

**Futuregrowth
Development Equity Fund
Semi-annual Impact Report 31 March 2022**

Chairman's letter

Forging ahead despite dark days

FUTUREGROWTH

/ ASSET MANAGEMENT

Private equity is a long-term investment process, with returns emerging – for better or worse – in a rather chunky manner. The foundations built by the investment team over the past several years has resulted in the Development Equity Fund's (DEF) performance showing a marked positive turn.

The DEF's mandate is sufficiently broad to allow us to take advantage of cyclical opportunities. For instance, with the dwindling equity returns available in renewable energies we have not participated in the delayed round 6 of the Renewable Independent Power Producer Programme (REIPPP) and instead have focused our efforts elsewhere.

The DEF seeks to be a funder of large-scale national infrastructure and we expect those transactions to begin re-emerging. In the meantime, we see developmental investment opportunities in agri-industry, infrastructure-related industries, housing, education, and finance. In smaller transactions, we are seeing opportunities in the innovative, fintech, and market disruptive companies which are positively changing trading environments and/or supporting developing enterprises. The deal pipeline remains robust.

With this momentum in the Fund, during the coming quarter our investors can expect two pending communications from us:

- The Fund has seen a sizeable cash inflow from the sale of Cash Connect post this reporting period, and this realisation has resulted in the cash portion of the Fund increasing substantially.
- The recent change to Regulation 28 allows pension funds to hold offshore assets of up to 45%. This provides the opportunity to address a mandate challenge in the Fund: Exposure to South African technology investments sometimes de facto entails a global reach (e.g. holding offshore subsidiaries of South African enterprises), and at the moment the Fund is not allowed any unhedged non-ZAR investments. We want to address this problem with a small non-ZAR exposure limit.

Broadly, we are seeing energy and excitement in the deal pipeline as the Futuregrowth private equity team gains traction as a valued shareholder-of-reference, and partner, for

South African developmental investments. These opportunities are filtered into all Futuregrowth's client funds that are mandated to take equity investments. As before, the teams within Futuregrowth leverage off each other's strengths and capabilities to add value across all our client portfolios, and the DEF is equally a beneficiary of this symbiosis.

In our previous report, we spoke about the launch of the Futuregrowth Venture Capital Fund as a sister fund to this Development Equity Fund (DEF). We have been undertaking earlier-stage investments in the DEF for nine years, and continue to see investment opportunities in this space. We will be reaching out to investors about this prospect in the near future.

The clouds of war darken the global mood, threatening life and the stability of supplies of basic goods. Locally, South Africa will also be impacted by global growth degradation and rising prices, compounded by continued loadshedding and the recent floods in Kwa-Zulu Natal. Nevertheless, there are undoubtedly opportunities for our funds to make a sustainable impact on the South African economy, and it is with this spirit that we forge ahead.

Regards



Andrew C Canter

Chief Investment Officer

Chairman of the Futuregrowth Investment Committee

Economic overview

Global risk sentiment on tenterhooks

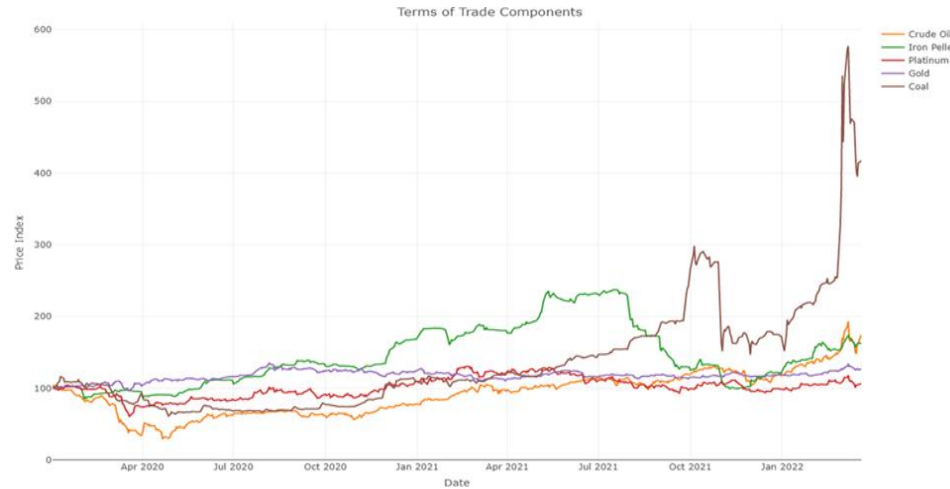
Global risk sentiment on tenterhooks

Markets remain on tenterhooks and are still in the process of digesting the lasting impact of the escalation of the Russia – Ukraine military conflict. The direct effects on global growth are likely to be limited, given that both countries only represent around 2% of global GDP. Investors and policy makers alike will concern themselves with the longer-term impact should the conflict escalate or be prolonged. The immediate indirect effect had been mirrored in commodity market turmoil and the tightening of global financial conditions. During March, commodity markets (specifically energy, food, and metals) experienced the biggest price adjustments since the 1973 oil crisis.

