CASE STUDY

AFRICA AGRICULTURE AND TRADE INVESTMENT FUND (AATIF)

NOVEMBER 2015

EXECUTIVE SUMMARY

The Africa Agriculture and Trade Investment Fund (AATIF) is a USD 146m fund that invests across the entire agricultural value chain in Africa. The fund uses a first-loss layer (capitalized by Germany's Federal Ministry for Economic Cooperation and Development (BMZ)) and a mezzanine layer (capitalized by KfW and Deutsche Bank) to encourage private investment in the fund. Investment targets include direct investments in cooperatives, commercial farms, and processing companies, and indirect investments in financial and other intermediaries that on-lend predominantly to smallholder farmers. As of June 2015, AATIF's portfolio included four direct investments and four indirect investments, including three investments in financial institutions and one investment in a non-financial intermediary.

The AATIF experience illuminates many useful lessons for others considering blended funds, including the need to match the fund structure to investors' risk appetite; the opportunities associated with a flexible investment mandate; the need for consistent and effective communication among stakeholders; and the benefits of streamlined governance and decision-making processes.

SYNOPSIS

Fund Manager	Deutsche Bank
Date Founded	2011
Fund Mandate	Fund that invests across the entire agricultural value chain in Africa through direct investments (e.g., in companies, cooperatives) and indirect investments in financial institutions and other intermediaries that on-lend to smallholder farmers
Target Investment Size	USD 5m – USD 30m • USD 5m – USD 15m for direct investments • USD 10m – USD 30m for investments in financial intermediaries • USD 10m – USD 30m for investments in non-financial intermediaries
Assets Under Management[1]	USD146MM
Assets Deployed[1]	USD 110MM
Investment Manager	Deutsche Bank
Fees and Fee Structure	<2% management fee, plus a capped performance-based fee
Fund Instruments	Senior debt, mezzanine, equity, guarantees and risk sharing arrangements; grant funding available through parallel Technical Assistance (TA) Facility
Anchor Investors	KfW, BMZ, Deutsche Bank
Fundraising Status	Currently seeking additional investment from public investors in order to enable additional fund raising from private investors

1 As of June 20, 2015

FUND STRUCTURE AND GOVERNANCE

CAPITAL STRUCTURE

AATIF is a USD 146m investment fund capitalized by public (63%) and private (37%) investors. The fund uses first-loss capital provided by the German Ministry for Economic Development and Cooperation (BMZ) to encourage private investors to commit more senior capital to the fund. Each tranche has a target dividend payable to its shareholders.

The capital structure of the primary fund is as follows[2]:

- A shares (USD 28m): The most senior position in the fund, owned by private investors (maturities negotiable, currently of 4 to 10 years).
- B shares (USD 52m): The mezzanine layer of the fund jointly owned by KfW and Deutsche Bank (maturities of 5 to 15 years).
- C shares (USD 66m): The "first loss" and most junior position in the fund, owned by KfW on behalf of BMZ and the Common Fund for Commodities (CFC). Per the fund's legal structure, C shares must comprise at least one-third of the fund (no maturity).
- D shares (N/A): The "super first loss" layer of the fund, comprised of capital gains generated by the fund's investments; this then serves as a first buffer for any net capital losses of the fund up to their own value. As AATIF has not yet made any equity investments nor exited them, no D shares have been issued to-date.

Parallel to the fund, an associated Technical Assistance (TA) Facility provides grant-based support to projects to help ensure AATIF investments reach their development potential. This Facility is managed by the Common Fund for Commodities and capitalized with EUR 6m from BMZ and AATIF itself.[3] Nearly every investment made by AATIF includes a TA component. To date, the Facility has provided grant funding to support research, employee training, and the implementation of Environmental and Social Management Systems (SEMS), among other capacity building efforts. In the future, the Facility also intends to deploy funding for feasibility studies and other project preparation activities.

HISTORY

Following the 2008 G8 summit, Germany renewed its focus on sustainable agriculture in Africa as a means to combat poverty and improve food security. Specifically, the German government decided to create a public-private vehicle with initial funding from BMZ and the German development bank KfW Entwicklungsbank (KfW). The vehicle would use risk capital to attract additional capital towards achievement of its agricultural development priorities.

