Futuregrowth Infrastructure & Development Bond Fund

Development & Social Impact Bi-annual Report
30 September 2022

FUTUREGROWTH
ASSET MANAGEMENT

PHOTO: KRUISVALLEI

OUR FLAGSHIP FUND CONTINUES TO PERFORM WELL

We remain cautious about the impact of a low-growth environment on the performance of our economy and our ability to source sufficient risk-adjusted opportunities.

PHOTO: N3TC

Futuregrowth Infrastructure & Development Bond Fund

Welcome to the eighth semi-annual report on Futuregrowth's flagship Infrastructure & Development Bond Fund (IBF/Fund). With a fund size of nearly R16.5 billion, it is one of the largest dedicated funds of its nature - with the longest track record - in Sub-Saharan Africa.

The Fund continues to play an integral part in infrastructure funding. Since its launch more than two decades ago, it has funded various initiatives in the infrastructure and developmental space, gaining exposure to sectors such as power, transport-corridors, healthcare, education, SMME development and affordable housing. Diversity continues to play an important role in terms of the management of the Fund - echoing our credit ethos - with exposure to 150 issuers and 40 economic sectors.

The Fund continues to perform well, particularly from a comparative (relative to benchmark) point of view. Given sub-par performance of the Index as a whole, absolute performance remain below the level of inflation in the short-term. Sub-par local economic growth, marred by a dysfunctional state-owned energy provider prevents large scale gross fixed capital formation which is also impacted by rising input costs. We reiterate that a normalised level of long-term return for this Fund, based on its mandate and risk appetite, remains at around 1.75% to 2.15% over the benchmark.

We have previously spoken about the changes to Regulation 28, which have now been fully gazetted and will be in effect from 3 January 2023. From an infrastructure perspective, we still voice our concern about the broadness of the definition, which may have the unintended consequence of pension funds counting investments which are not necessarily true infrastructure. This may result in some pension funds bumping into the 40% infrastructure limit that has been proposed by National Treasury and therefore steering capital away from true infrastructure investments.

In this report

In this report, we feature one of very successful investments, Retail Capital, where we have provided both debt and equity capital. We touch on the importance of funding SMMEs in this space and how this facilitates job creation in a county that has a massive level of unemployment.

We continue to scour the deal landscape to ensure that we can fulfil our mandate to provide sound risk-adjusted capital to opportunities in the infrastructure and developmental space, thereby meeting our return obligations and at the same time creating economic wealth for the greater South Africa.

Jason Lightfoot
Portfolio Manager

Fund facts

Portfolio manager	Jason Lightfoot
Benchmark	All Bond Index (ALBI)
Performance target	ALBI + 1.25%
Current weighted average credit quality (Internal rating)	A+
Average yield enhancement	2.53%
Listed yield enhancement	0.71%
Unlisted yield enhancement	4.71%
Current structure	Pooled
Fund start date	January 1995
Total Fund assets	R 16.44 billion
Termination period	1 calendar month (size dependent)

Invested in a wide range of debt instruments

The Futuregrowth Infrastructure & Development Bond Fund (IBF/Fund) is a specialist yield enhanced bond portfolio and forms part of Futuregrowth's suite of developmental funds.

The Fund targets commercial risk-adjusted returns through a combination of moderate credit concentration limits, active interest rate risk management and active off-benchmark bets.

The Fund may invest in a wide range of debt instruments, including those issued by government, parastatals and corporates, as well as securitised assets. The inclusion of assets is subject to credit committee approval.