From a global monetary policy management perspective, the conflict adds another level of complexity, with the risk of higher inflation and weaker economic growth (stagflation) to be considered by both monetary and fiscal authorities. This comes at a time when many central banks are already grappling with stubbornly high levels of inflation, one of the legacies of the COVID pandemic.

While the global trend has shifted decisively to more broad-based monetary policy tightening, the timing and pace of this will be highly dependent on the circumstances of individual countries and regions. Locally, the SARB kick-started its policy tightening cycle by raising the repo rate by a cumulative 0.75%, to 4.25%. We retain our long-held view that tightening will proceed in a measured way, and we currently expect another 0.50% to 0.75% rise in the repo rate this year.

Figure 1: Commodity price changes (Jan 2020 = 100)



Source: Bloomberg, Futuregrowth

Fiscal outlook improving

Domestically, the tabling of the 2022/23 national budget took a back seat to the disturbing developments in eastern Europe, but the South African government managed to stick to its consolidation plans. The Minister of Finance managed to strike a delicate balance across debt containment, bolstering public infrastructure expenditure, and securing the social welfare net.

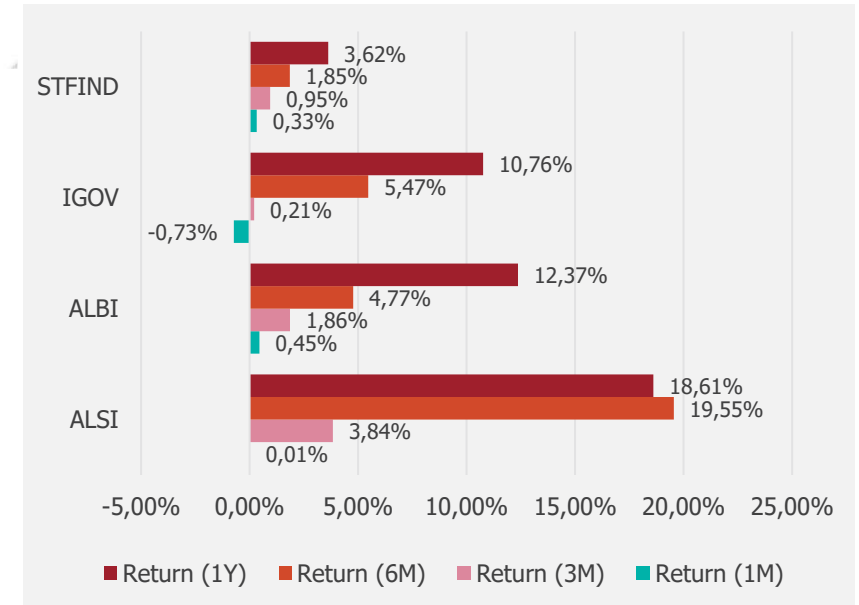
The positive outcome of the 2021/22 budget and the forthcoming fiscal projections reflect a concerted effort to accelerate the pace of fiscal consolidation. In the short term, it is worth noting that the most recent boost to South Africa's main commodity exports due to the Russia-Ukraine conflict could potentially filter down to stronger-than-expected corporate tax revenue receipts, which in turn will assist efforts to consolidate fiscal finances.

Domestic markets weathered the storm

The domestic equity market has managed to weather elevated inflation, increased hawkishness by both domestic and global central banks and the beginning of the conflict between Ukraine and Russia relatively well over the past two quarters.

It follows that the JSE All Share Index (ALSI) produced a strong return of 19.55% over the period, which was significantly better than the return rendered by inflation-linked and nominal bonds in the form of 5.47% and 4.77%, for FTSE JSE Inflation-linked and All Bond Indices, respectively. Cash returns, as measured by the STeFI Composite Index (STFIND) returned a low return of 2.02% over the 6-month period, given the low level of short-term interest rates at present.

Figure 2: Market Index Returns (periods ending 31 March 2022)

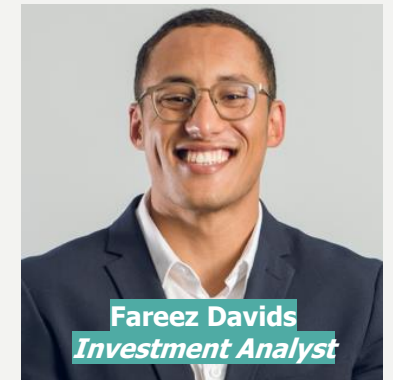
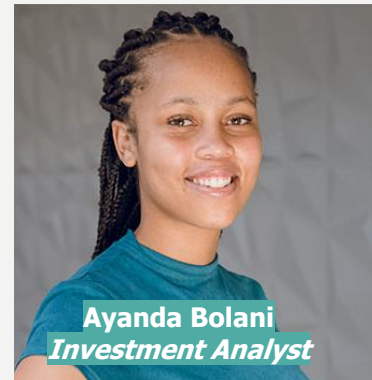


Source: IRESS, Futuregrowth

The Development Equity Fund team

The members of the Development Equity team at Futuregrowth share a passion for sustainable investing, and a drive to achieve a win-win relationship between investor and society. Our learnings have been crafted into our investment processes as we build upon our experience in the unlisted equity asset class.

