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Cover Photo

@ AMFRI Farms Limited

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Yield Uganda Investment Fund











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Managing Partner
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Foreword

Welcome to our 2021 Yield Fund Annual Report. In this report we aim to share fund operational highlights and summary information regards the impact, operational performance and progress of our investee portfolio companies.

The past year has shown us how rapidly the world can change yet again and without much notice despite latest global technology developments. As the COVID-19 situation evolved, PCP has been dynamic, adapting and through collaborations with its partners restructured investments, initiated timely follow-on investments, invited co-investors, provided more flexible BDS/Technical assistance support and reinforced investee SME resilience through effective Business Continuity Plans and continuous engagements.

Even with all the ongoing challenges, PCP has set its sights firmly on the future. In the next calendar year 2022, which is the final year of Yield Fund's investment phase, we are focused on closing the final four to five new investments to add to our current portfolio of 11 Ugandan agri-business SME investees (Four of which were closed at the beginning of the new financial year 2021/2022) - all while continuing to strongly support existing investee portfolio companies to navigate and attain both financial and social impact objectives as stipulated in their various growth business plans.

Finally, I want to acknowledge and appreciate the extraordinary efforts and support made by all our PCP staff members, boards, investment committee, our investors, regulator (CMA) and all other stakeholders/partners, whom we have depended on in full measure, for their resourcefulness, flexibility, and support over the past difficult year 2021. We shall remain forever thankful and indebted!

I hope that you find our Yield Fund Annual Report both interesting and insightful as we aim to share our activities with the wider impact and development communities. In addition to the annual report, we also plan to continue sharing our experiences and fund activities with you all through the bi-annual newsletters and soon short impact case study impact stories from some of the portfolio companies.

Best wishes again for the new year ahead and stay safe!

Best regards,



DR. EDWARD M. ISINGOMA Managing Partner - PCP

Table of Contents

Introductio	n	2
Backg	round to the Yield Fund	3
Yield Fund	Overview for FY 2020/21	4
Gover	nance	4
Yield I	Fund Board	4
Yield I	Fund Board Members and Observers	4
Yield	Fund Investment Committee	5
Perfor	mance	6
Portfo	lio status	6
Post f	inancial year-end developments	6
Pipelir	ne	6
Yield Fund	Portfolio Summary Performance and Impact	7
Introd	uction	7
i.	SESACO Limited	9
ii.	Pristine Foods Limited (PFL)	11
iii.	Central Coffee Farmer's Association (CECOFA)	14
iv.	Raintree Farms Limited	16
V.	Chemiphar	18
vi.	Clarke Farm Limited	20
vii	NASECO Limited	22
Impac	t Summary Data	24
Yield Fund	Business Development Support (BDS)	25
Environme	nt, Social and Governance (ESG)	27
i.	SESACO Limited	27
ii.	Pristine Foods Limited	28
iii.	CECOFA	28
iv.	Raintree Farms Limited	28
V.	Chemiphar (U) Limited	28
vi.	Clarke Farm Limited	29
vii	. NASECO Limited	29
Yield Fund	Finance and Annual Audit	30

Introduction

he Yield Uganda Investment Fund ("Yield Fund") is now in its fifth year having been established by the fund Investors and Manager back in January 2017. The fund is now halfway in its fund life of ten years.

During these four and a half years, Yield Fund has made considerable strides, firstly by establishing the governance and operational frameworks, adding on new investors in 2019 thereby achieving a final close at Euros 20.4 million and making SME investments in the risky agricultural sector which remains the primary contributor to the growth, employment, and development of Uganda.

At this halfway juncture in the Yield Fund life's journey, the fund now has seven investments in its portfolio, four more investments have recently closed at the beginning of the new financial year 2021/22 – the results of labor in the 2020/21 pandemic stricken financial year.

The fund is now in the final leg of the investment phase with three to four new investments to add the current eleven Agri-SME investees. The Fund Manager expects to close these new investments by the end of the following 2021/22 financial year which ends in June 2022, well ahead of the current fund mandated investment period which terminates in January 2023.