KfW subsequently issued a Request for Proposals and selected Deutsche Bank to co-establish, co-structure, and manage this vehicle. In contrast to many other fund management tender processes, this allowed Deutsche Bank to contribute to shaping the vehicle it would ultimately manage.

KfW, BMZ, and Deutsche Bank are the anchor investors in AATIF; BMZ committed an initial first loss layer of EUR 45m (C shares, no maturity), and KfW and Deutsche Bank each committed EUR 20m (B shares, 10-year maturity).[4] After the fund's establishment, Deutsche Bank used its client base and networks to identify private investors for the A tranche of funding. The first round of private investors came in approximately 18 months after the fund's establishment, following proof of concept. Many early participants in the A tranche are wealth management clients seeking to dedicate a portion of their funds to mission-driven investing while still expecting a market-based return.

Looking ahead, AATIF seeks to raise follow-on capital from public investors to enable additional fund raising from private investors. This additional capital will support AATIF's strong pipeline while maintaining the fund's statutory risk buffer. BMZ and KfW also hope that AATIF will have a demonstration effect in the market, attracting more private investors to the agricultural sector through blending of funds.

GOVERNANCE

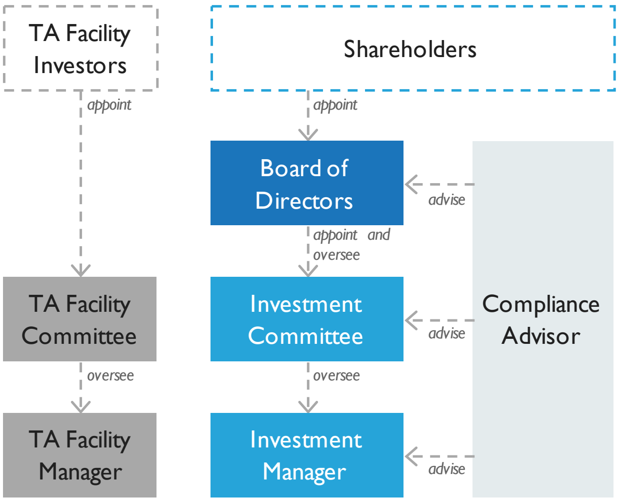

Figure 1: AATIF governance structure

[2] As of June 30, 2015
[3] The Common Fund for Commodities is an intergovernmental financial institution associated with the United Nations

[4] AATIF was initially established as a euro-denominated fund and later converted to a dollar-denominated fund

AATIF is incorporated in Luxembourg as a SICAV-SIF (Société d'investissement à Capital Variable - Specialized Investment Fund). The SICAV-SIF structure was adopted because it allows shareholders to invest across multiple share classes; it is also one of the most common investment vehicles for blended funds.

Within this legal structure, AATIF is governed by several independent bodies. A Board of Directors, elected on an annual basis by the fund's Shareholders, governs AATIF. The Board maintains the exclusive power to administer and manage the Fund. As part of this responsibility, the Board appoints the Investment Committee and the Investment Manager. The Investment Manager leads the Fund's investment activities, including the identification, evaluation, structuring and negotiation of investment opportunities. The Investment Committee oversees the Investment Manager's activities, including the approval or rejection of prospective investments. Members of AATIF's Board of Directors and Investment Committee are selected based on their relevant expertise and networks, and currently include representatives from KfW and DEG, former International Finance Corporation (IFC) and International Labor Organization (ILO) employees, and independent consultants.

The independent Technical Assistance (TA) Facility provides funding for technical assistance to support AATIF's investments. The TA Facility Committee represents the Facility's donors, and oversees grant-making activities led by the TA Facility Manager. While a technical assistance component is not uncommon for blended funds focused on emerging and frontier markets, AATIF is unique in that its TA Facility has an entirely separate governance structure; this allows other grant-making entities (e.g., governments) to provide funds for the Facility without investing in AATIF itself.