We continue to utilise resources across the Futuregrowth credit and interest rate teams.



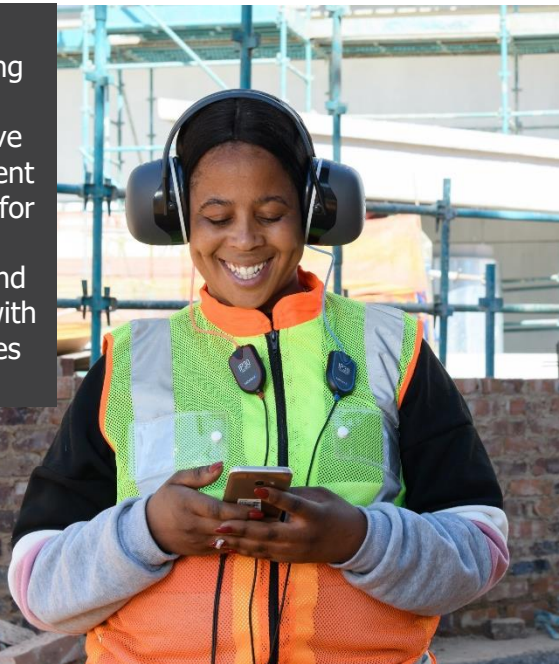
Key features of the Development Equity Fund

Portfolio manager	Sarah de Villiers	R3.3bn Fund size	15+ years of socially responsible investing	Targeting risk-adjusted equity returns by investing in equity and related assets
Fund description	The DEF is Futuregrowth's flagship open-ended private equity fund, with a focus on infrastructure, development and social upliftment. It is well-suited for representing the private equity or socially responsible allocation within larger balanced portfolios.			
Fund objective	The DEF's objective is to deliver long-term stable commercial returns whilst also having medium-to-high developmental impact. It has a broad risk mandate to participate in a range of suitable projects, companies and instruments, so as to build a diverse portfolio of developmental investments.	Active in 8 provinces	Supports 9 Sustainable Development Goals	Long-term stable returns
Performance target	18-22% nominal over the long-term.			
Fund life	Open-ended with an unlimited life.			
Fund size	R3.3 billion as at 31 March 2022.	Exposure to over 57 investee companies and 29 economic sectors	More than 75% of the Fund in medium-to-high developmental impact sectors	Tangible social and developmental impact
Investment style	We actively source high-impact investments in a range of growth companies with aligned and motivated management teams. We see ourselves as long-term partners of our investee companies and seek to align ourselves with their strategic goals in order to earn appropriate risk-adjusted returns. We are also opportunistic, and transactions can be developed over weeks or years.			
Composition	Investments are predominantly unlisted equity and equity-related instruments but may include relevant listed instruments. Developmental debt instruments may be up to a maximum of 20% of the Fund. The Fund may also include nominal and inflation-linked debt or listed equity positions.			
Benchmark	CPI + 10%.			
Structure	Unitised, pooled and open-ended.			

The DEF – making a meaningful impact



hearX:
Facilitating full & productive employment including for young people and persons with disabilities



SA Taxi: encouraging the formalisation and growth of micro-, small- and medium-sized enterprises



Retail Capital: Encouraging the growth of SMMEs through access to financial services

SweepSouth: Promoting development-oriented policies that support decent job creation, entrepreneurship, creativity and innovation



Loeriesfontein: Reducing the proportion of youth not in employment, education or training



Yoco: Achieving higher levels of economic productivity through technological upgrading and innovation

Our developmental investment philosophy

Developmental product suite

Futuregrowth has a 25-year-plus track record of investing in developmental assets. Our funds provide finance to institutions that may not typically receive support from the traditional banking or lending process. In addition to providing finance (credit), we also invest in equity and retail property with a developmental nature.

Our developmental funds are part of our broader responsible investment strategy and reflect the intention of our clients to do good by investing consciously to make a positive impact on society and the broader environment, and thereby to safeguard our collective future.

Our suite of developmental funds consists of:

- **Fixed Income** (Infrastructure & Development Bond Fund, Power Debt Fund, Inflation-Linked Debt Fund);
- **Unlisted equity** (Development Equity Fund, Agri Funds);
- **Unlisted retail property** (Community Property Fund); and
- **Fund of funds** incorporating our suite of development funds as building blocks (Developmental Balanced Fund).

Futuregrowth is dedicated to the development and empowerment of South Africa and its people. We are constantly looking for opportunities that will yield optimal financial returns for investors while making a meaningful difference. As such, we have become a reliable channel for investor savings and promoting national development.

We define developmental investing as financing that a) provides investors with commercial returns and b) produces a social and developmental impact. In South Africa the primary focus is on the provision of basic services and improvement of infrastructure development.

In order to achieve sustainable, long-term, benchmark-beating performance, we apply a responsible investment filter when screening and analysing new deals for our developmental funds. This is supported by a robust credit process that considers both financial risks and environmental, social and governance (ESG) risks.

