

SECTION 12J CATTLE INVESTMENT

INVESTMENT UPDATE | FARMING CYCLE
DECEMBER 2020 - MAY 2021



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GENERAL FUND INFORMATION

Classification: Section 12J
Alternative Asset

Asset class: Cattle

Investment Period: 5 years

Benchmark: 10%

Launch: August 2020

Minimum investments requirements:

Lumpsum R10 000

Risk rating

Conservative

Moderate

Aggressive

Fees

Annual admin fee: 2%

Performance fee: 20%*

**Performance fee is only charged on returns that exceed the benchmark.*

FUND OBJECTIVES

- The portfolio is a long term investment that aims to achieve capital growth over a time horizon of 5 years.
- It aims to generate a return from buying and selling cattle while putting measures in place to reduce the related risk.
- The portfolio has tax benefits, with an upfront tax rebate of up to 45%.
- The portfolio has annual liquidity in the form of a annual dividend (based on performance).

INVESTMENT RISKS

There are market price risks associated with this portfolio. The Cattle are sold at the prevailing market price when the optimum weight is reached. Market factors such as an increase in demand or an increase in supply for beef may impact the price positively or negatively respectively.

We have put measures in place to manage the associated risks through constant monitoring of the market price and ensuring the sale at the correct point in the market. Other market forces such as disease outbreaks and regulation change can also impact this portfolio.

WHAT DOES THE FUND INVEST IN?

This is a cattle investment portfolio. Calves are purchased between the weight of 200kg - 240kg. The calves are placed into a feedlot for a minimum period of 120 days with the purpose of controlled feeding and fattening of the cattle for sale into the market once the optimum weight ranging between 400kg - 500kg has been reached while maintaining the quality of the meat. Once the cattle have reached the optimum weight, they are sold to an abattoir under an offtake agreement.



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INVESTMENT CASHFLOWS

- The first batch of 244 cattle was placed in September 2020, when weaner prices had come down slightly to R33.79/kg
- Thereafter, the second batch of 135 cattle was placed in December 2020, at slightly higher weaner prices of R37.92/kg.
- Below are the summarised cashflows from the realised batches (batch 1 and 2).

	BATCH 1 Sep 2020		BATCH 2 Dec 2020		Total
		ZAR'000		ZAR'000	
No. Cattle placed	244		135		379
Purchase cost	@33,79/kg	1 825	@37,92/kg	1 240	3 065
Monthly Opex					
September 2020		92		-	
October 2020		237		-	
November 2020		186		31	
December 2020		250		100	
January 2021		303		159	
February 2021		140		89	
March 2021		7		124	
April 2021		-		70	
May 2021		-		-	
Total Opex spend to date		1 215		573	1 788
Sale price on batch 1 and 2	@50,75/kg	3 280	@50,43/kg	1 772	5 052
Profit/Loss on sale on batch 1 and 2*		240		(41)	199
Return on Farming Cycle**		7,9%		-2,2%	
Consolidated return on realised cycles					4,1%



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- The third batch of 99 cattle was placed in March 2021, at weaner prices of R37.07/kg. Weaner prices have remained stagnant in the R37 – R38/kg range over the months (Jan – March) due to increased activity in the purchase of weaners by farmers preparing for the weaning season. The weaning season starts in April 2021.
- As at end the of May, we have ZAR4,1mn on hand which is available for redeployment.
- Below are the summarised cashflows from the unrealised batch (batch 3).

	BATCH 3		Total
		ZAR'000	
No. Cattle placed	99		99
Purchase cost	@37,07/kg	896	896
Monthly Opex			
September 2020		-	
October 2020		-	
November 2020		-	
December 2020		-	
January 2021		-	
February 2021		-	
March 2021		60	
April 2021		101	
May 2021			
Total Opex spend to date		161	161



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INVESTMENT CASHFLOWS NOTES

* The sale on the first batch of cattle was executed at the market price of R50,75/kg. The return achieved on the first batch was 7,87%.

The sale of the 2nd batch was executed at the market price of R50,43/kg. The return achieved on the second batch was -2,22%

** The return is on batch 1 and batch 2 farming cycle.

The overall return achieved on the first two cycles was 4,1%. The drag on the positive return achieved on the first batch of cattle placed was due to the surging input costs with the purchase costs of cattle remaining at the R37/kg mark over the past 3 months and the maize remaining at high levels.