Finally, to assess investments' compliance with AATIF's Social and Environmental Safeguard Guidelines (based on the IFC performance standards), AATIF partners with an independent Compliance Advisor. This critical role is fulfilled by the International Labor Organization (ILO), who focuses on ensuring AATIF's compliance with social guidelines; the ILO further subcontracts the United Nations Environmental Programme (UNEP) to ensure AATIF's compliance with environmental guidelines. The Compliance Advisor provides the Investment Manager and the Investment Committee with an independent perspective on whether a proposed investment complies with the Fund's development policy, as well as Social and Environmental Safeguard Guidelines. The Compliance Advisor works very closely with the Investment Manager during due diligence (conducting a joint on-site visit), and further supports in developing and monitoring the social and environmental covenants of portfolio companies.

FUND OPERATIONS

INVESTMENT CRITERIA

AATIF invests in African companies along the entire agricultural value chain, including cooperatives, commercial farms, and processing companies. AATIF also invests in financial institutions and other intermediaries that on-lend to smallholder farmers in its targeted markets.

Specifically, AATIF pursues three primary types of investments, as detailed in the table below.

	COMPANIES	FINANCIAL INSTITUTIONS	OTHER INTERMEDIARIES
Description	Cooperatives, out grower schemes, commercial farms, or processing companies across the value chain	Financing institutions who disburse sub-loans to clients to finance agriculture projects (e.g., working capital, long-term financing for capital expenditures)	Intermediary agribusinesses who disburse sub-loans and/or in-kind loans to their suppliers or producers, or finance processing plants beneficial to local economy
Instruments	Senior debt Mezzanine Equity Guarantees	Senior debt Guarantees Risk sharing	Senior debt Mezzanine Equity Guarantees Risk sharing
Size	USD 5-15m	USD 10-30m	USD 10-30m
Tenor	Up to 12 years (debt); equity financing tailored to project needs	Up to 10 years	Up to 12 years

Figure 2: AATIF investment types

INVESTMENT PROCESS

AATIF follows a standard process for identifying, evaluating, and executing investments, as illustrated in Figure 3. The timeline for each step varies widely amongst potential investment opportunities.

1. <u>Source</u>: AATIF's Investment Manager identifies opportunities through three primary channels: 1) networks of the anchor investors (Deutsche Bank, KfW, BMZ); 2) trusted counterparts, including other fund sponsors, project developers, public sector agencies and NGOs; and 3) prospective investee companies who may apply for funding through AATIF's website. Employing multiple channels allows the Investment Manager to consider a wide range of investment opportunities, and

ultimately employ a rigorous and selective screening process.

2. Screen: The Investment Manager first screens investment opportunities to assess their attractiveness and fit with AATIF's investment mandate. Based on this assessment, the Investment Manager prepares a preliminary investment concept memo to gauge interest from the Investment Committee before pursuing due diligence. The Investment Manager may also consult the Compliance Advisor to ensure the investment's fit with AATIF's social and environmental safeguard guidelines.

3. Diligence: If there is interest from the Investment Committee, the Investment Manager (together with the Compliance Advisor) conducts comprehensive due diligence, including a joint on-site visit. Specifically, they assess the investment's financial, technical, and legal viability and fit with AATIF's social and environmental safeguard guidelines. This enables the Investment Manager to gain a comprehensive understanding of the opportunity, evaluate risks and develop appropriate investment structures, and build the case for potential investment. If the Investment Manager identifies a need for technical assistance to support project preparation, the Investment Manager will discuss this with the TA Facility Manager and prospective investee before seeking approval from the TA Facility Committee.[5]

4. Investment Committee: Following diligence, if appropriate, the Investment Manager recommends the opportunity to the Investment Committee. The Investment Committee will evaluate the merits of the opportunity and its consistency with the articulated AATIF mandate, the risk-return profile of the fund and other relevant due diligence aspects. Ultimately, the Investment Committee will approve or reject the investment opportunity.

5. Close: If approved, the Investment Manager prepares, negotiates, and executes the required legal documentation to close the transaction. If TA measures were not already discussed during due diligence, the Investment Manager will discuss potential TA needs with the investee and TA Facility Manager before seeking approval from the TA Facility Committee.

6. Monitor: Following investment, the Investment Manager and Compliance Advisor jointly review each investment's financial, social and environmental performance at least once per quarter; the TA Facility also reviews its TA projects on a quarterly basis. During the lifetime of the investment, the Investment Manager may facilitate the provision of additional technical assistance and other support where necessary.