As the Yield Fund investment phase comes to a close, the Fund continues to pay close attention to the performance of the portfolio companies which are experiencing a tumultuous time and effort due

to the effects of the COVID-19 pandemic that has caused turnaround situations in some of the investee companies.

While most of the developed world is now returning to normal with majority of the adult population already vaccinated, Africa, including Uganda, remains at risk due to the low vaccination rates in the continent.

As at the end of the financial year in June 2021, the adult vaccination rate in Uganda was under 2%. As such, the business environment in Uganda in the year deteriorated occasioned by in-country travel restrictions, multiple lock-downs and limited operating hours all of which flattened demand as well as disrupting supply chains.

Yield Fund continues to support its portfolio of Agri-SME businesses through a combination of measures such as restructuring investments, making follow-on investments, inviting co-investors and provision of more flexibility with the BDS/Technical Assistance facility to accommodate the strenuous operating environment and situations involving stressed business cash flows and team capacities. The Fund Manager has also engaged and assisted the owners and management of the SME investee companies to develop business continuity plans in light of COVID-19 management measures in an ever-evolving pandemic situation. Financing support through the Business Development Support grant was handy too!

Background to the Yield Fund

griculture remains the backbone of Uganda's economy, contributing to 21% of the country's GDP and employing approximately 70% of the total workforce¹. It is also the leading sector for growth and development contributing to 80% of exports². The sector has however seen under-performance over recent years in comparison to other sectors within the economy due to the low level of value addition through processing facilities and also a lack of commercial private enterprises, thereby resulting in weak employment creation.

The underinvestment in the sector has also impeded private sector growth, largely due to a very thin marketplace for alternative sources of finance. Both the European Union (EU) Uganda Country Strategy Paper and the Green Paper on EU Development Policy support inclusive growth and sustainable development, promotion of access to capital and affordable credit for small, medium and micro enterprises.

In recognition of this policy direction, the EU allocated EUR 13.6 million to establish a Small and Medium Agribusiness Development Fund (SMADF) that is now known as the Yield Uganda Investment Fund, to be primarily managed by IFAD under a Contribution Agreement. The Fund provides small and medium size enterprises (SMEs) operating in Uganda with:

- Long term capital through a Private Investment Fund model structure.
- Post investment Business Development Support (BDS) through a dedicated facility.

In November 2015, IFAD/EU contracted Deloitte (Uganda) Ltd to provide services for the establishment and management of the SMADF in Uganda. Simultaneously Pearl Capital Partners (PCP) were appointed to provide Fund Management Advisory services throughout the fundraise (set up) phase of the fund. At the initial first close timing of January 2017, the anchor investors were joined by the National Social Security Fund of Uganda (NSSF) as an additional Equity Investor in the fund to achieve an initial EUR 12 million close. Following the second close in June 2019, Soros Economic Development Fund of the Open Society

Foundations (OSF) and FCA Investments Limited (FCAI) committed an additional EUR 8 million hence bringing the Yield Uganda Investment Fund total fund size amount to EUR 20 million excluding the PCP's ("the Manager") EUR 0.4 million contribution.

The fund was established as an impact fund to provide patient and risk capital to SME agribusinesses development in Uganda, the ticket size averaging EUR 250,000 to EUR 2,000,000. The investment instruments are tailored to the needs of individual investees, through a blend of equity, quasi-equity (structured as loans by incorporating equity upside through kickers, conversion rights, warrants, etc) and debt instruments. The five-year investment period started in February 2017 and is now four and a half years into the period.

A separate Business Development Facility (BDS) funded by EU/IFAD amounting EUR 3,000,000 has also been provided which gives Yield Fund investees access to specialized consultants to provide capacity development services in areas of governance, marketing, finance, out grower management, certifications, technology transfer and human resource management.