Global contribution

We are also aligned with the UN's Sustainable Development Goals (SDGs), thus contributing to this global "blueprint to achieve a better and more sustainable future for all". The SDGs are covered in detail later in this report, where we link the activities of each deal featured to these global targets.

(See: www.un.org/sustainabledevelopment/sustainable-development-goals/)



How we measure and manage impact

Futuregrowth actively measures and manages for impact. Our impact measurement and management approach is aligned with both global and local development frameworks.



National Development Plan (NDP)

This is a long-term development framework for the elimination of poverty and reducing inequality in South Africa by 2030.

UN Sustainable Development Goals (SDGs)

These goals represent the globally agreed 2030 agenda and are a call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.

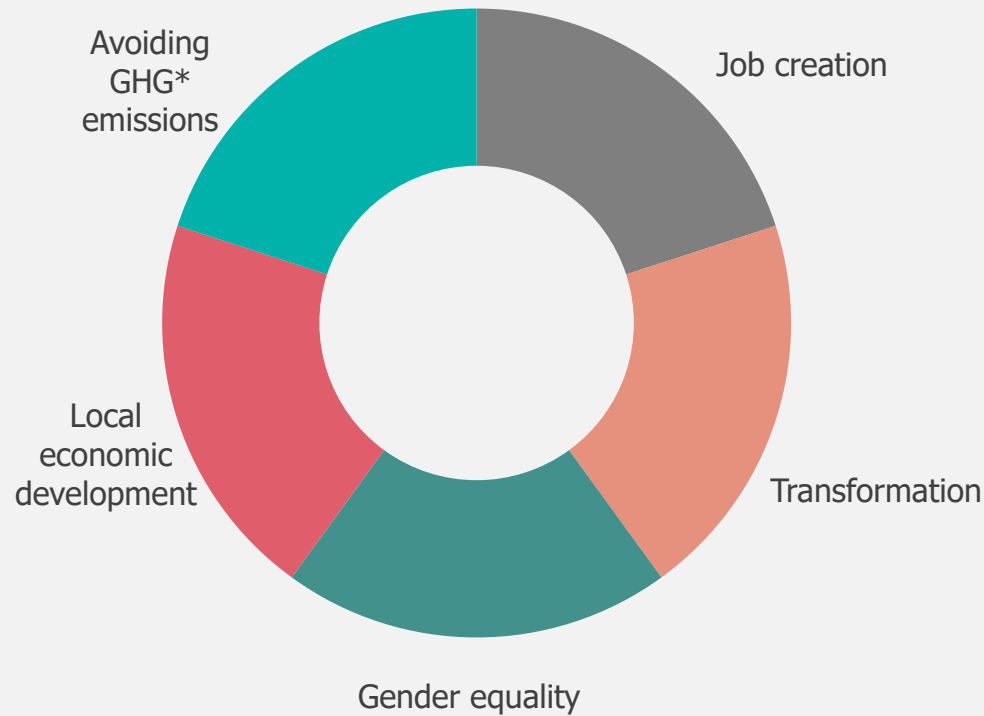
Principles for Responsible Investing (PRI)

Futuregrowth is a signatory to the Principles for Responsible Investment (PRI), which is an international network of signatories contributing to developing a more sustainable global financial system by incorporating six defined Principles for Responsible Investment into investment practice.

Priority outcomes & KPIs

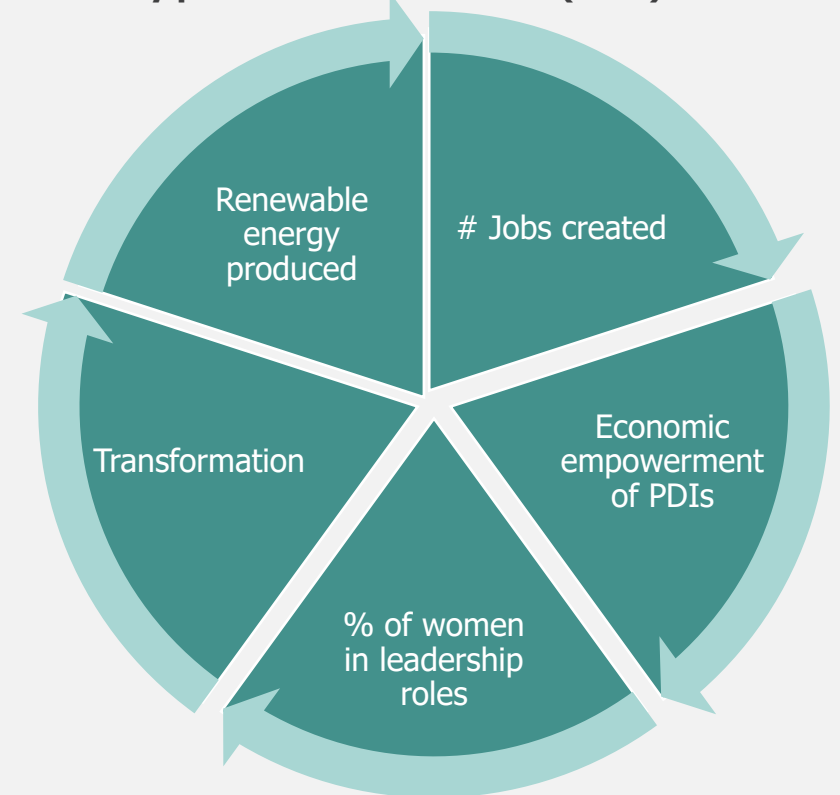
We have priority outcomes that reflect the critical social and economic changes our clients and stakeholders would like to see. Throughout our engagement with companies, we track core metrics, using key performance indicators (KPIs) outlined below, which can be reported on a company, sector, portfolio (Fund) and aggregated AUM level - to enable us to report on the impact achieved.