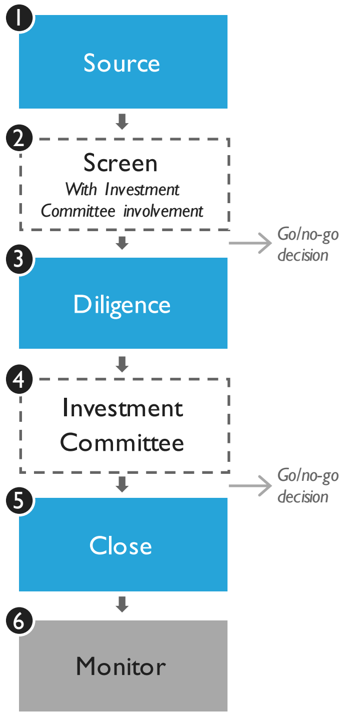

Figure 3: AATIF investment process overview

INVESTMENT ACTIVITY TO-DATE

As of June 2015, AATIF's portfolio included four direct investments and four indirect investments, including three investments in financial institutions and one investment in a non-financial intermediary; the majority of these have been financed with senior debt to meet investee needs. The fund strategy aims to keep a balance between sourcing and screening more direct investment opportunities and maintaining about 50% of the fund volume in indirect investments in financial and other intermediaries that are easier to monitor from abroad and are typically less risky due to risk diversification. Examples of specific AATIF transactions are included in Figures 4 and 5 below.

[5] The Investment Manager may request TA support either pre-investment (e.g., early funding to make a project bankable) or post-investment (e.g., ongoing training or other support)

EXAMPLE: WIENCO (GHANA)

Investment Type: Intermediary

Project Description: AATIF provided funding to Wienco, a Ghanaian agribusiness conglomerate that provides fertilizer and agro-chemicals on credit to smallholder farmers in cocoa, cotton, and maize

Investment Year: 2013

Instrument: Debt

Volume and Tenor: USD 21m loan, 3-year tenor

Uses: Expand the scope of Wienco's smallholder operations, including investments in relevant capital expenditures and expanded smallholder training programs

Figure 4: WIENCO Transaction Overview

EXAMPLE: CHASE BANK (KENYA)

Investment Type: Financial Institution

Project Description: AATIF provided funding to Chase Bank, a commercial bank in Kenya, focused on providing debt financing to small and medium-sized enterprises across the agricultural value chain, including feed suppliers, livestock farming companies, and dairy, tea, and coffee companies

Investment Year: 2012-2013

Instrument: Debt

Volume and Tenor: USD 10m loan (awarded in two USD 5m tranches), 5-year tenor

Uses: Expand Chase Bank's lending to the food processing, tea, dairy, sugar and maize sectors with an additional focus on horticulture; establish internal environmental and social management systems

Figure 5: Chase Bank Transaction Overview

FUND IMPACT

AATIF seeks to complement earlier stage development assistance programs (e.g., grants, concessional financing) by providing financing on market-based terms to agricultural companies and financial and other intermediaries. At the same time, AATIF seeks to be additive by providing financing in areas currently experiencing a lack of appropriate financial services. This helps to both directly fill financing gaps and also to "crowd in" additional sources of private financing to these areas.

AATIF prioritizes environmentally sustainable investments with the ability to improve food security, create employment, and boost local incomes. For example, agricultural processors are particularly attractive as they offer opportunities for domestic value addition. In line with these goals, the Board of Directors engages the Investment Manager and Compliance Advisor to ensure that prospective investments adhere to, or are capable of achieving, baseline ESG standards, including the provision of safe working conditions for employees and sound management of natural resources.

More broadly, any investment activity supported by AATIF is expected to contribute to sustainable business growth and the improved economic and social welfare of farmers and company employees. In line with these goals, AATIF uses indicators to measure and evaluate the effective impact of all investments. Examples of these indicators include (i) increases in agricultural production and productivity levels; (ii) generation of additional employment opportunities; (iii) outreach to smallholder farmers; and (iv) increases in farm and overall household income.

In early 2015, the TA Manager and Compliance Advisor led an international bidding process to assess investment outcomes on these indicators, specifically for a) rapid appraisals on four of AATIF's investments; and b) one in-depth impact analysis on Wienco Ghana (see Figure 4 above).

