

Investing with impact into Real Assets



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Pension funds are increasingly concerned with longer term inflation risks and asset classes with inflation-related returns look relatively attractive in current asset allocation decisions.

The attractions of the agricultural sector

Within the Real Assets category, agricultural investments look particularly interesting because food prices and food inflation are largely uncorrelated to the main economic cycles globally, bringing genuine diversification. Additionally, careful deployment of capital into the agricultural sector can create enormous positive environmental, climate and social impacts, as we have shown in our funds.

A focus on impact and high ESG standards

SilverStreet is a private equity investment advisor and the largest investor in the African agricultural sector. Our investors are predominantly institutional investors in Europe and North America and we have won a number of awards based on our high ESG standards and impact. Our funds are all classified as “Article 9”/ Dark Green under the SFDR regime and Morningstar estimates that only 2.8% of EU funds have achieved this classification.

The opportunity for impact and return

The African agricultural sector presents an exciting opportunity for both return and impact. The key to achieving both is to carefully direct investments to “fix” issues in particular agricultural value chains. This unlocks that value chain, raising incomes for smallholder farmers and, depending on the investment, substantially reduces potential deforestation.

Case Study: Tanzanian Poultry Investment

Prior to our investment into the Tanzanian poultry sector, it had two key issues: low quality feed and low productivity of the poultry breeds utilised. Consumption of eggs and poultry in Tanzania were less than 10% of South Africa’s per capita consumption leading to issues with stunting in children.

Tanzania is blessed with ideal conditions to grow soya beans, being on a similar latitude to Brazil, but virtually no soya was produced in the country. As the main source of protein in feed, this was a key issue to be resolved.

We invested in a greenfield development of soya processing, feed mill, poultry and distribution. We reached out to smallholder farmers to encourage introducing soya into rotation with maize. We

A unique opportunity

The case study below is a good example of the allocation of capital and expertise to fix the poultry sector of Tanzania, generating both profit and impact. The diversification benefits are demonstrable, for example sales in this Tanzanian business were up over 20% in each of 2020 and 2021, despite the pandemic.

“Uniqueness” can be an overused word but the uniqueness of these investment opportunities arise from the multiple impact objectives that can be achieved through focusing on one impact target: smallholder farmers in Africa. This group represents the lowest income sector of these economies and is the main source of deforestation. By introducing rotation crops, better quality inputs and through extension work, we can raise incomes, reduce deforestation, benefit women disproportionately and preserve Africa’s natural capital.

Our investments have created over 4,000 quality jobs and have had an enormous multiplier effect. We estimate that 577,000 people have directly benefitted economically, most of whom are smallholder farmers and some 65% of whom are women. These farmers have seen their annual incomes rise by ~60%.

Across our two funds we estimate that we have prevented some 261,000 hectares of deforestation, saving emissions equivalent to 20 US coal fired power stations.

It may sound too good to be true that investments like these can achieve such a wide range of substantial positive impacts but the breadth arises because of the focus on this single impact target: the smallholder farmer group. Helping this group through targeted investment leads to multiple and meaningful climate, environmental and social impacts.

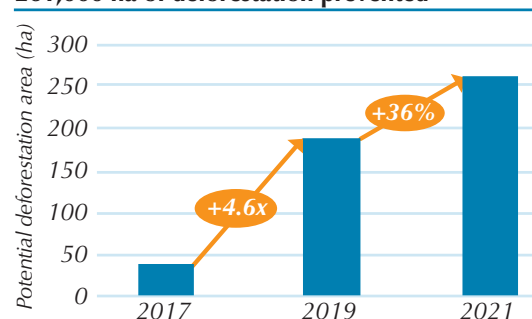
Risks

We think of two main risks in our investments in Sub-Saharan Africa: political risk and execution risk. We address political risk in a number of ways including country selection and by achieving a genuine social impact. However, we also insure political risk with the World Bank (MIGA) and the US government (DFC). This insurance covers risks such as expropriation,

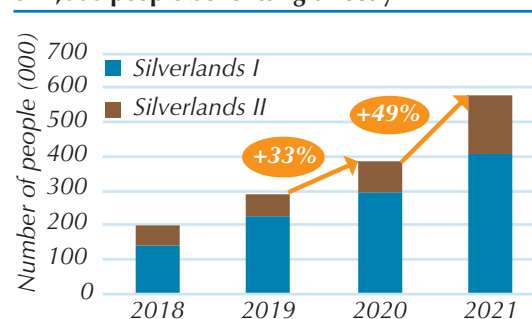
introduced new poultry breeds suitable for the free-range village environment and developed 18 distribution centres and 350 outlets for our products: day-old-chicks and feed.

This investment has been a success from both a business and impact perspective. It is now the largest producer of feed in Tanzania, selling 14 million chicks in 2021 and, has been profitable for the last 4 years from a standing start in 2014. It has created a positive economic benefit for over 160,000 smallholder poultry and grains farmers. Their incomes have risen by ~60% because of our investment and this increased income is sustainable going forward. Our actions will have materially reduced deforestation because we have introduced a viable rotation crop and raised crop yields on

261,000 ha of deforestation prevented



577,000 people benefitting directly



repatriation of capital, conversion to US dollars and war & riot risk. The insurance is for 90% of invested capital. An important benefit is that the World Bank/US government will mediate if there are any disputes/claims and this would strengthen our position were a dispute to arise. We have not had any claims or need for mediation but we believe that this insurance is a helpful mitigant.

In terms of execution risk, the key is the careful selection of locations, projects and the teams to manage these businesses. We consider these decisions as one of our key value-adds: finding the best locations for the businesses and putting in place the top teams with high ethical standards.

Conclusion

We are privileged to be managing investments for patient and long-term investors who seek positive impacts. We are excited about the breadth of climate, social and environmental impact possible through our investments and, the return potential that they bring.



Gary Vaughan-Smith is a founding partner and Chief Investment Officer of SilverStreet Capital LLP, a leading investor into the African agricultural sector. SilverStreet was founded in 2007 and its objectives are to achieve attractive returns for investors as well as substantial positive social, environmental and climate impacts through its investments.

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