Priority outcomes



*Greenhouse Gas

Key performance indicators (KPIs)



#See page 12 of this report

DEF infrastructure & developmental sectors

A diverse range of investments

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35.40%

Exposure across
Infrastructure & social services sectors

18.17%



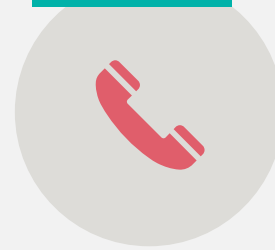
Transport

6.96%



Energy including
renewable energy

5.03%



Communications

2.64%



Health

1.21%



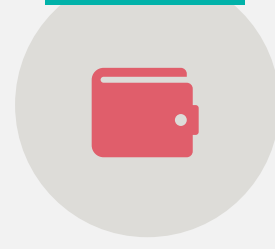
Tourism

and 1.40%
in Development
Finance and
Education.

41.14%

Exposure across
other developmental
sectors

25.54%



SMME finance

6.69%



Low income &
affordable housing

3.58%



Consumer & business
access to finance

4.15%



Agricultural development
& land ownership

1.01%



BEE finance

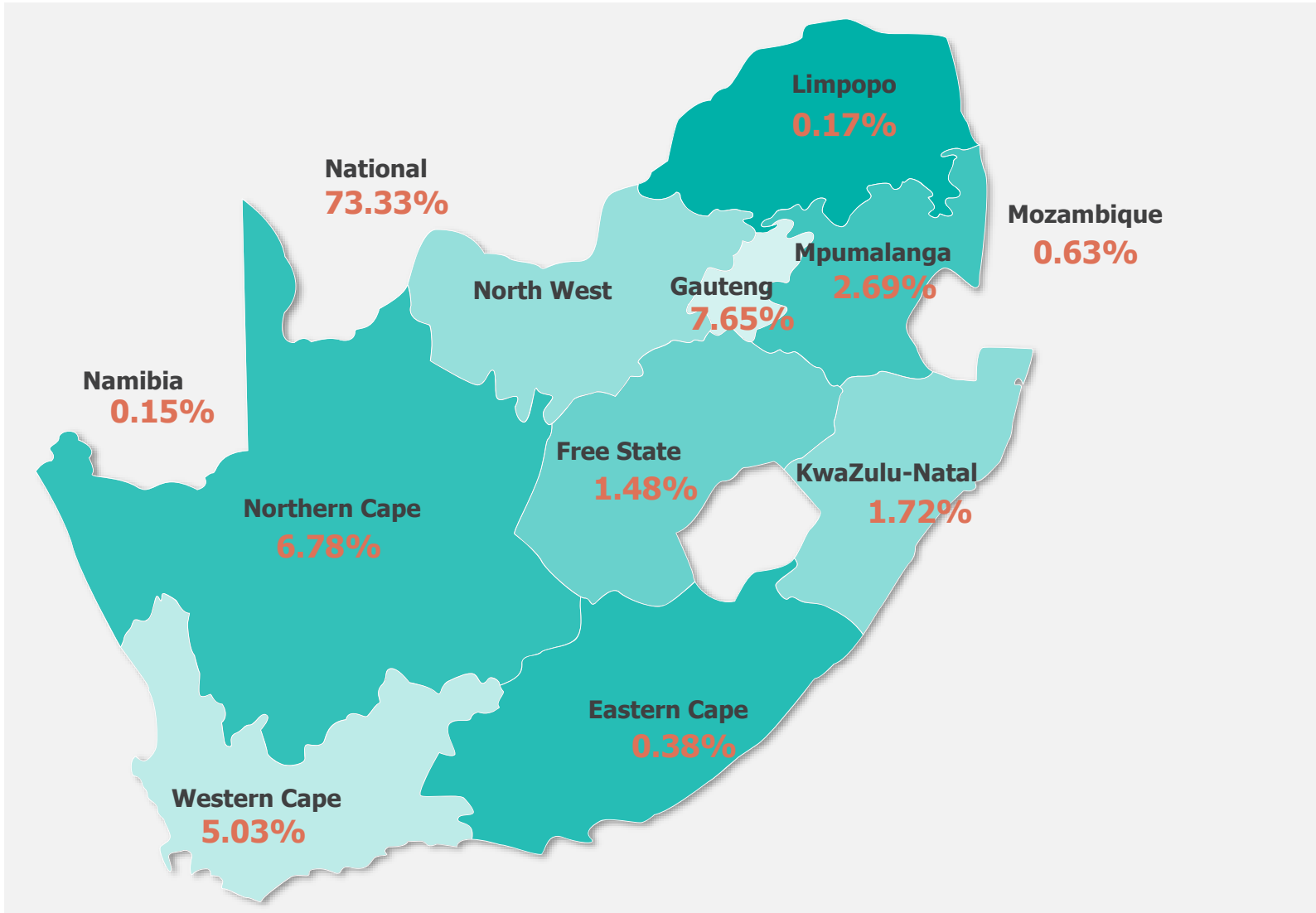
and 0.17%
in Environment
Preservation
and Other
Infrastructure.