The Fund identified the following objectives in the fund set up process:

- Overall vision: to contribute to the development of Uganda's agricultural sector and to improve livelihoods, incomes and food security.
- Specific objective: to set up a fund that is financially successful, proving that this kind of intervention is a viable option for Uganda, hence attracting new investment opportunities.
- Expected results: to provide SMEs with long term capital and BDS through a dedicated matching grant facility that are tailored to individual SME needs.
- Expected benefits: to strengthen the capacity of SMEs engaged in agribusiness, improve access to alternative funding options and to increase contribution to production and value addition.

¹ Gulu (2018). Farming Up: Uganda's Agriculture and Food System Can Create Jobs. https://www.worldbank.org/en/country/uganda/publication/ug-uganda-developing-the-agri-food-system-for-inclusive-economic-growth

² https://tradingeconomics.com/uganda/exports



Yield Fund Overview for FY 2020/21

Governance

Yield Fund Board

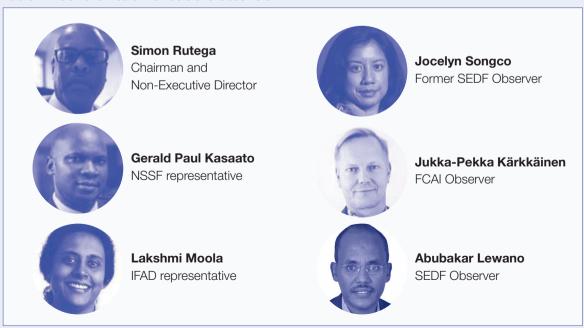
Following the second close in June 2019, the board composition changed to include investor observer seats for the new investors (SEDF and FCAI) who joined NSSF and IFAD/EU. Below is the current composition of the Board including observers that served through the reporting FY 2020/21.

Yield Fund Board Members and Observers

The Board has held three meetings throughout the course of the reporting year i.e. in September 2020, March 2021 and May 2021.

The next scheduled meeting is to take place on 28th October 2021 followed by the annual Investor field visits and Annual General Meeting in November 2021.

Table 1: Yield Fund Board Members and Observers



Yield Fund Investment Committee

The principal role of the Investment Committee (IC) is to review, analyze and if appropriate, approve investment propositions put forward by PCP Uganda (Fund Manager). The IC composition has remained unchanged during the year, comprising of three members, one of whom is a senior Fund Manager representative and two independent members. Jorma Ruotsi continued as the Investors IC Observer.

Table 2: Yield Fund Investment Committee Members

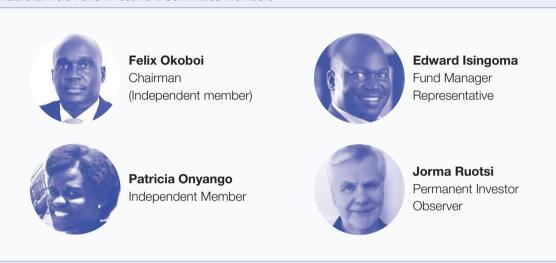


Figure 1: The Yield Uganda Key Parameter



Performance

Portfolio status

During the course of the reporting year the IC approved four additional investments i.e.:

- Quality Milk Dairies Limited in September 2020 (yet to close and awaits a coinvestor);
- ii. Pristine Foods Limited in October 2020. This was a follow-on investment in the business whichwas already a portfolio company (Closed and partially disbursed by reporting date);
- iii. AMFRI Farms Limited in March 2021 a new investment. This is a co-investment with FCAInvestments, one of the Yield Fund investors (closed post financial year end date), and
- iv. PURA Organic Agro-Tech Limited in May 2021.

Following IC approval of the three new investments in AMFRI Farms Limited and Pura Organic Agro-Tech Limited, the Manager executed the investment agreements after closure of the financial year. The Quality Milk Dairies Limited deal is yet to close. As such, the Yield Fund closed the year with seven investments.

The seven investments which currently make up the Yield Fund portfolio make up a total of EUR 5,132,882 valued at cost.

Post financial year-end developments

Taking into account the two new investments (AMFRI and Pura) which were approved during the financial year and executed soon after (August 2021) the close of the financial year in June 2021, the Fund is now catching up on the budgeted deployment schedule.