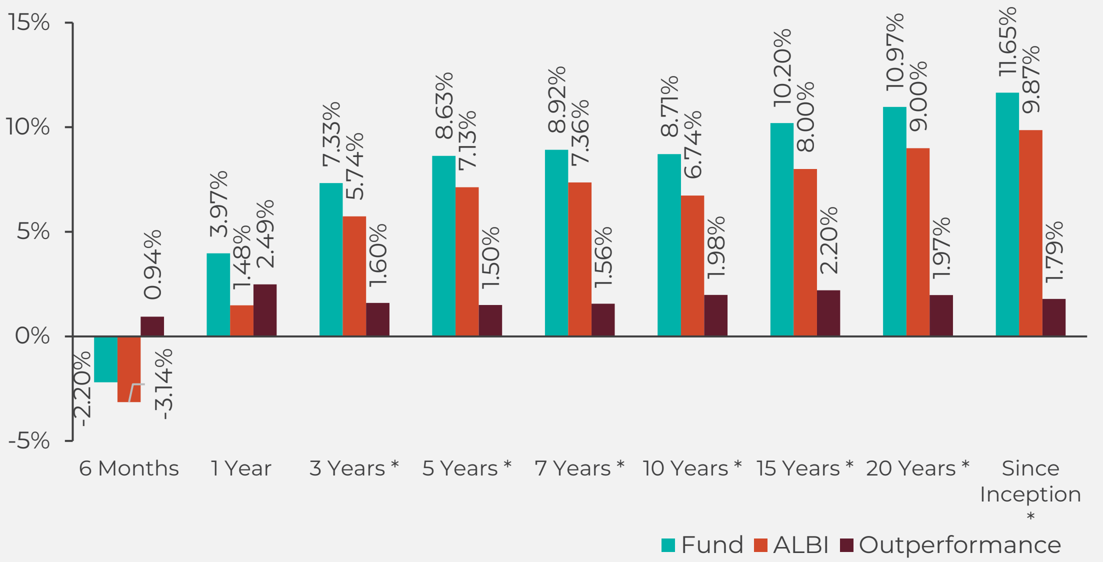
The Fund is allowed to invest up to 50% in unlisted credit and up to 5% in equity assets, primarily through the Development Equity Fund (DEF) subject to investment committee approval. The outcome is good risk-adjusted alpha generation over time. In order to retain adequate liquidity and flexibility, and in the course of managing new investments, asset maturities and sales and fund flows, the Fund usually maintains a high degree of liquid and/or non-developmental assets.

The Fund aims to provide investors with a vehicle that facilitates infrastructural, social, environmental and economic development in southern Africa and delivers on a variety of social impact outcomes such as job creation, affordable housing, access to services and healthcare.

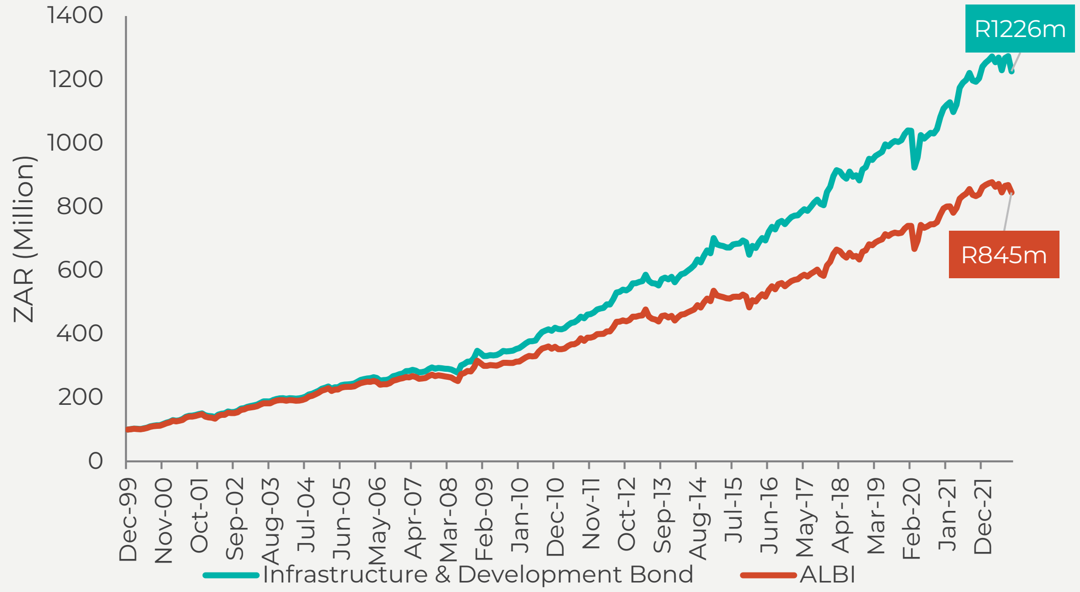
Investment performance

Credit spread accrual continues to be the main contributor

Fund performance



Cumulative performance



Data as 30 September 2022 // Since inception date (GIPS Composite): 1 September 2006
Fund start date: 1 July 1999 // Source: Futuregrowth // *Annualised

The Fund outperformed its benchmark for the six-month period under review. Credit spread accrual continues to be the main contributor to performance, through a combination of exposure to both unlisted and listed credit counters. On the interest rate side, and specifically from a yield curve positioning perspective, the Fund's overweight modified duration position and yield curve tilts bode well given the downward shift in nominal bond yields over the period, but more so from a base accrual perspective. The Fund's investment in the Futuregrowth Developmental Equity Fund also acted as a positive contributor given its stellar performance for the quarter.

