

Newsletter - Why the food sector?

Geneva, April 23rd 2020

Dear Investors and Friends,

First, we would like to thank all stakeholders for their continued support of INOKS Capital. These are indeed much challenging times for all, but our continued duty remains undeterred to best serve the fiduciary entrusted and manage the assets in the best possible manner.

At the end of this first near unseen quarter, we would like to provide an update on the latest performance of the portfolio and offer a deep dive in (a) why our focus is on essential food sectors' non-speculative transactions and (b) what key implications this carries in general and during these volatile times in particular.

[A] Portfolio performance as of today: **Stable**

- As indicated in the previous newsletters, we finished the **month of March with similar positive performance**, in line with the last couple of months.
- We continue to act with great care and are taking a **conservative approach** on the portfolio management side in relation to our **cash levels**. Thus, amidst opportunities are strong, we remain conservative in the deployment.
- The current investment level and opportunity set point to a **continued stable and positive performance in the future**. The pricing of financing is indeed seeing an uptick from current levels as access and availability to capital becomes scarcer. Capital markets have been discussing spread increases, however the spread on tier1-investable tier2 remains reasonable but healthy (+/-100bps) while on the tail tier2/tier3 the spreads are un-sustainable as we read with the underlying activities (that is unless there is an induced inflation by financial costs of relevant goods/services).
- During the latest monthly IFSR9 valuation update there has been **no increase in Stage 3 transactions** (commonly understood as "NPLs"). We are following up closely the transaction cycles' increase resulting from logistics consideration and they today have no impairment impact on the active value chains.
- New transactions in the portfolio continue to **focus on food essentials** covering basic nutritious needs like rice to staple food distribution channels, wheat flour milling to local bakeries, or Sugarbeet refining for local consumption.

[B] Portfolio transactions are ca. 90% food related: **Positive**

1) **Focus on basic food value chains related transactions**

The Transactions where tailored financing is directly availed to value added corporates which are either **farming, or producing, or aggregating, or transforming, or logistically displacing, or distributing basic foods & related products** makes up **ca. 90% of the portfolio**. Now, this is a historical focus for INOKS Capital's investment management (with varying degrees), and such by design: basic foods & related products tend to have a more **inelastic demand curve**. People need to eat for subsistence and that incompressible level of demand configuration for non-perishable food basics (like wheat or rice or vegoils or sugar or other soft commodities) has been researched to insulate, as much as possible, the portfolio from general macro-economic hypothetical tail type turmoil. Being, from the outset way back in 2006, an asset manager with its own Ethical Bias investment approach, which naturally became proprietary ESG & Impact framework, has also been very useful to efficiently select value chains that

offer resilience by essentiality but also by efficiency in light of our 3 historical impact themes: Poverty Reduction, Food Security and Environmental Quality.

2) Transaction Conduct and Collateral ongoing monitoring

In order to value with a certain level of precision the portfolio, and to none the less actively manage it or perform risk management duties/tasks, it is quite critical to be able to (a) assert the financed transaction performance along its planned asset conversion cycle (cash-commodity-value added-receivable-cash), together with timing thereof and (b) the ongoing integrity, thus value, of the collateral set and security package throughout that transaction life cycle. Accordingly, every disbursement availed to a counterparty under a facility agreement, is conditional to our best capacity as investment manager to trace or not the transaction conduct and equally the tracing and valuation of given identified collaterals set and security package. Our team:

- not only engages directly with all counterparties involved in the financed transaction (supplier, Beneficiary, offtaker and service providers) to monitor the underlying transaction conduct from start to finish, but
- also work with first class collateral inspection companies that assess and report back to us while performing these services (inspection, audit, monitoring, collateral management, quality assessment) to ascertain and establish the value factors used in conjunction with the value pricing source/data (listed market, cash market, 3rd party valuation, economic data and ratings) specified in our Pricing Policy.

Thus, as long as transaction's conduct, cycle duration, value factors and pricing sources/data can be obtained, the portfolio can be priced on the basis of these elements' evolution.

3) Recent portfolio transactions

Transactions self-liquidations examples over Mar-20:

- Loading and collection of large vegoils shipments (containerized and bulk) from Ukrainian ports to Mediterranean, North Europe and South-East Asia.
- White Sugar distribution and collection in Kyrgyzstan.
- Loading and collection of cocoa beans containerized shipments from Côte d'Ivoire to EU.
- Loading and collection of cotton bales containerized shipments from Ghana to South-East Asia.
- Local distribution and collection of Rice in West-Africa.
- Local sales and collection of Cocoa products in Côte d'Ivoire.
- Export (trucking) and collection of Fruit Juice Concentrates from Poland to EU.
- Local distribution and collection of recycled metals laminated products in UK.

Disbursement examples over Mar-20:

- ← Sunflower seeds purchase for crushing and oil/meal export out of Ukraine.
- ← Apple Juice Concentrate processing in Poland/Moldova for export to EU and USA.
- ← Paddy Rice purchase for milling into White Rice and distribution in West-Africa.
- ← Sugarcane financing for Brown and White Sugar processing in Brazil for Export to EU and MENA.
- ← Recycled metals imports for lamination into products in the UK.

We continue to watch the logistics carefully and experience as mentioned before delays (i.e. loading and unloading of a vessel -depending on the loading rate of the specific commodity group involved- may take up to i.e. 10 days thereby doubling the time factor) but not to a point that would lead to massive delays or obstructions of the portfolio. There is also various scenario analysis we have been conducting if portfolio transactions came to a complete standstill for more than 180 days (this scenario would have a negative impact of the portfolio of ca. 4%). At this point in time we are not envisaging such a scenario as likely and continue to manage the portfolio in the best deemed matter. We like to reiterate that we continue to have access to the collateral and can value the portfolio as per our pricing policy on a monthly basis.

[C] Investment Outlook

Private debt as an asset class -which we think this investment strategy is part of- will have to show how it delivers in its first real litmus test (after GFC). Expectations are high from investors that there is indeed diversification and some defensive element in it compared to classical equity and high yield investments. The later having seen concerns on widespread potential downgrades being around the corner.

The key benefits of INOKS Capital's way to execute this alternative credit strategy are (a) the focus on agricultural value chains servicing basic food sectors with stable demand (b) the research driven selection of non-speculative value added business activities and (c) the "hands-on" transactional approach coupled with risk mitigants overlays (structurally and through risk transfers/sell) versus a single corporate lending risk approach. While not being free of loss potential or risk eventually not being 100% manageable (there is no "free lunch"), new risks will inevitably arise, and we will seek no less then to manage them accordingly and similarly to what we have done to date. Our investment approach will be consistent and guided to provide the most efficient compromise between resilience and performance.

As in every liquidity crises and higher risk aversion environment pricing goes up, the future will tell by how much. We are looking forward continuing to seek best risk/return balance for the capital entrusted to our care from you.

Please let us know in case of any questions. Take good care of yourself.

Very best regards,

INOKS Capital S.A.

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