Invested in **8** provinces



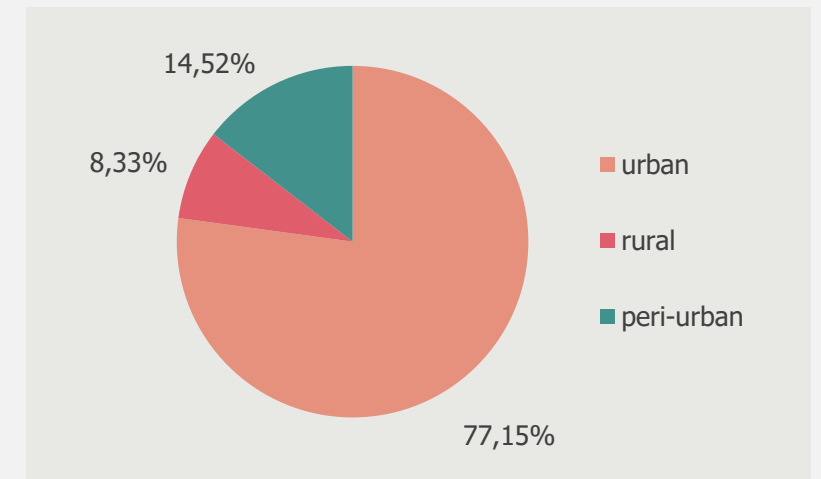
Delivering **social impact**
that changes lives





The Fund has geographical diversity across South Africa, with investments held in 8 provinces. The Fund has more than 73% exposure to assets with a national footprint.

Nearly 23% of the Fund investments impact on rural and outlying peri-urban areas.



Job creation & SDG impact of the DEF

Job creation



5 534

Direct jobs created



18 603

Indirect jobs created



83%

Of jobs created are held by blacks

54%

Of jobs created are held by youth

Sectoral impact

SMME



54%

Agriculture



22%

Housing



17%

Roads



4%

Communication



2%

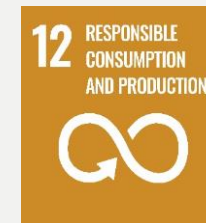
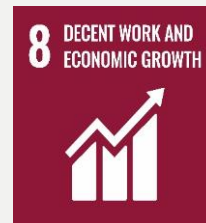
& **1%** in other sectors

JOBS BY SECTOR

The SMME sector was the strongest job creation sector (despite only forming 21% of the assets collated). Positively, 83% of the jobs created are held by blacks and 54% by youth - indicating the strong developmental impact of our funds' investments.

The Fund's IMPACT across SDGs

Our clients' investments contribute directly to nine SDGs across all sectors



New technology investment in the Fund: Mobiz

FUTUREGROWTH

/ ASSET MANAGEMENT

A unique, affordable and accessible mobile marketing tool

Mobile capabilities and internet accessibility have transformed how people in emerging markets interact. The technologies have been adapted and innovated to improve how people and businesses conduct day-to-day activities and customer communications.

Mobiz - a South African startup that integrates hyper-personalisation into mobile marketing - was founded by two innovators in the mobile space, Greg Chen and Clark Lin. The duo share a vision of a platform that brings meaningful mobile communication to the South African and global market in a way that has never been seen before. This vision is to offer a truly personal, accessible, and inclusive communication tool for local businesses, both big and small. This allows small businesses to create high-quality campaigns without the need for a large marketing department.

With zero data cost to customers, Mobiz clients can reach those who may have been difficult to reach before. Mobiz messages not only boost sales and conversions, but also provide services like identity verification, account payments, and the transmission of relevant communication to customers, all while enriching customer data and providing customer-level analytics for future engagements.

These results are achieved through the reach of SMS and data-driven, advanced content personalisation, offering relevant product suggestions, data-rich sign-up flows, and easy payment options for those without access to the internet or local banks – thereby offering small businesses an affordable marketing tool.

Reaching those without access to the internet requires easily accessible channels (such as SMS) and cost-effective technologies (like data-cost-free web pages) – requirements that Mobiz meets and takes even further.

Mobiz CEO, Greg Chen, says: *"We wanted to give businesses an affordable way to stay connected and engage with their customers by removing the data barrier for the end-user. Clicking on any URL link in the SMS and engaging with the landing page, is completely free of data charges - offering up-and-coming small businesses a cost-effective solution."*

The DEF took a 4.98 % equity stake in Mobiz at the end of 2021.