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 and non-financial 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/)

FUTUREGROWTH / ASSET MANAGEMENT

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.

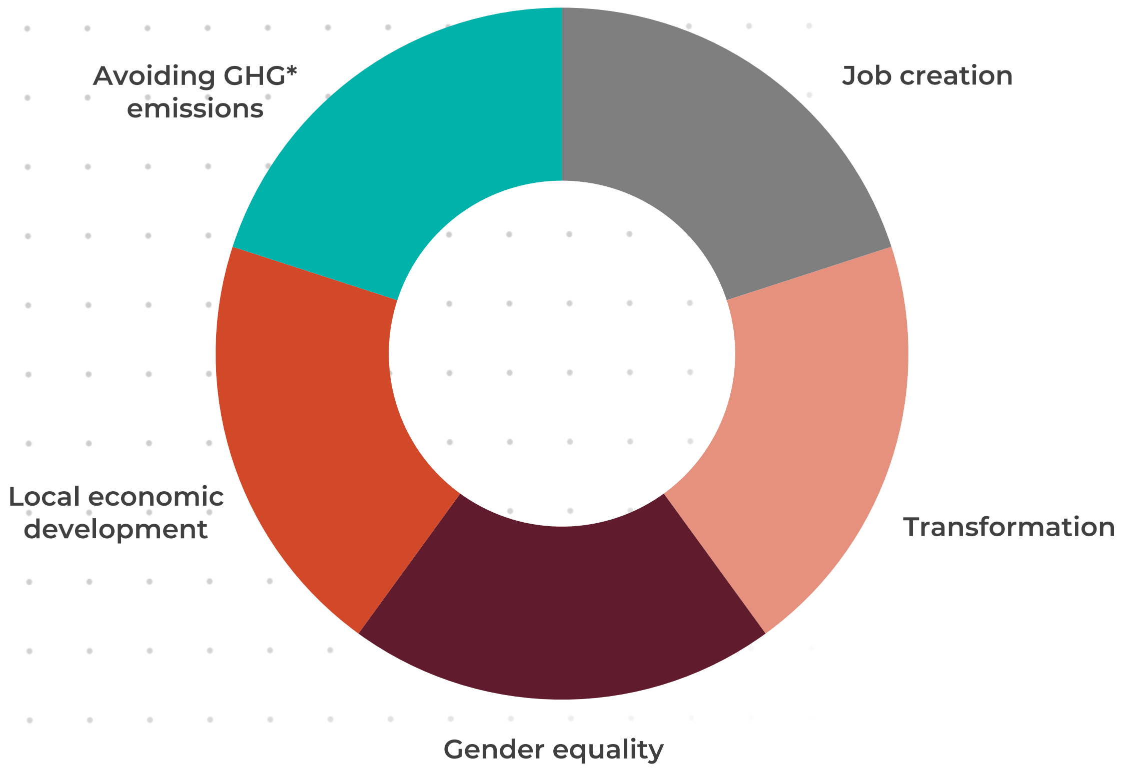
Principles for Responsible Investing (PRI)

