Image source: SACAP

Futuregrowth Development Equity Fund

Development & Social Impact Bi-annual Report
31 March 2023

FUTUREGROWTH
ASSET MANAGEMENT

Economies remain uncertain and volatility is the only sure bet.

Since its earliest days, the **Futuregrowth Development Equity Fund (DEF)** has positioned itself as a stable, reliable and patient capital partner, helping companies reach their potential.

Image source: SACAP

Chairman's letter

South Africa faces yet another crisis of confidence with mounting load-shedding, plus political and geopolitical maladministration. Given that backdrop, one has to appreciate the investments held in the DEF. On the one hand, infrastructure and development related businesses have cyclical risk, but tend to be defensive. On the other hand, disruptive technology or equipment for power are somewhat agnostic to macro growth – as they are principally seeking market share. It would be foolish to deny the macro-economy's impact on an equity fund (and we've seen that in our long-term returns). However, through the uncertainty the DEF enjoyed a prosperous 2022 and we look ahead with optimism – as we believe there is latent entrepreneurship in South Africa, and we hope for the political will to address the country's challenges.

Since our last report (30/9/2022) the Futuregrowth Development Equity Fund (DEF/Fund) has concluded the very substantial sale of Retail Capital to Tyme Bank Holdings (R486 million). Also during this period, the team has made investments in two sectors: Property Technology (PropTech) (R34.6 million); and education (R79.5 million). The team continues to engage with disruptive businesses to partner with for the long term, with the total deal pipeline sitting at R931 million. We currently have nine deals in legal-stage, and we aim to deploy R260 million in the upcoming six months across various sectors including Insure-Tech, Logistics, FinTech and Agriculture.

It is evident that the investment process is functioning well, with successful exits in 2022 and constant engagement with companies in the pipeline. The annualised performance over the past two years (December 2021 and 2022) was 24.52% and 25.68% respectively. Given the slow movement in national infrastructure development, the team has focussed on finding investments in disruptive and earlier-stage private businesses.

The successful asset realisations mean that the Fund has significant liquid assets for investment. With a diverse range of sectors in which to invest, the Fund is well equipped to take advantage of opportunities when they arise.

Regarding the team, we have had to say goodbye to Ayanda Bolani who left Futuregrowth in February 2023. Ayanda was a valuable member of the team who showed great promise in her time with us, and we will miss her contribution. We are in the process of hiring at least (net) two new investment analysts within the next year. We've also hired an operations analyst to ensure that quality service be given to our key stakeholders and investors.

Despite the global and local headwinds, we remain as positive as ever about our ability to find companies that are positioned to provide solutions to the challenges we face as a country, and, in doing so, generate attractive returns.

Regards

Andrew C Canter
Chief Investment Officer
Chairman: Futuregrowth Investment Committee