(For more information, see: [Futuregrowth invests in startup Mobiz | Insights | Futuregrowth - South Africa](#))



Image supplied by: Mobiz

Hi Thabo, your food hamper is ready for collection. Please click the data-free link for details on when and where you can collect your hamper: <https://.mo.biz/e4j9k>

92% Open rate

50% Unique click-through rate

Clicked to set reminder **82**

Viewed map **26**

Image supplied by: Mobiz

The abrupt national lockdown left many without access to basic amenities and the resources they relied on to maintain a livelihood. When the pandemic hit, many brick-and-mortar stores were forced to close, and consumer accessibility shifted even further into the digital sphere.

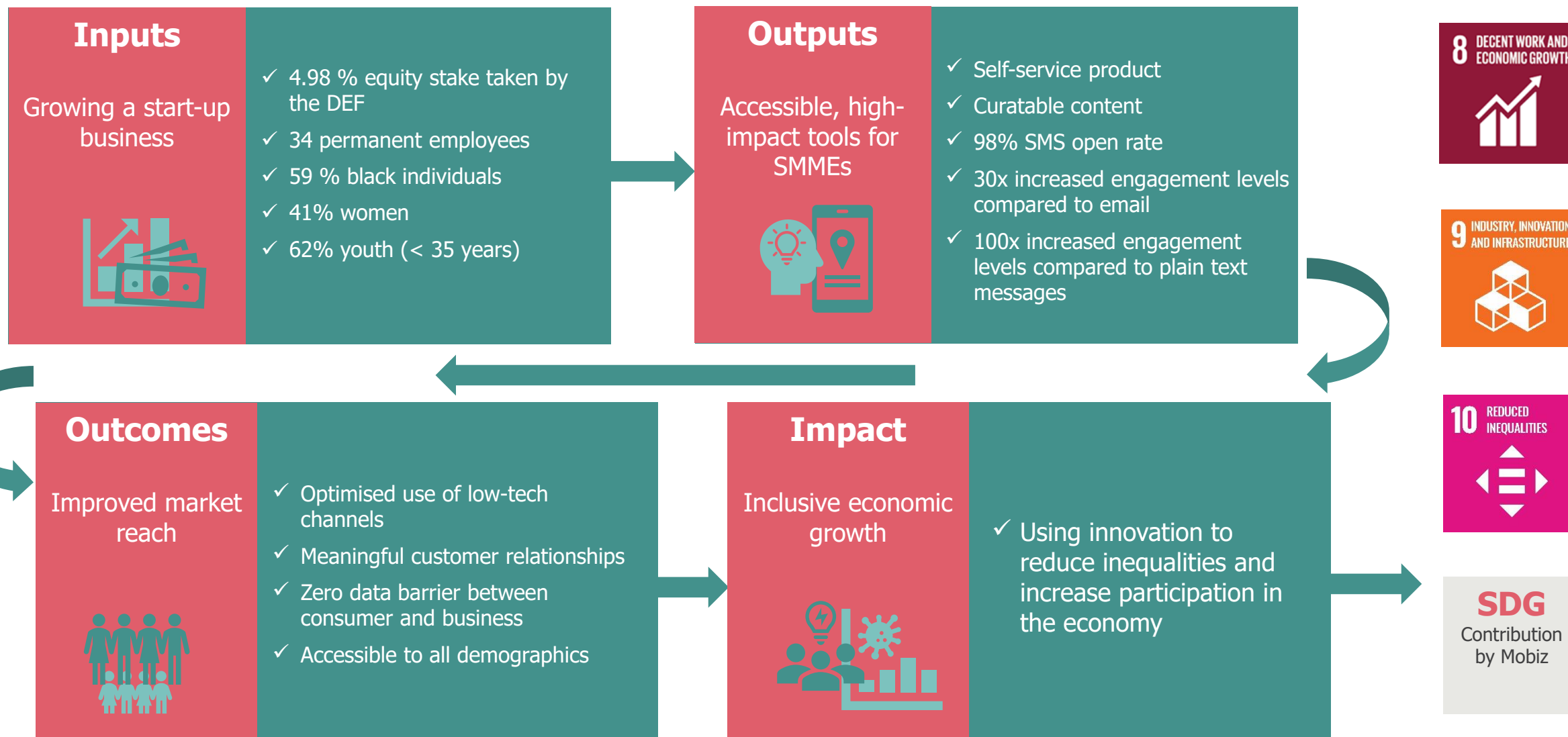
The Mobiz team knew that the need for its solutions would soar and were ready to step in and assist new and current clients with strategies to keep prospering, and to help keep communications with their customers and employees flowing during the national shutdown.

Some of the COVID relief initiatives include:

- Mobiz offered all businesses a free QR code campaign, to provide a touchless screening solution to help businesses follow the new health and safety protocols.
- In collaboration with Smutby and ONESA, Mobiz delivered vouchers worth R150 000 to 500 families in need (each voucher was worth R300).
- Mobiz assisted a local NGO in Delft, Cape Town, to facilitate a registration process for families who required immediate assistance. One hundred community members were registered and notified via Mobiz when and where to collect their food hampers.

