

RESPONSABILITY SICAV (Lux) AGRICULTURE FUND*

QUARTERLY REPORT 3Q 2018

Market and Fund Review

The third quarter was marked by the end of the South American coffee season and the start of the West African cocoa harvest – with frozen and dried fruits in South-eastern Europe and MENA countries partially filling the gap.

Successful investments in cocoa. With coffee production expected to reach an all-time high of 170 million bags due to record output in Brazil, the world's largest producer, international coffee prices continued their decline during the quarter.

This resulted in lower financing requirements from our coffee counterparties worldwide and particularly in South America. Thus, the share of coffee fell to less than 20% of the invested portfolio but has been replaced by non-coffee related investments, such as cocoa. Thanks to a good start to the harvest season in Ivory Coast, with investments worth more than USD 5 million alone in this major cocoa-producing country, disbursements in cocoa more than doubled compared with the same quarter last year.

One example of such growth is a successful union of cocoa cooperatives that responsAbility funds have been financing since 2012 in Ivory Coast. The organisation provides access to markets for more than 10,000 smallholder farmers, cultivating up to 54,000 hectares of cocoa. Since 2012, responsAbility-managed funds have disbursed USD 35.8 million to meet the union's working capital needs, allowing the organisation to multiply its total revenues from certified cocoa more than sevenfold, the volume of purchased cocoa more than fivefold, the number of farmer suppliers more than fourfold and to more than double the number of cultivated hectares. The organisation supports its members by providing advances to buy agricultural inputs and technical assistance for sustainable cocoa production. As most cocoa is certified through the union, smallholders benefit from a price premium that raises their income. In order to address deforestation and forest degradation, which are critical issues in the global cocoa supply chain, the union has taken the responsibility of geo-referencing farmers and encouraging reforestation by distributing shade trees. It has also started a pilot project to rehabilitate and rejuvenate cocoa plantations. The programme has been funded by the responsAbility technical assistance facility, a separate legal entity funded by donors. The objective is to train and offer long-term loans to 334 cocoa producers to revive 1,409 hectares of plantations, aiming to increase their yield by 38%.

Limited exposure to cashews. The financing demand from other crops traditionally financed by the Fund during the summer months – namely cashews, pulses and dried or frozen fruits – was weaker than expected due to a volatile market or adverse political conditions in the producing countries. In particular, we have reduced our financing activities in dried fruits in the MENA region and Turkey. The Fund strategically limited exposure to cashews as the prices of raw and processed nuts faced a correction when the good harvest in West Africa, India and Vietnam was confirmed.

*Exclusion of liability outside Switzerland: for qualified and professional investors only.

Good performance. The Fund recorded a performance of 1.21% (USD I-II Class) during the quarter under review. As the Fund seeks to minimise commodity risk as well as country risk in the portfolio, lower commodity prices primarily resulted in higher liquidity levels as demand for financing in the quarter decreased. Non-invested cash levels decreased from 70.8% to 25.8%. An increase to a 90% investment level is expected within the next few months.

Significant disbursements and high diversification. The Fund disbursed USD 20.8 million during the period under review and is increasingly well diversified across five regions worldwide.

Performance	Q3 2018	Q3 2017
Quarterly return (USD-I-II class)	1.21%	n/a
1 year return (USD-I-II class)	n/a	n/a
1 year average of 3mths USD LIBOR	2.06%	1.14%

Fund Activity and Performance

Investment activity & portfolio composition

	Disbursements during Q3 2018	Portfolio as at end of Q3 2018
Number of institutions	18	25
Number of countries	15	17
Largest disbursement/exposure to single institution [in % of NAV]	5.9%	8.3%
Average disbursement/exposure to single institution [in % of NAV]	3.4%	2.8%
Average disbursement/exposure to single country [in % of NAV]	4.1%	4.2%

Geographical allocation

Geographical allocation	Disbursements during Q3 2018 [in million USD]	Portfolio as at end of Q3 2018 [in % of investments]
Asia Pacific	8.2	43.5%
Sub-Saharan Africa	4.0	21.7%
Middle East & North Africa	4.4	13.0%
South America	1.5	11.9%
Other	2.7	9.9%
Central Asia	0.0	0.0%
Central America	0.0	0.0%
Eastern Europe	0.0	0.0%
Total	20.8	

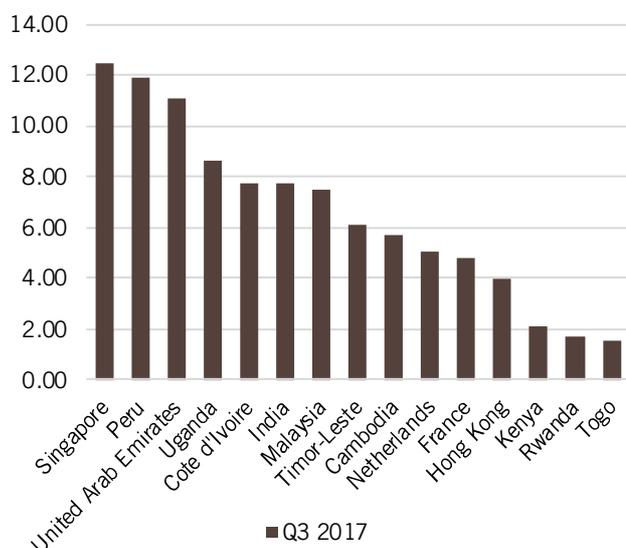
Asset classes

Asset classes	Disbursements during Q3 2018 [in % of total disbursements]	Portfolio as at end of Q3 2018 [in % of NAV]
Structured trade finance	0.0%	0.0%
Short-term working capital	96.4%	67.1%
Fixed asset financing	0.0%	0.0%
Agriculture focused FIs	3.6%	4.1%
Cash & cash equivalent ⁽¹⁾	n/a	28.8%
		25.8%
		3.0%