We experienced a delay in selling 7 the cattle in batch 1 due to the cattle having become sick. They were administered with the necessary medication and remained in the sick bay until the end of April. All 7 cattle were sold at the prevailing market price.



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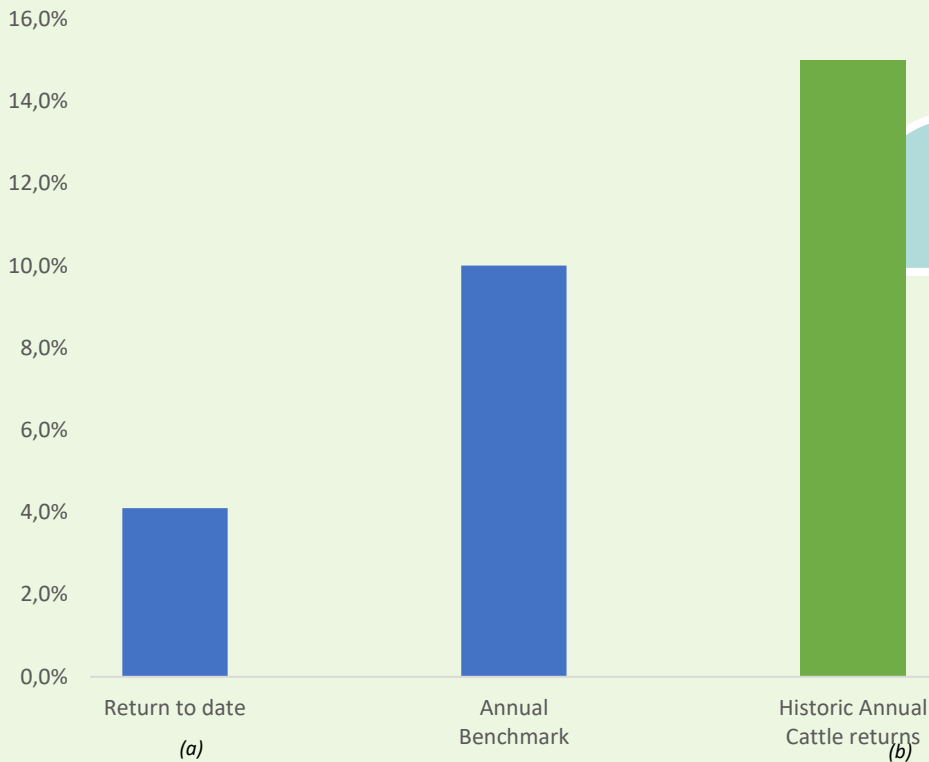
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FARMING CYCLE PERFORMANCE



(a) Return achieved on the completed farming cycle (batch 1: September 2020 – February 2021 and batch 2: December 2020 – May 2021).

(b) Annual historic returns achieved on the cattle investment managed by SV Capital for the period 2019 - 2020

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WHO ARE THE FARMERS?

- We have partnered with Beefcor, a well-established feedlot in South Africa, with feedlot operations situated in Bronkhorstspuit with the capacity to hold up to 30 000 livestock.
- Beefcor has extensive knowledge and experience in the Agricultural industry.
- The livestock are held on Beefcor's farm and Beefcor ensure the procurement, feeding, vaccinating and sale of the livestock.
- Beefcor also guarantees the replacement of the herd if the mortality rate exceeds 1% (industry norm).
- We have off-take agreements in place with our Farmer to make sure that they are able to sell the livestock when they are ready.

MARKET OVERVIEW

- The funds were deployed in 3 farming cycles, the first Farming Cycle commencing September 2020, the second Farming cycle commencing December 2020 and the third Farming cycle commencing March 2021.
- The Cattle investment continues to deliver positive returns even in these uncertain times. Cattle prices have continually soared in the last 6 months with slaughter prices being more than 20% higher than a year ago.
- Feed prices have also maintained the increasing trend with maize prices roughly 30% higher compared to a year ago. This has a direct impact on the feeding costs incurred on the investment.
- Historical seasonal trends suggest that weaner calf and carcass prices increase from June to August. Based on this, combined with the input price pressures mentioned above, we expect prices to increase over the next three months. However with consumer income still being under pressure with additional pressures originating from increased fuel cost and other administered prices, margins will remain subdued.
- We, with our farming partner, Beefcor, continue to monitor the market in order for us to effectively mitigate the risks related to the investment.



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