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

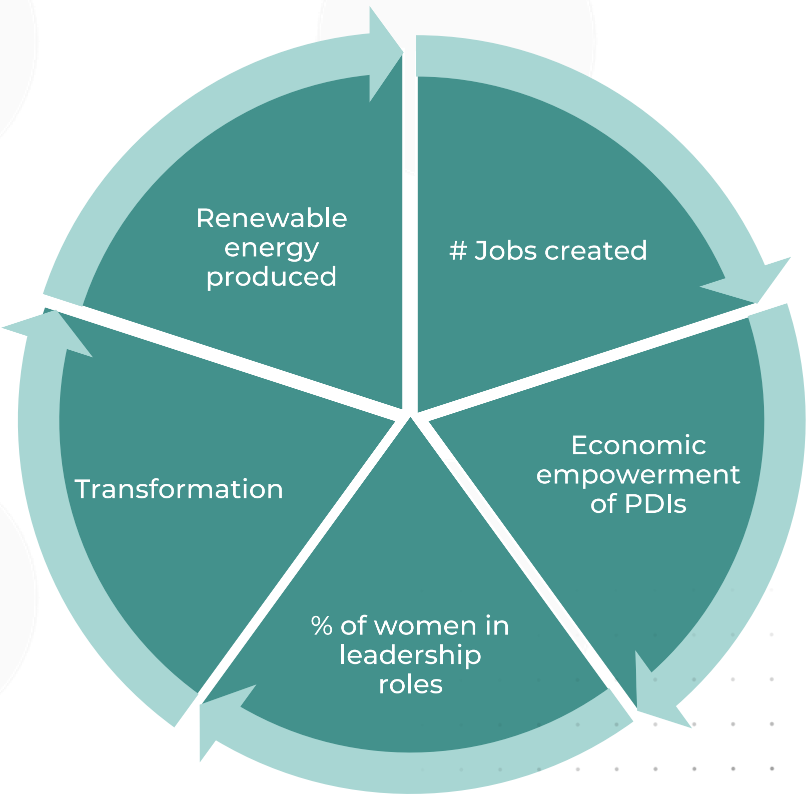
We have priority outcomes that reflect the critical social and economic changes our clients and stakeholders would like to see. Throughout our engagement with companies, we track core metrics, using key performance indicators (KPIs) outlined below, which can be reported on a company, sector, portfolio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

PRIORITY OUTCOMES



*Greenhouse Gas

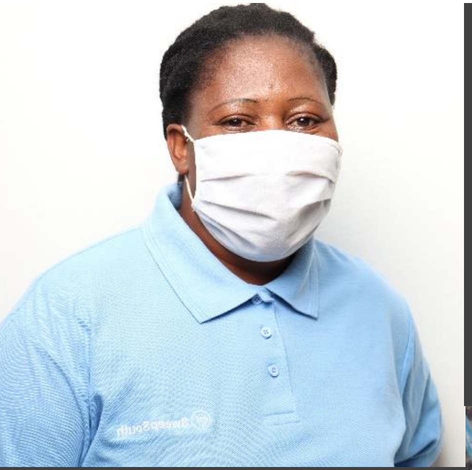
KEY PERFORMANCE INDICATORS (KPIS)#



#See page 18 of this report

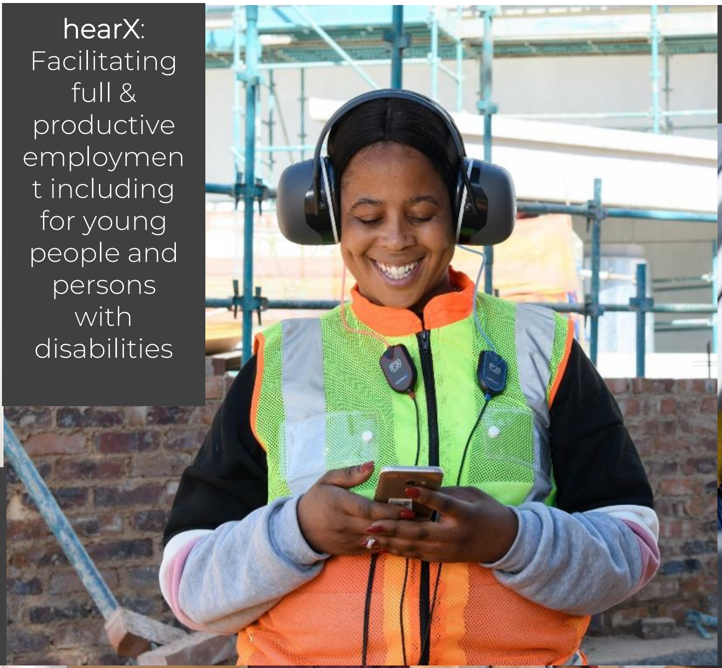
Futuregrowth Infrastructure & Development Bond Fund

Making a meaningful impact



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

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

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

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

Infrastructure & developmental sectors

A diverse range of investments

44.66%

Exposure across infrastructure sectors

Sector	Exposure
Energy including renewable energy	22.15%
Transport	9.27%
Communications	4.41%
Development finance	4.08%
Water & sanitation	1.89%

and 2.86% in Health, Tourism, Other Infrastructure and Education.