The Manager continues to redouble its efforts in deployment and has further closed two more deals (Sausage King 3000 Limited and Sekajja Agro-Farms Limited) in the early start of the new financial year (FY 2021/22). This is in line with the plan to catch up with the shortfall in the original business plan/model by targeting slightly higher deal ticket sizes averaging at EUR 1.2 million – EUR 1.5 million over the remaining deployment period of 18 months and a deployment rate of one deal commitment per quarter as a minimum. The total number of closed investments as at time of writing this report is eleven (11).

Pipeline

In the past twelve months, the pipeline's conversion to actual investments has improved with four new investments approved as compared to the one investment approved in the previous financial year. The Manager intensified efforts during the financial year despite the general slowdown in business activities associated with the COVID-19 pandemic, including in-country travel restrictions and total lockdowns.

The Manager improved deal sourcing and pipeline activities through early appraisal of attractive deals as well as quicker deal execution and senior team involvement in ensuring alignment before appraisal.

As at 30th June 2021, Yield Fund had nine (9) active leads in its pipeline, across a broad range of the agricultural sub-sectors, to include soya processing, animal nutrition, cassava processing, meat, rice, honey, cocoa and an IT platform aggregator. The Fund Manager is actively pursuing these to catch up with the fund's deployment rate and seeking more direct equity exposure for the Fund.



Yield Fund Portfolio Summary Performance and Impact

The following synopsis gives a high-level overview of Yield Fund's portfolio companies for the year to 30th June 2021.

Introduction

The portfolio remains at seven investee companies, namely: SESACO, Pristine Foods, CECOFA, Raintree Farms, Chemiphar, Clarke Farm and NASECO.

Business conditions remain tight, though the economy is gradually opening up as vaccinations rates improve with the availability of vaccines in the country. The Fund has accommodated the investee companies with the following measures:

- Recalibration of SME investee business plans: for cash flow/inventory/ suppliers/market planning.
- ii) Supply chain and stakeholder management: advise farmers supplying SME investee companies to reduce production to align with new demand etc.
- iii) Business restructuring HR downsizing, revising employee contracts, general operations, factory efficiency to reduce energy and labor costs.
- iv) Engaged and assisted the owners and management of SME investee companies to develop business continuity plans in light of COVID-19 measures. This included instituting COVID-19 protocols (social distancing, installing and executing hand-washing areas, working in shifts, arranging for COVID-19 testing and treatment logistics) and continuity plans in the cases of infections.
- v) Restructured our investments in the SME's investees on account of reduced demand and the attendant cash flow constraints.

Table 3: Yield Fund: Approved Investments as at 30th June 2021

Investee Company	Deal size	Amounts Disbursed	Business stage	Investment Instrument	Additional Instrument Description				
	€	€							
	Investments approved, and closed by 30th June 2021								
SESACO Limited	359,487	359,487	Growth	45% in debt &	20% EBITDA				
				55% in working capital loan					
Pristine Foods	652,759	652,759 610,247	Start - Up	75% in debt &	15% EBITDA				
				25% in convertible loan					
CECOFA Limited	891,032	891,032	_Growth/	11% in debt &	-				
			Turnaround	89% in working capital loan					
Raintree Farms	420,463	420,463	Early stage	55% in debt &	5% Revenue Share				
Limited				45% in convertible loan					
Chemiphar	308,001	308,001	Growth	100% debt	20% EBITDA				
Clarke Farms Limited	1,343,666	1,343,666	Growth	70% in debt &	20% EBITDA				
				30% in working capital loan					
NASECO Seeds	1,157,475	1,157,475	Growth	100% Convertible loan	15% Dividend share				
Approved & closed by 30 th June 2021	5,132,882	5,090,371							
	Investment	s approved, b	ut not yet closed by	30 th June 2021					
Pura -Organic	2,061,856	-	Early stage/ Highly	72% in debt &					
			changing business model	28% in equity	24% Dividend share				
AMFRI Farms	825,000	-	Growth/ Turn-around	100% in convertible loan	7% Dividend share				
QMDL (Quality Milk	1,740,139	-	Growth	20% in equity	-				
Diary Limited))				58% in senior loan &					
				22% in working capital loan					
Approved but not yet closed by 30th June	4,626,995	-							
Total approved by 30 th June 2021	9,759,877	5,090,371							

Note: The Pura Organic and AMFRI Farms deals closed post the financial year end. As such, they do not appear in the portfolio updates. The QMDL deal is yet to close and awaits ongoing co-investor engagements.



