi by promoting soil testing. This service provides data-driven recommendations for fertiliser blends, tailored to specific soil nutrient requirements. Up till now, smallholder farmers in Malawi have relied on standard fertiliser requirements, developed some 30 years ago, that are sub-optimal and not based on soil or crop type. The tailor-made blends are improving yields by more than 18%. Meridian has registered and is actively supporting 13,298 smallholders (69% are women) with advice and product. This project has assisted Meridian in more than doubling its volumes over a few years and contributed to the success of the investment and enhanced returns.

Similarly, Goldtree (palm oil plantation in Sierra Leone) buys produce from over 6,300 outgrowers (small scale farmers) following a TAF project. Goldtree recently became organic, commanding a price premium for its end product and passing the price benefit on to its outgrowers. In most instances, our portfolio companies have taken over the TAF projects to fund these from company resources in the future – a true measurement that they see the financial benefits in the projects.

A Kenyan farmer at work in the Mount Kenya region

AL: TELL US MORE ABOUT PHATISA FOOD FUND 2'S INVESTMENT STRATEGY AND YOUR GAME PLAN?

ES: As mentioned, we are looking at opportunities throughout the value chain: inputs, poultry and meat production, food processing, food manufacturing, food services and food distribution including wholesale and specialist retail. We are an African fund with a focus on Southern Africa, East Africa and West Africa, supplemented by our own internal country risk assessments.

We are looking for businesses with a proven concept, financial and operational track record and, importantly, an ability to scale (in country, vertically or regionally). A realistic entry multiple is paramount. It is extremely difficult to recover from over-paying. Also important is the ability to project a liquidity event in the medium term. Our investment cheque is in the range of $10m (initially or with further growth follow-ons) to $25m and we prefer control, although we are willing to work with like-minded investors in pursuing an agreed investment strategy. Above all, we invest in good management teams.

"*The major part of successful private equity investing is investing in excellent managers who are passionate about what they are doing*

- Eugene Stals

AL: BEST ADVICE GIVEN, AND THE GREATEST LESSON LEARNT TO DATE?

ES: For me, the best advice and greatest lesson learnt is the same thing: the major part of successful private equity investing is investing in excellent managers who are passionate about what they are doing. The easy part is evaluating whether the company's commercial fundamentals are good, the difficult part is whether the management team is the right one to deliver on the investment strategy.