Economic overview

Fissures in the banking system induce volatility

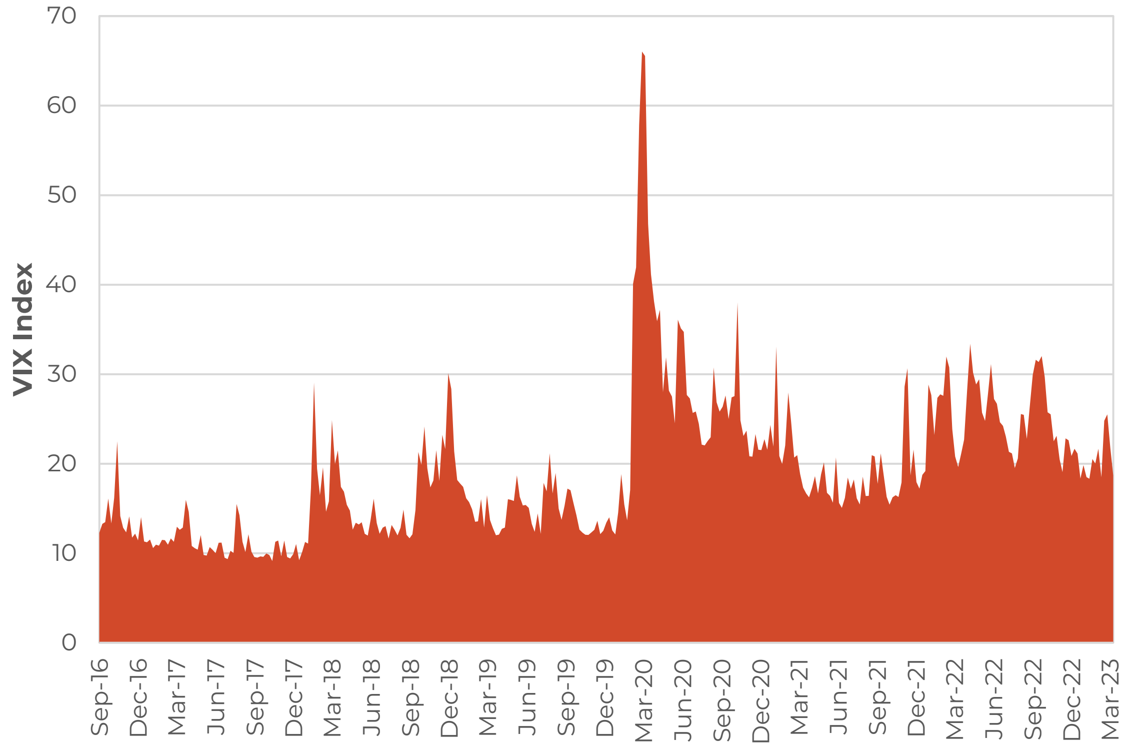
With global inflation remaining sticky on account of strong labour markets and pent-up demand backed by accumulated COVID-era savings, central banks are now tasked with navigating a much murkier economic terrain than before.

Following an aggressive (but necessary) hiking cycle thus far, fissures in the foundation of financial markets are appearing in the form of bank failures. The collapse of Silicon Valley Bank and Signature Bank in the US caused contagion sirens about the financial health of Credit Suisse, several other major European banks, and the banking sector overall.

The unfolding banking crisis led to global risk aversion and a rush to safe-haven assets, supporting both the US dollar and US Treasuries in the process. This was in stark contrast to the preceding quarters, where concerns around sticky inflation had lured interest rate bears back into the spotlight, as expectations of policy easing as early as this year had to be pared back. After reaching a peak of 4.06% earlier this year, the yield of the US 10-year treasury yield decreased sharply by 50 basis points (bps) following the banking sector-induced safe-haven trade.

Concerns around the broader banking sector receded towards the end of Q1 2023, as illustrated by the CBOE VIX (a gauge of market uncertainty), as cash injections by larger commercial banks in the US and lifelines extended by the US Fed and the Swiss National bank tempered fears.

