INOKS CAPITAL

Newsletter – Portfolio Valuation

Geneva, April 4th 2020

Dear Investors and Friends,

Following the prolonged spread of COVID – 19 with the now upcoming associated economic effects and continued global restrictive measures we want to keep you up to date what we see in the day-to-day business happening with our investees. Additionally, we would like to elaborate how we are valuing the portfolio (applying IFRS9 accounting standards) and ensure continued tracking and evaluation of our commodity collateral. We would like to emphasize we do not intend to change this valuation procedure and NAV dealings because of the current COVID - 19 situation.

[A] <u>Portfolio performance as of today:</u> Positive

- The Feb-20 performance has been published with similar performance as in the last months **we expect +/- similar positive performance in March-20.**
- We had been taking a **conservative approach** on the portfolio management side in relation to our **cash levels**. Such purposely in order to analyze
  a) COVID-19 direct and indirect impact(s) on the portfolio and
  b) the perspectives of our counterparties (existing and future) on their value chain perspectives, their underlying activities and complex Supply & Demand.
- Thus, our level of investment was reduced from 90% on average to 83-87% over this period. Our assessments remain conservative but positive, the level of investment should return to around 90% with new deployments focusing again on basic staple Foods (Vegoil, Rice and Wheat).

[B] <u>Impact on Valuation and NAV:</u> Limited to none

Our service providers on this side of our activities have also implemented their business continuity plans and we do not witness any new significant delays in their deliveries.
Without repeating our previous newsletter (attached last 2, which content remain valid) we may add as follows:

1) IFRS9 accounting standards and Collateral Management

Please be reminded that we do apply IFRS9 standards as per pricing policy since Dec 2018 every month working strictly by impairments and not provisioning.
In simple terms, our audited model supporting the pricing policy:

- LGD: at first accesses the counterparties probability of default (using observable inputs of i.e. the audited financial statements as well as the country rating the facility is operating in and other notching such as FX volatility and size). This process leads to the “Point in time probability of default” derived using Altman Z’ score.
- ERM: in a second step, the discounted value of the collateral (which is owned, continuously monitored by local independent inspection companies and controlled directly by the fund so bankruptcy remote) - is together with the risk mitigation packages assessed, and then notched using haircuts for time, costs, recovery probability and price volatilities.

In case the Loss Given Default (LGD) isn’t compensated by the Exposure Recovery Model (ERM), an impairment (not provision accruals) would be booked on any given month.
If the pricing sources and data supporting the above LGDS and ERM are available, pricing can be assayed with a sound degree of efficiency for each transaction and so the expected credit loss on the portfolio.

2) Underlying Collaterals Value

Focusing on mostly Agri/foodstuff essentials for most (+/- 90%) except the recycled metals (totalling < 5%) and API (4.9% which are high on demand with the Pandemic) have been supportive regarding our investment level.

Rue de l’Athénée 32
1206 Geneva, Switzerland

info@inokscapital.com
Tel +41 22 7187410
Fax +41 22 7187419

INOKS CAPITAL

For more details, pls refer to our last Transparency Report which remain relevant.
We have so far not seen any breaches of covenants as to LTV or Cover Ratio. That being said, there are more delays in repayment due to the logistics challenges. However, nothing alarming so far. Additionally, price volatility is one component of LTV fixation during pre-investment Due Diligence, so the recent volatilities (if excessive historically) will be factored in the new LTVs we will ask on new transactions and renewals.

3) Financed Transactions conduct
So far, the restrictions have been implemented with the preeminent goal of reducing the movement of people to slow the growth of infections. The only exceptions in almost every country are for the purpose of reaching out to the healthcare system or to shop food. No country has been halting essential goods movements which our focus on Agri/Food is. Using a simple example even on the movement of people exemptions are being granted then it comes to ensuring food supply with countries like Germany allowing seasonal workers from abroad to travel to ensure the spring planting and harvesting of freshly produced goods.
We expect this to stay the same, food supply ensures the population survival –Even in the commodities producing emerging markets, the exports are the life blood of these countries to obtain much needed income. Countries like Ivory Coast are the world's largest producer of cocoa or coffee.
The lockdown at home changed entirely our habits but nevertheless we still need to consume food, noticeably consumption of coffee, cocoa, sugar, fruit juice, bread, pasta and other non-fresh basics. If one may foresee any impact from the current situation pursuing well into summer would be longer or slower cash cycles which wouldn't be cause of massive impairments or reasoning to suspend NAV calculations.
However again, as usual and even more emphasis, we are monitoring closely every week by being in proximity and contact with our direct corporate counterparties. We have indeed conducted an extensive survey with all our investees and service providers this week. For example, all CMA/SMA service providers (Collateral Management Agreement/Stock Monitoring Agreement) have confirmed that they keep on working and safeguarding the stocks reporting on the quantity and quality of our stocks on a daily basis. The outcome of the survey is they have now implemented their business continuity plans taking into consideration the safeguard of their business and workforce as well as the respective governments measures. In most cases, we continue to receive quality information about the underlying collaterals' condition and status.

4) Logistic & Supply Chain disturbances
The logistics good running is something we are surveying with importance and monitoring actively as it is a rightful risk that tends to be a good indicator of normality (i.e. natural transaction cash cycle) or a precursor to more issues.
Without paraphrasing again that essential foods which we focus on (and to some extend API pharma as well) are strategically prioritized (by authorities worldwide) in the logistics (be transport at sea or by rail or on road and custom clearing), we noted as follows to date that exports from the producing markets are continuing but on a slower pace due to the sanitary compulsory measures and higher freight costs. A few live examples from our portfolio over the past 3 weeks:
- Loading and collection of large vessels for vegoils from Black sea Ukrainian ports
- Loading and collection of dozens of cocoa containers from West African exporters
- Loading of hundreds rice containers from South East Asian exporters before Ports lockdown
- Steady local sales of APIs on local markets
- Continuous and regular production and sales of thousands of metric tons steel products from recycled scrap

Please expect more of the same from us and let us know in case of any questions. Take good care of yourself.

Very best regards,

INOKS Capital S.A.

Rue de l'Athénée 32
1206 Geneva, Switzerland

info@inokscapital.com
Tel +41 22 7187410
Fax +41 22 7187419