SESACO Limited

SESACO is a family owned agro-processing company focused on the processing, production and sale of soy-based products and foodstuffs. The principal raw material inputs are soya beans, millet, maize, groundnuts, wheat and sesame which are manufactured into a variety of products ranging from beverages to flour.

The company's primary market to date is the local economy where it has achieved recognition and status; with good visibility in the marketplace and recognition from local business awards. Further markets have also been established with international relief organizations who are interested in the highly nutritious properties of their products; the long-term aim of the company being to penetrate further regional and international markets.



€359k

Investment approved in December 2017



€122k

Total purchase from smallholder farmers



1,880

Out-growers supplying grain to SESACO of which 39% are women



44

Total current employees of which 61% are women

The impact thesis for the company is anchored on:

- Smallholder farmers: to engage and develop smallholder farmer groups, which will enable them to have guaranteed market access as well as ensuring the sale of their crops at an agreed price prior to harvesting. To empower farmers through training and extension services to ensure better farming practices, the quality of their crops and hence improved profit margins for the farmers.
- Food insecurity and malnutrition: soy food products offer the ability to introduce healthy and nutritional alternatives into the food supply chain, particularly to persons on medically prescribed diets e.g., HIV patients, malnourished children, and displaced persons.
- Creation of employment: at investment, the company had seventy-six employees. Of these seventy-six employees, approximately 65% were women which directly translates to an increase in household incomes.

The Yield Fund IC approved an investment of EUR 359,487 in December 2017 through a five-year secured loan facility with a one-year moratorium at a rate of 16% per annum with a 20% EBITDA premium return. The investment was aligned to provide funding for working capital (including revolving), re-financing and bolt on capital expenditure.

The company has faced several management and operational challenges since the investment was made and has struggled to meet its obligations to Yield Fund. Indeed, the company has since remitted only c. USD 122,035 in repayments since the investment was made, with the last installment made in May 2020. As a result of non-payment, total debt has accumulated over time, with outstanding principal and interest as of August 2021 totaling to USD 688,127 out of which USD 312,214 was due.

This is despite the restructuring of the loan facility which was agreed with the company in July 2020 in which the Manager extended a six-month repayment grace period to the company on two of the three debt facilities to December 2020, extension of tenor on the facilities by two additional years, and waiver of default interest. These were expected to give the company some respite to focus on and actualize the turn around plan and get back to profitability. Instead, the company has continued to struggle with low sales and revenue, and the business is yet to turn-around. This is attributable to continued operational inefficiencies, COVID-19 pandemic effects on the economy, and inadequate working capital.

The Manager has continued to support the company to survive during this difficult time, with the restructuring of the facilities and allowing flexibility in the utilisation of the BDS facility. During the year, the IC approved the extension of the contracts of the General Manager and the accounting support function by additional 12 and nine months respectively, to ensure operations don't grind to a halt.

The Manager has also continued to engage the Promoters to negotiate an exit for Yield Fund or long-term restructure of the facility. The Manager has in August 2021 submitted to the IC a proposal with considering both options for decision.

The following key risks continue to hinder the achievement of the business turnaround:

- Key man risk.
- Resistance to change.
- Default risk
- Managerial risk.
- Impact achievement risk.

The Manager is looking to address these risks through the proposed restructure of the facility, or an exit.



Despite the On-going restructuring of the company and the negative impact of COVID-19 on the business, SESACO has contracted a total of 1,880 farmers to supply it with grain. These farmers were recently trained on Soybean agronomy and Climate-Smart Agriculture (CSA) best practices under the farmer training initiative with SNV.