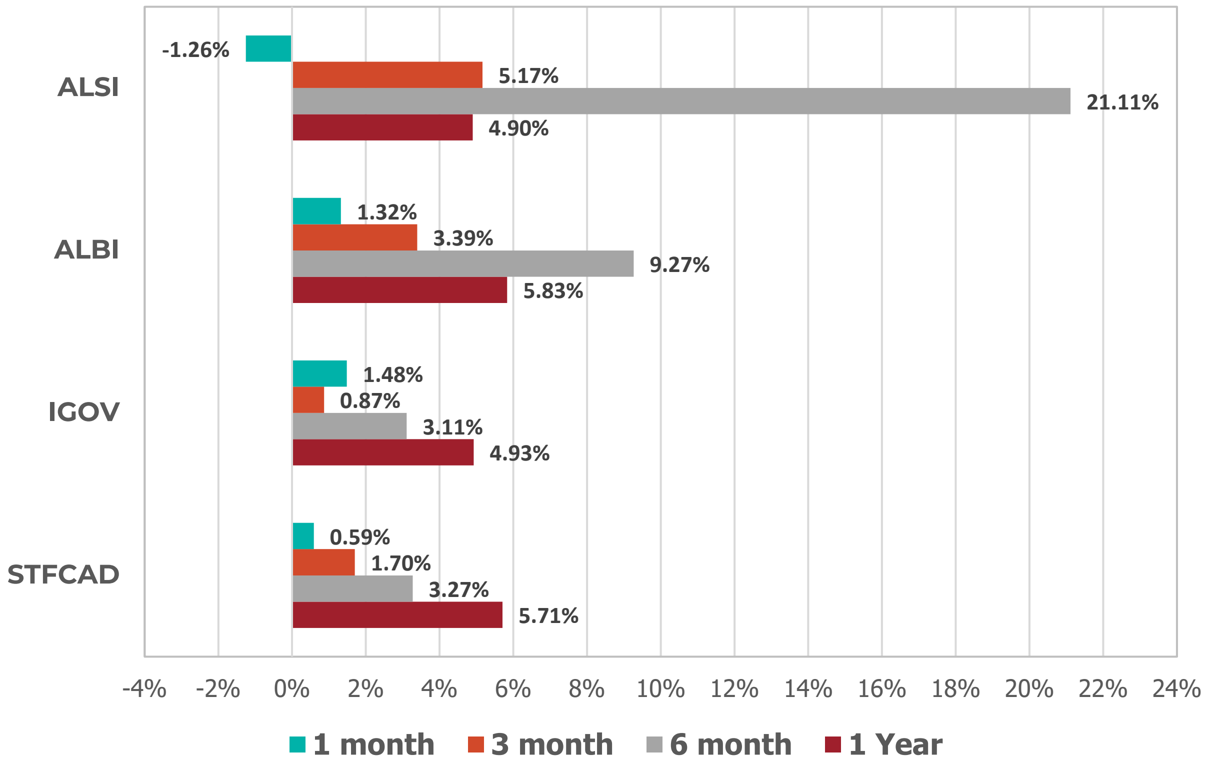
Figure 1: Although the VIX has receded, uncertainty remains elevated



Source: Iress, Futuregrowth

Economic overview / continued

Figure 2: Asset Class Period Returns as at 31/03/2023



Source: Iress, Futuregrowth

As feared, South Africa was grey listed

The Financial Action Task Force (FATF) evaluated South Africa in October 2021 and found several deficiencies in the country's policies and efforts to combat money laundering and terrorism financing. Although the FATF, at its February plenary meeting, acknowledged that the country had made significant progress towards addressing most of the deficiencies, eight areas were highlighted as problematic. This forced it to add South Africa to the grey list. While National Treasury and the South African Reserve Bank (SARB) have committed to addressing these areas urgently, our view remains that a turnaround from a law enforcement implementation perspective will take some time. While this outcome adds to the already dented confidence deficit in the country, we maintain that the direct market impact will be limited, as none of this comes as a surprise.

Equity markets recover, despite recent global market volatility

Despite the recent banking sector turmoil and the continued tightening by the SARB and global central banks, the JSE All Share index performed strongly over the past six months, rendering a return of 21.1% as at the end of Q1 2023. The improved short-term showing resulted in a 1-year return of 4.90%. This was marginally weaker than fixed income assets. Nominal bonds, as measured by the FTSE JSE All Bond Index (ALBI), rendered a return of 5.83% - whereas inflation linked bonds, as measured by the JSE ASSA Inflation-linked Bond Index (IGOV), rendered a return of 4.93% over the same period. Cash was once again the better performing asset class over the 1-year period, with the STeFI Call Index (STFCAD) rendering a return of 5.71%.

Key features of the Development Equity Fund

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 and socially responsible allocation within the larger balanced portfolios.
Fund objective	The DEF's objective is to deliver long-term stable commercial returns while 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.
Fund life	Open-ended with an unlimited life.
Fund size	R3.856 billion as at 31 March 2023.
Investment style	We actively source developmental 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 listed equity 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.
Benchmark	18-22% nominal over the long-term. This is however under review given the historic fund composition and resultant returns.
Structure	Unitised, pooled and open-ended.