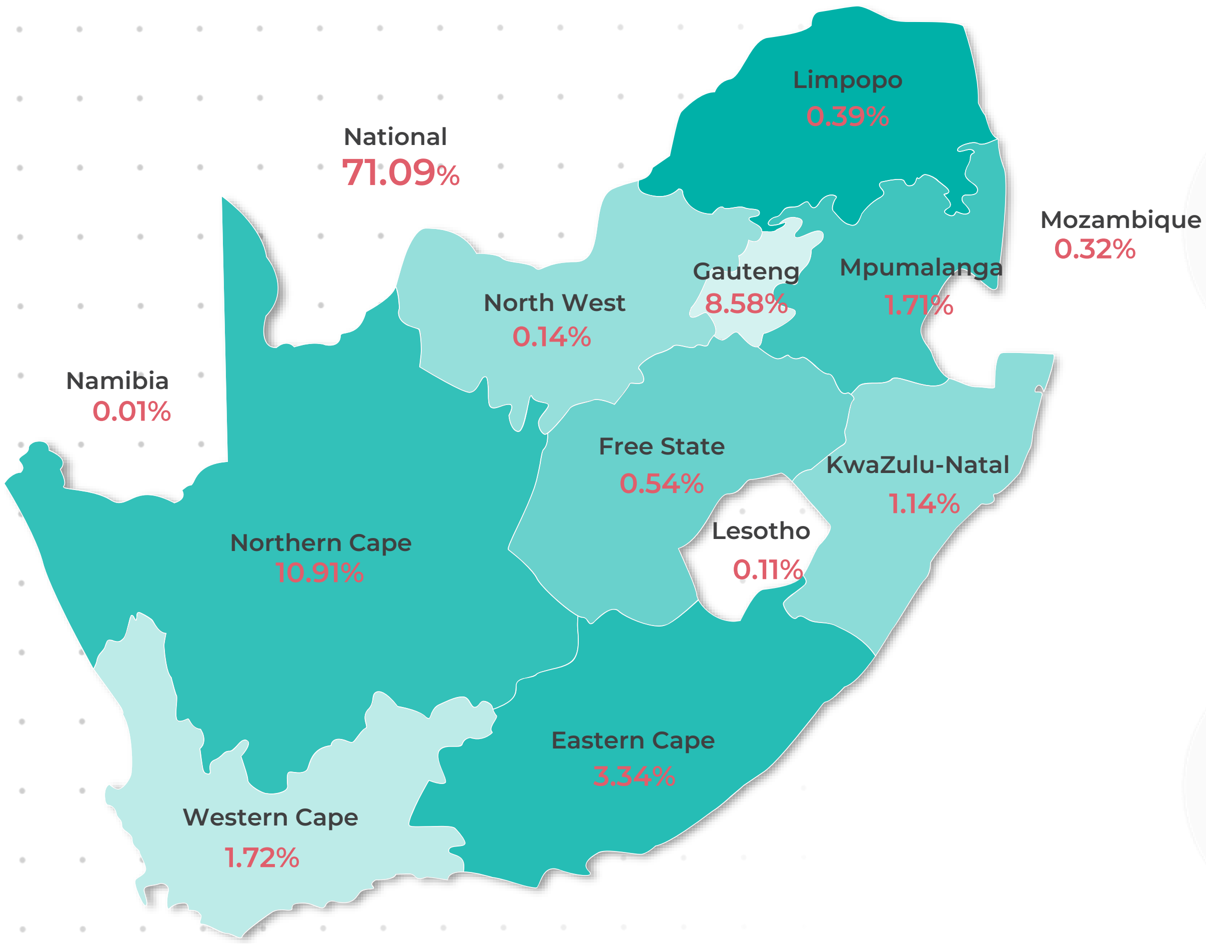
14.41%

Exposure across other developmental sectors

Sector	Exposure
Low income & affordable housing	7.31%
SMME finance	5.10%
Agricultural development & land ownership	1.12%
Consumer & business access to finance	0.83%
BEE finance	0.06%