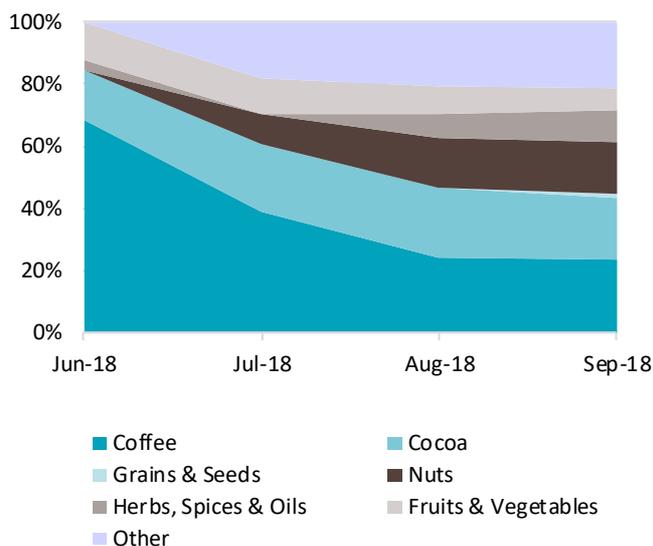
⁽¹⁾Cash: Cash current accounts and money market

Cash equivalent: Value of hedging contracts, collateral cash, accrued interest investments, other assets and liabilities

Development of country allocation - Top 15 countries



Development of commodity allocation⁽²⁾



Selected asset correlation

Selected asset correlation	S&P GSCI Agriculture Index	MSCI World Index	Barclays EM Aggregate Total Return Index (USD)
responsAbility Fair Agriculture Fund (USD)	0.0811	-0.0340	-0.3105

Impact Indicators

Impact Indicators	Q3 2018	Q3 2017
Number of farmers reached	17'160	n/a
Number of farmers of fair agriculture organisations	282'914	n/a

⁽²⁾Excluding investments in financial intermediaries

Outlook

We have implemented different measures to enhance the Fund's performance and to select investees that have a scalable development impact.

Portfolio construction: Diversified investments

Deal origination will continue to focus on the Fund's core countries and commodities. Within these markets, the Fund aims to identify better diversified and stronger agricultural value-chain players that are well integrated and produce high added value. Often, these companies need short-term working capital as well as mid-term fixed asset financing, which will help to optimise the portfolio's maturity profile.

For a better outreach to these investees, we are also looking into different forms of collaboration with local financial institutions that are active in agriculture and we plan to increase the Fund's exposure to these institutions from currently 4.1% to as much as 10% over the next few months.

Finally, we have just established a new collaboration with a Swiss investment manager specialising in structured trade finance and we are expecting the first investments in the partnership to be made during the fourth quarter of this year. This will allow the Fund to extend its impact, as well as its financial-structuring and risk-mitigating know-how, towards new counterparties and new commodities.

Upcoming harvest seasons: Good coffee, cocoa and macadamia seasons expected

As coffee financing in South America will be replaced by Central American coffee deals, we expect the Fund's liquidity to fall to less than 10% of NAV. The 2018/19 coffee production season is expected to be good in all targeted countries, including Costa Rica, Honduras and Nicaragua, where we are planning to invest if the political situation permits.

In Indonesia, coffee production is set to recover after a sharp drop last season in Sumatra. In Vietnam, an unusually productive harvest is expected. The evolution of coffee prices will depend on the results of the Brazilian elections in October. Indeed, coffee prices are strongly dependent on the Brazilian currency: A weak Brazilian real weighs on global prices in USD because local producers are incentivised to sell their stocks as they achieve higher earnings in the Brazilian currency for the same price in USD. Prices are expected to improve in 2019/20 when the market is more balanced as Brazil will enter an off-year. Coffee trees, particularly arabicas, have a biennial bearing cycle resulting in successively high or low crops. With rising coffee prices, increased demand for coffee financing is expected.

The main cocoa harvest in West Africa started in October and looks promising as weather conditions have been favourable and the demand for financing is high. In a balanced market, prices are expected to remain stable or even increase slightly. Furthermore, the stronger cooperation between Ivory Coast and Ghana, the top world producers of cocoa, may support prices in the medium to long term. This year, both countries simultaneously announced cocoa producer prices for the new season, limiting smuggling across their borders.

We expect to extend financing to macadamia nut processors in Kenya. The macadamia market offers bright prospects, with both production and demand rising steadily. Over the past decade, production has increased 81% and planted areas are set to more than double in the coming six years. This year alone, production will rise 10% compared with last year. Nevertheless, the market is very tight as the production growth is absorbed by China's rising demand, so prices should remain stable or even increase further in the coming months.

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