R3.85bn Fund size

15+ years of socially responsible investing

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

Active **in 8 provinces**

Supports **9 Sustainable Development Goals**

Attractive long-term stable returns

Exposure to over **71** investee companies and **29** economic sectors

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

Tangible social and **developmental impact**

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.

Futuregrowth Development Equity Fund

Making a meaningful impact

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Mulilo: a proudly South African a renewable energy developer

N3TC: supporting educational initiatives in the local communities

TRAC: building & maintaining transport corridors

Rubicon: providing affordable off-grid solutions

Africrest: converting C-Grade properties into landmark A-Grade space

hearX: improving quality of life through med-tech innovation

DEF infrastructure & developmental sectors

A diverse range of investments

42.61%

Exposure across Infrastructure & social services sectors

18.42%	10.53%	5.80%	3.30%	2.74%
Transport	Communications	Energy including renewable energy	Health	Education

and 1.82% in Tourism, Development Finance and Other Infrastructure.

17.88%

Exposure across other developmental sectors

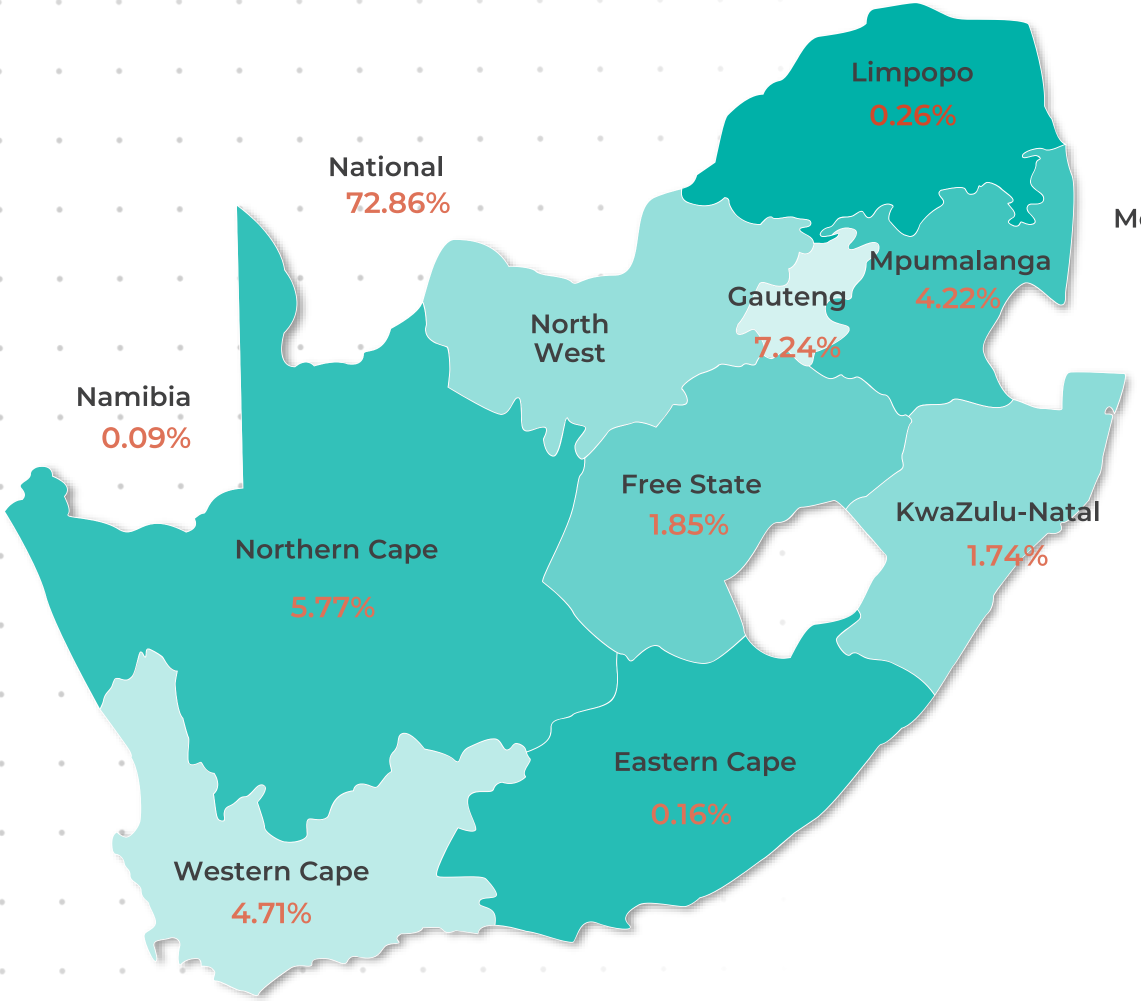
5.33%	4.50%	4.29%	2.84%	0.93%
Low income & affordable housing	SMME finance	Agricultural development & land ownership	Consumer & business access to finance	BEE finance