Additionally, through the SNV CRAFT project, the company distributed 7 MT of soya bean seed to 893 farmers for free, for multiplication to increase production and incomes of farmers. Under the same project, the company also provided 1.2 MT of iron-rich beans to farmers for free in Eastern Uganda for multiplication.



Pristine Foods Limited (PFL)

Pristine is a start-up venture incorporated in July 2015 and is focusing on the manufacturing and sale of extended shelf life egg products including liquid, frozen and powdered egg products. It is considered to be a pioneer in the region, being the first to provide regionally produced pasteurized and homogenized liquid egg products.

The company is positioning itself to take advantage of the anticipated growth in the HORECA (hotel, restaurant and café) sector within Uganda, whilst also having a keen eye on the regional export market which is experiencing high egg production costs in comparison to that of Uganda.



€552k

Investment approved in December 2018



€100k

Investment approved in March 2021



16

Total current employees of which 59% are women

The impact thesis is principally centered on the smallholder farmer and the development of a farmer network supplying locally bred organic eggs. By developing the extended shelf life egg market, the company will be able to offer both volume and price consistency to the farmer as the need for 'middle- men' will diminish. In addition to providing a stable market, the company will also offer the smallholder farmer access to extension services, an innovative payment program and veterinary services.

Yield Fund approved an investment of EUR 552,759 in June 2018, consisting of two instruments: c. EUR 385,000 through a six year secured senior loan facility at an interest rate of 6% per annum (with a one- year moratorium on principal repayments) with a 15% EBITDA premium, and a further c. EUR 165,000 through a seven-year convertible loan facility with a 5% coupon (equivalent to a 36% stake at conversion).

The investment was aligned to provide funding for working capital and capital expenditure.

Pristine Foods continues to fall short of the revised 2020/21 forecast due to a slower market development than anticipated and the outbreak of the COVID-19 pandemic which resulted in a depression of related industries and potential clients. Furthermore, the company's early focus was on a hybrid market penetration strategy that comprised both B2B and B2C, which also limited the company's ability to focus on the mainstream B2B area.

The breakout of the pandemic led to a drastic drop in the monthly customer demand by c. 60% and consequently created a difficult operating condition along the supply chain. This was due to the company's primary concentration on the mainstream high-end HORECA industry and street food retailers makers, both of whom were severely impacted by the lockdowns and travel restrictions instituted by the government to combat the spread of COVID-19.

To compensate for the downturn in HORECA's mainstream sales, Pristine Foods has pivoted its focus to the traditional baking industry, which is slowly rebounding from the economic downturn as the economy slowly opens up. The repositioning has helped the company stay afloat, despite the company's poor pricing model, which has resulted in low margins on transactions.

The Kenyan export market has shown substantial potential for the company, accounting for 40% of monthly sales compared to 60% for the Ugandan market. Paladin Enterprises, a Nairobi-based distributor, was a regular customer, ordering regular tonnage (seven tons) of liquid whole eggs each month. Given the company's lack of expertise in the Kenyan industry, these figures are a critical motivator in opening up the market and enabling PFL in gaining a better understanding of the customer landscape. In addition, the company hired a consultant in Kenya to collect market data and feasibility in the four key cities in order to inform the decision to enter into exclusive distribution agreements with two distributors.

Maya EA Limited, an established distributor of food ingredients and additives in the region, has been in talks with the company for some time. PFL will use Maya's infrastructure and customer base to expand and improve its position as the go-to company for processed eggs in the Kenyan and Rwandese markets. Maya has expressed strong interest in the proposed distribution opportunity. They have a strong reputation with key bakeries within the EAC as a key supplier of quality confectionery ingredients.

The company is leveraging on the Q-mark (acquired in February 2020) and the newly acquired ISO 22000 certification (December 2020) to further its market penetration strategy, particularly in the export market, which has gained traction over the last year despite the lack of this key certification limiting customer deliveries.