Source: Futuregrowth

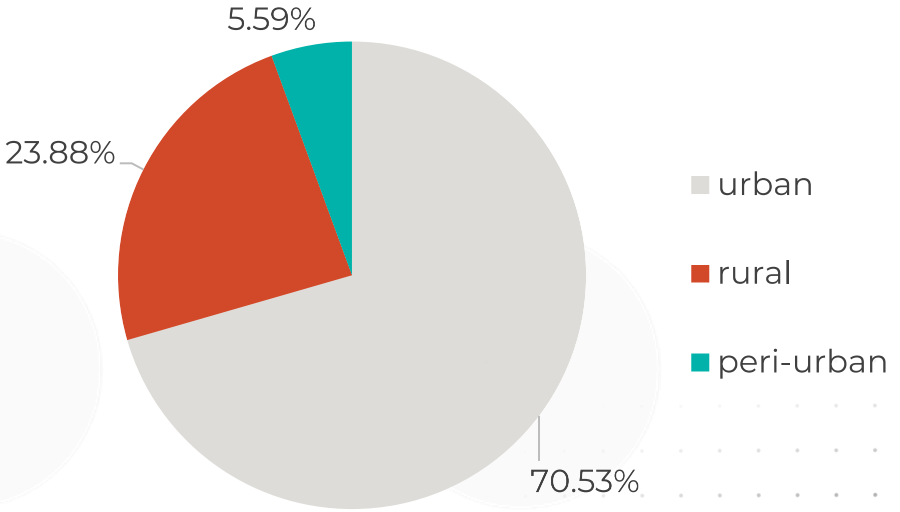
Geographical diversity & rural footprint



Source: Futuregrowth

The Fund has geographical diversity across South Africa, with investments held in 9 provinces. The Fund has nearly 72% exposure to assets with a national footprint.

Nearly 30% of the Fund's investments impact **rural** and outlying **peri-urban** areas.



Job creation & SDG impact of the IBF

FUTUREGROWTH
/ ASSET MANAGEMENT

Job creation

28 470	Direct jobs created	70 777	Indirect jobs created
72%	Of jobs created are held by blacks	28%	Of jobs created are held by youth

Sectoral impact

SMME	Housing	Energy	Agriculture	Communication
35%	16%	13%	12%	6%

& 18% in other sectors

JOBS BY SECTOR

The SMME sector was the strongest job creation sector (despite only forming 9% of the assets collated). Positively, 72% of the jobs created are held by blacks and 28% by youth - indicating the strong developmental impact of our funds' investments.

The Fund's IMPACT across SDGs

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

3 GOOD HEALTH AND WELL-BEING
4 QUALITY EDUCATION
6 CLEAN WATER AND SANITATION
7 AFFORDABLE AND CLEAN ENERGY
8 DECENT WORK AND ECONOMIC GROWTH
9 INDUSTRY, INNOVATION AND INFRASTRUCTURE
10 REDUCED INEQUALITIES
11 SUSTAINABLE CITIES AND COMMUNITIES
12 RESPONSIBLE CONSUMPTION AND PRODUCTION
13 CLIMATE ACTION

Disclaimer: Data collected in August 2022 from a sample of 58 investee companies in the Fund

Job creation

Pulling together to create jobs

During the State of the Nation Address earlier this year, President Cyril Ramaphosa spoke on the issue of youth unemployment and job creation and emphasised that "government does not create employment but creates a conducive environment to enable the private sector to create jobs".

South Africa has one of the highest unemployment rates in the world, with young people being continuously disadvantaged in the labour market. The latest employment statistics are evidence of high unemployment rates and highlight structural weaknesses in the country's economy.

I believe the role of government goes beyond creating a conducive environment for job creation. Government needs to create and strengthen existing policies that promote investments into sectors that would promote the creation of jobs, such as the SMME sector. It also needs to continue to play a regulatory role, to ensure that the jobs created are quality jobs that will help reduce the growing inequalities, pervasive poverty and social unrest calling for change. The regulation of employment involves continuous monitoring to ensure that companies adhere to labour practices (like the minimum wage) and managing the employment of foreign nationals. Where companies are not adhering to labour policies and practices stricter penalties should be imposed.