Invested in **8** provinces

Delivering **social impact** that changes lives

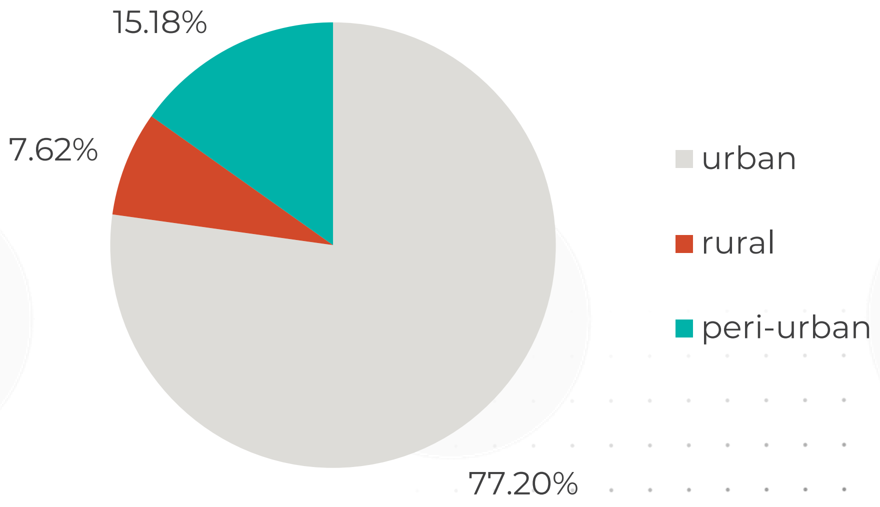
Futuregrowth Development Equity Fund as 31 March 2023

DEF geographic exposure & rural development



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

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



Source: Futuregrowth

SACAP case study

Educating for a better world

In December 2022, Futuregrowth acquired a 22.99% stake in SACAP (The South African College of Applied Psychology) for R79.5 million, and obtained two seats on the board of the company. The investment is expected to yield strong returns due to the defensive nature of the education sector and growth in online learning.

The SACAP transaction enables Futuregrowth to diversify its portfolio of investments into the education sector, which has shown resilience and growth over the years, despite economic downturns and even during the global financial crisis. Futuregrowth is SACAP's first institutional investor, and will promote the adoption of sustainable governance, social and environmental best practices and growth initiatives.

Background

South Africa has a dire shortage of mental health professionals. It is estimated that one in three South Africans experience mental health challenges such as depression, anxiety, and substance abuse. Only one in ten of those living with mental health challenges will successfully access mental healthcare. With the growing awareness that this must be attended to, there are opportunities for creating a robust mental healthcare workforce that can help to provide essential services, not just in clinics, hospitals and private practice, but at the coalface in communities, schools, universities, and workplaces.