KEY LESSONS LEARNED

The AATIF experience illuminates several lessons that are useful to others looking to create and/or invest in similar blended vehicles:

- Blending public and private finance successfully leverages public funds to attract private sector investors to areas they usually would not cover on their own: Using German government funding as C shares allows its revolving use and attracts private sector investors - who typically would not be willing to invest in the agricultural sector in Africa due to its risk profile - into the A shares.

- The fund structure should match investor requirements: When establishing AATIF, Deutsche Bank conducted extensive market testing with prospective private investors to match the fund's capital structure (and notably, the size of the risk buffer) to private investor risk appetite. Consequently, AATIF's guidelines stipulate a 50% risk buffer for A tranche investors; specifically, C shares must comprise at least 33% and B and C shares together must comprise at least 50% of the fund at all times. This large risk buffer requirement contrasts with Deutsche Bank's experience in setting up blended funds focused on other sectors and geographies; for example, Deutsche Bank was able to use a smaller, 20% first loss buffer for a climate change-focused blended fund, as private investors were generally more comfortable with the risk-return profile of clean energy investments.

- A flexible investment mandate can unlock more investment opportunities: AATIF's mandate allows for investments across the full agricultural value chain in Africa. This broad scope has allowed AATIF to explore a deep pipeline of investment opportunities, and in turn, the flexibility to deploy funds in an appropriate, risk-adjusted fashion. AATIF is also flexible in providing debt and equity financing at a range of terms, further widening the range of investment possibilities.

- Filling a market need can strategically attract pipeline and maximize impact: AATIF seeks to invest in areas with clear financing gaps, typically those that do not attract local, commercial financing or where local financial institutions are not able to meet the demand for long-term, USD-based financing for relatively large ticket sizes. AATIF is also one of the few funds of its size that invests in financial institutions in its target markets. Furthermore, while AATIF offers debt and equity financing on a range of terms, the majority of AATIF's investments to date have used senior debt - often complementing equity financing available from the vast range of private equity funds active in the African agriculture sector. By strategically filling market gaps, AATIF is able to attract a deeper pipeline of opportunities with less competition from other investors.

- Operational simplicity is key to efficiency: AATIF is a complex investment vehicle involving a wide range of public and private actors. Yet ultimately, AATIF is managed by a four-person Board of Directors (appointed by AATIF's shareholders), which allows it to efficiently action key decisions. This is in stark contrast to many other blended funds, which may require approvals for key decisions from all anchor investors.

- Effective communication is key to managing shareholder expectations: AATIF's mission is to fund enterprises that are unable to secure local, commercial financing, implying a high level of perceived risk for private investors who are not familiar with this asset class. This requires clear explanations on how private investors are protected through their senior position in the fund's capital structure. Deutsche Bank continues to explore different ways to manage shareholder expectations, including providing prospective shareholders with clear information prior to investing and maintaining a regular schedule of communication once they have committed to AATIF, including quarterly operational and financial reports as well as regular investor and stakeholder meetings.

- An experienced and well-connected fund manager is key to success: As one of the world's leading financial institutions, Deutsche Bank offers advantages integral to the establishment and ongoing operations of AATIF. In fundraising, Deutsche Bank's access to a substantial network of high-net-worth investors via the Group's wealth management arm was a key advantage in securing AATIF's first round of private investors. Deutsche Bank's other existing resources, including established, professional information systems and global office networks, also offer cost savings and informational advantages over smaller, boutique investment managers.

For more information, please contact the Fund via info@aatif.lu or visit the website at www.aatif.lu

SOURCES

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Interviews with the AATIF Investment Manager Team, 12 June 2015 and 28 June 2015.

ABOUT CONVERGENCE

Convergence is a platform that brings together public and private investors for blended finance investments in emerging and frontier markets.

Convergence has three core offerings. The New Product Design Facility enables practitioners to design and test blended finance products through collaborative workshops, grant-funding and dissemination of learnings. Market Building Tools offer targeted knowledge and educational resources to help investors improve their blended finance understanding and capabilities. The online Investment Network enables public and private investors to find and connect with each other to co-invest in deals. Ultimately, Convergence aims to increase funding for investments that generate social, economic, and environmental impact.