Given all of the above, good things happen when the private and public sector pull together. Research highlighted by the GSDRC has shown that the transformation and growth of a developing economy is heavily reliant on the private sector, which provides an estimated 90% of formal and informal job opportunities*. The private sector is also an agent of change when it comes to development and contributing to achieving and implementing the National Development Plan (NDP) and the United Nations Sustainable Development Goals (SDGs).

Creating an enabling environment for entrepreneurs to not only thrive but actively participate in economies is one way to promote inclusive economic growth and create job opportunities for the youth. In order to enhance the sustainability of SMMEs we need to support them in reducing some of the obstacles they encounter when looking for funding and tapping into new markets for growth.

Futuregrowth recognises the importance the SMME sector can play in promoting financial inclusion, to stimulate economic growth and job creation, and has invested in various entities that focus on providing access to finance to SMMEs.

*Source: GSDRC Topic Guide: The role of the private sector, November 2016
Original article: Pulling Together to Create Jobs

SDG contribution of SMME jobs

SDG 1: End poverty in all its forms everywhere..

1.4: "By 2030, ensure that all men and women, in particular the poor and the vulnerable, have equal rights to economic resources, as well as access to basic services, ownership and control over land and other forms of property, inheritance, natural resources, appropriate new technology and financial services, including microfinance".

SDG 8: Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all..

8.5: "By 2030, achieve full and productive employment and decent work for all women and men, including for young people and persons with disabilities, and equal pay for work of equal value".

SDG 9: Promote financial, social and economic inclusion for all in order to promote inclusive growth and reduce inequalities..

9.3: "Increase the access of small-scale industrial and other enterprises, in particular in developing countries, to financial services, including affordable credit, and their integration into value chains and markets".

SDG 10: Create an enabling environment for local businesses, both big and small to reach consumers easily without limitations..

10.2: "By 2030, empower and promote the social, economic and political inclusion of all, irrespective of age, sex, disability, race, ethnicity, origin, religion or economic or other status".

The importance of supporting SMMEs

One would think that selling a product or service would be the largest hurdle for small businesses, but a lack of working capital (for buying stock, paying suppliers and staff, amongst other needs) has resulted in many small businesses closing their doors.

Small, Medium and Micro Enterprises (SMMEs) face a number of constraints that prohibit them from growing into sustainable businesses. One of their main obstacles is access to finance, given the general absence of funders offering flexible funding solutions that would meet the needs of the SMME. Traditional loan funding from the formal market is largely inflexible, and generally requires collateral or a trading history which many of these businesses do not have.

SMMEs in South Africa are identified as a key driver for employment creation and economic growth. Given the impact the sector has on job creation, more effort is needed to support SMMEs by closing the existing gaps in access to finance.

With this in mind, in May 2016 Futuregrowth (on behalf of its clients) advanced a R35 million debt facility (via the Futuregrowth Infrastructure & Development Bond Fund) to Retail Capital, a merchant cash advance business that focuses on funding the South African SMME market. Over the years, this has grown to R200 million. Futuregrowth also bought 38.8% of the business in 2017, via the Futuregrowth Development Equity Fund (DEF), and currently owns 35%.

> **“South Africa’s SMME sector is estimated to employ 47% of the labour force and contributes more than 20% to the country’s gross domestic product, paying about 6% of corporate taxes.”**
> Sipho Pityana, president of Business Unity South Africa

Image supplied by:
Retail capital

Retail Capital: Changing the SMME funding experience

> **"Business is the lifeblood of the economy and small and medium businesses are the growth engine for the future. It is vital they have the resources and the skills to grow. Our approach, as alternative funding providers since 2011, has always been to lead with technology and work alongside our clients where their repayments are based on their monthly turnover, not a set fee. This is what sets us apart from the get-go, as clients see us more as partners in their business than bank-rollers."**
>
> Karl Westvig,
> Retail Capital Founder & CEO

A unique funding model

Retail Capital has been a market disruptor within the SMME financing sector, with its innovative way of providing funding, which is done against revenue, with daily collections from sales.

Retail Capital has partnered with over 35 000 SMMEs throughout the country, providing funding of over R5.5 billion to date since 2011, of which R2 billion was disbursed in the past year.

Through an easy 3-step application process, Retail Capital has significantly lowered the barriers to funding, providing SMMEs (ranging from restaurants and retailers to medical practitioners and beauty spas) with ease of access and convenience.