SACAP was founded in 1997 as an institution offering individual modules in different application areas of psychology, for both personal and professional development. In the past 25 years, SACAP has expanded its offerings to include applied psychology, coaching, human resource management, and business management. Today, SACAP is a highly successful private higher education institution with 179 full-time staff members, 200 contracted educators and over 3 600 students across its five campuses.

Benefits

SACAP's educational model aims to empower its students to enter a whole range of fields. Whilst many of SACAP's graduates have become psychologists and counsellors, a psychology qualification and the skills it teaches are applicable in a myriad of workplace roles and settings: learning about people, understanding how to work and integrate with them and extract their very best, dealing with conflict and issues in teams, and refining research and analytical skills. These skills are deployed by graduates in a vast array of disciplines and gainful employment.

Images: SACAP

FUTUREGROWTH ASSET MANAGEMENT

SACAP case study cont.

Developing change makers through innovative education in South Africa

Impact

The current unemployment rate in South Africa is at a critically high 35.3%. Education and training are essential to reduce unemployment and promote economic growth. Research indicates that the graduate unemployment rate in South Africa is at 11%, 23.4 percentage points lower than the national official unemployment rate. Young adult South Africans with tertiary education are more than twice as likely to be employed compared to those without a higher education. A degree or post-school qualification dramatically increases the probability of securing a job, providing economic security and stability. SACAP's student body is 53% from historically disadvantaged populations and 65.7% of the students are younger than 25, indicating a strong focus on young adults from disadvantaged backgrounds.

Learning model

SACAP is the leading independent provider of accredited Psychology, Counselling, Human Resource Management, Business Management and Social Work qualifications, with all its courses grounded in psychology. The institution offers on-campus experience as well as online learning, and includes a work-integrated learning component in almost all of its qualifications. SACAP is expanding its range of online offerings to enable students to enroll in programmes from anywhere in South Africa. The education sector in South Africa has significant growth potential, and SACAP aims to serve all students looking to further their studies in a field grounded in psychology.

SACAP prides itself on ensuring that students receive the best learning and teaching experience possible. SACAP's focus on small interactive classes, work-integrated learning, and a supportive environment provides an empowering learning experience for students seeking applied psychology education in South Africa. Through its interactive learning model and progressive learning environment, with ample resources for students to access, it aims to develop change makers in unlimited sectors throughout South Africa.

Images: SACAP

Impact Indicators / Innovative education in applied psychology

SACAP — The South African College of Applied Psychology

INPUTS
Investing in profitable and scalable businesses

- ✓ R79,5 million capital invested by DEF (22,99% equity stake)
- ✓ 179 permanent employees:
  - ❖ Black: 147
  - ❖ Youth: 105
  - ❖ Disabled: 5
- ✓ Temporary employees: 14

OUTPUTS
Facilitating access to innovative education in applied psychology

- ✓ Providing accredited Psychology, Counselling, Human Resource Management, Business Management and Social Work qualifications, grounded in psychology
- ✓ 3 600 students enrolled

OUTCOMES
Access to specialist education & increased market reach

Benefits:

- ✓ Improved access to applied psychology education
- ✓ Inclusive and equitable quality education
- ✓ Increased opportunity for employment - creating more inclusive and sustainable communities

IMPACT
Local economic development

- ✓ Positive contribution towards broader social and economic effect of education and social cohesion
- ✓ Quality education in a niche sector
- ✓ Increased accessibility: offering learning:
  - ❖ On-campus
  - ❖ Online
  - ❖ In the workplace

SACAP's IMPACT across SDGs

The SACAP investment contributes directly to two SDGs

4 QUALITY EDUCATION

8 DECENT WORK AND ECONOMIC GROWTH

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

Key features of the Development Equity Fund

R3.85bn
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 **71** investee companies and **29** economic sectors

Long-term stable returns

Supports **9 Sustainable Development Goals**

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

Client Relationship Team

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

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

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

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

Disclaimer

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