IMPACT indicators

Mobiz: leveraging mobile channels to unlock socioeconomic impact



Disclaimer: Impact indicators and SDG contribution as a result of business activities at the time of reporting

Futuregrowth Development Equity Fund Impact as at 31 March 2022

Key features

Development Equity Fund

R3.26bn
Fund size

16+ years
of socially responsible
investing

Targeting **risk-
adjusted equity
returns** by investing
in equity and related
assets

Active in **8
provinces**

Tangible **social** and
**developmental
impact**

Exposure to
over **57** investee
companies and **29**
economic sectors

Long-term stable
returns

Supports **9**
**Sustainable
Development
Goals**

More than 75%
of the Fund
in medium-to-high
developmental
impact sectors

Contact our Client Relationship team

CLIENT RELATIONSHIP TEAM

Maseabi Marageni

mmarageni@futuregrowth.co.za
C +27 84 837 7295

Steffen Josephs

sjoosephs@futuregrowth.co.za
C +27 83 327 3543

Ziyanda Tshaka

ziyandat@futuregrowth.co.za
C +27 83 666 0392

Marilyn Gates Garner

marilyng@futuregrowth.co.za
C +27 82 466 0868

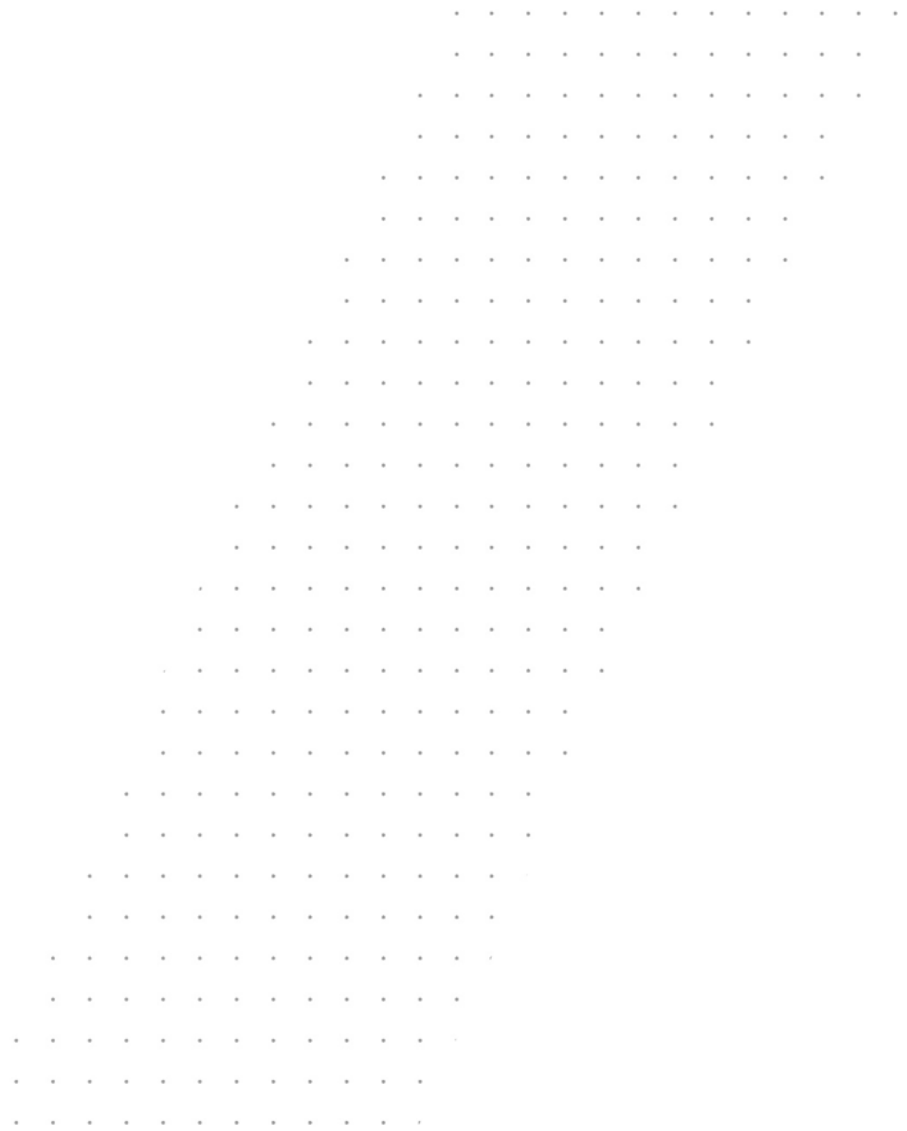
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3rd Floor, Great Westerford
240 Main Road, Rondebosch
7700, South Africa
Private Bag X6, Newlands, 7725, South Africa
Tel: +27 21 659 5300 Fax: +27 21 659 5400
www.futuregrowth.co.za