Building the future of SMME funding

After starting as a scribble on a napkin while sitting around a kitchen table, its founders started their own first-hand experience of launching a successful small business. Understanding the needs of business owners and responding to fluctuating economic conditions, Retail Capital has grown to become the largest player in the non-bank funding space servicing SMMEs.

The shift in the ways in which payments are made (including a migration away from cash) even with informal traders has changed the industry and opened up new opportunities for SMME funding and growth. COVID-19 was an additional catalyst for change, and saw e-commerce surging.

Retail Capital's strategy to support SMMEs has remained strong throughout, as their methods and footprint have changed and grown in response to changing customer needs, and with innovative technology and partnerships that benefit its clients.

Retail Capital Case study / **Yemaya - one of many success stories**

Gali Gaon Segall is no ordinary businesswomen. As a formidable entrepreneur, she has overcome many challenges, especially during COVID, and has a healthy appetite for growth and taking calculated risks.

In 2017 one of Retail Capital's clients referred Gali to the funder when she was struggling to overcome erratic supply chain difficulties. She was looking for funding to secure stock directly from her international supplier.

Thanks to the funding she received from Retail Capital, she subsequently began her own import operation which now supplies not only all the Yemaya branches, but also other traders in the beauty industry.

Since 2017 Gali has opened multiple new sites and has used Retail Capital funding to increase her market share in the industry. Yemaya is now a household name and was even selected as the in-house beauty provider at both the Cape Town and King Shaka International airports. Due to her success in procuring stock and eliminating third party costs, she now also has a successful online store, delivering countrywide.

This growing enterprise is not only creating job opportunities, but also has a skilled team of beauty technicians strategically positioned in the country's most prominent malls. The business has also recently partnered with a luxury hotel group as its in-house hair and beauty provider. Gali embodies the entrepreneurial spirit that Retail Capital is proud to support.

Image supplied by:
Retail Capital

Impact indicators

Retail Capital: Changing the SMME Funding experience

INPUTS

Investing in profitable and scalable businesses

- ✓ R200 million
  Capital invested by the IBF
- ✓ 35%
  Equity stake taken by the DEF
- ✓ 184 employees:
  61% previously disadvantaged
  50% held by women

OUTPUTS

Increasing access to finance for SMMEs

- ✓ R1.11 bn
  Total advances period 1 January to 30 June 2022
- ✓ 7 935
  Total number of SMMEs funded period 1 January to 30 June 2022
- ✓ 3 392
  Total number of female owned SMMEs funded period 1 January to 30 June 2022

OUTCOMES

Successfully growing SMMEs

- ✓ 19 347
  Total number of SMMEs on book (actively managed accounts)
- ✓ 44%
  of SMMEs funded are female owned

IMPACT

Promoting inclusive growth

- ✓ Partnered with over 35 000 SMMEs throughout the country, providing funding of over R5.5 billion to date

5 GENDER EQUALITY

8 DECENT WORK AND ECONOMIC GROWTH

9 INDUSTRY, INNOVATION AND INFRASTRUCTURE

10 REDUCED INEQUALITIES

SDG Contribution by Retail Capital

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

Futuregrowth Infrastructure & Development Bond Fund

Key features

FUTUREGROWTH
ASSET MANAGEMENT

R16.44bn
Fund size

25 years+
of consistent long- term performance

Commercial **risk-adjusted** returns

Active in all **9 provinces**

Tangible social & developmental **impact**

Exposure to **150** issuers and **40** economic sectors

Investing in **infrastructure development**

Supports **10 Sustainable Development Goals**

Nearly **60%** of the Fund in medium-to-high developmental impact sectors

Contact information

FUTUREGROWTH
/ ASSET MANAGEMENT

INVESTMENT TEAM

Jason Lightfoot
Portfolio Manager
jasonl@futuregrowth.co.za
T +27 21 659 5462

Angelique Kalam
angeliquek@futuregrowth.co.za
T +27 21 659 5483

CLIENT RELATIONSHIP TEAM

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

Steffen Josephs
sjosephs@futuregrowth.co.za
C +27 83 327 3543

Mzukisi Ralawe
MRalawe@futuregrowth.co.za
C +27 82 809 2013

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

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

FUTUREGROWTH
/ ASSET MANAGEMENT

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