In October 2020, the IC approved a EUR 100,000 (USD 120,000) follow-on investment by Yield Fund to bridge the company's operating cash shortage. Following this approval, the Manager began preparing legal documents to unlock the Yield Fund investment, which was structured as a EUR 100,000 four-year senior loan. As of 30th June 2021, the company had drawn down 78% of this follow on

investment (EUR 93,333) spending it primarily to purchase eggs, packaging materials, factory consumables, and the production enzyme.

The IC also approved the Manager's proposal to convert the convertible loan facility, which will be triggered by an external capital injection from Uganda Development Bank (UDBL) to support the powdered egg and mayonnaise expansion project.



Following the full resumption of business activity, the company is assessing the mechanics of reinstating the initial pre-COVID-19 employment contracts and the business currently has 16 permanent employees of which 50% of the employees are women

In addition, the of the company's out-grower network is slowly progressing and the number of smallholder poultry farmers will be evaluated once the network is fully operational.



Central Coffee Farmer's Association (CECOFA)

CECOFA is a farmer association company, limited by guarantee, registered in 2005 and is a primary processor of Robusta coffee which it collects from its network of over 3,600 smallholder farmers through its co-operative structure.

By forming this alliance, the company is able to provide market access for farmer members by purchasing, aggregating and collectively sourcing the world market through international traders. The company also holds both Fairtrade and 4C accreditations which in turn provides tangible benefits for the organization and smallholder farmer.



€891k

Investment approved
June 2018



1,224

Certified out-growers supplying coffee to CECOFA of which 42% are women



16

Total current employees of which 31% are women

he impact thesis for the company is principally centered around bringing increased numbers from the smallholder network under the certification umbrella, namely Fairtrade and 4C. By doing so, this will enable the farmers to realize many benefits like having better access to market, being able to command a higher price for their product, obtaining higher yields and also benefiting from training and better agronomic practices.

Yield Fund IC approved an investment of EUR 1,180,617 in June 2018: approximately (c.) EUR 1,050,000 through a six- month revolving working capital facility at a rate of 12% per annum which is secured against sales contracts, and a further c. EUR 150,000 through a four year secured loan facility at a rate of 12% per annum, with a one year moratorium on principal repayments. The anticipated IRR at the time of investment for Yield Fund over the course of the investment was 18%.

The investment was aligned to provide funding for working capital and capital expenditure. During the year 2020/21, the company did not trade any coffee mainly due to:

- Lack of market for Fairtrade coffee which is the company's main revenue stream, and
- Failure to install the grading facility which would have enabled the company to engage in the trading of 4C certified coffee despite it being low margin as compared to Fairtrade coffee

Though there were no trading activities during the year, the company continued engaging the small holder farmers through trainings on quality improvements and income diversifications which is all supported by the BDS grant facility.

At the end of the reporting year, the company was still behind in its financial obligations to Yield Fund in respect of the revolving working capital facility and the term loan.

Due to these persistent failures to meet its financial obligations to Yield Fund, the Manager, with consent from the IC, has placed CECOFA into recovery to recoup the fund's investment.

The Manager continues to support the business through the current crisis mainly through market development and grant connections/support for additional improvement areas so it can be in position to make its payments on time. Further support is also being provided through BDS implementation engagements which include support in additional farmer recruitments, training and certification.



CECOFA maintained its smallholder farmer base of approximately 1,224 certified outgrowers (714 male and 510 female) and continues to deploy field officers to provide training services in best agronomic practices to the small-holder farmers. This is expected to consequently increase the smallholder farmers' yields as well as the quality of their produce.

In addition, the company also procured a truck, motorcycle, and laboratory equipment via the grant, that is aimed at helping to boost the volumes of coffee sourced from outgrowers which is a KPI from USDAF.



Raintree Farms Limited

Raintree Farms Ltd is an agri-ceutical company based in the West of Uganda, specializing in the growing, processing and value adding of organically certified moringa oleifera; sourcing moringa leaves from both its own farm as well as local out-grower farmers.

The company first commenced operations in 2012 and grew steadily into the entity which attracted an investment from Yield Fund in November 2018. The investment provided funding for both capital expenditure and working capital, to grow the business in line with its projections and aspirations.



€420k

Investment approved in September 2018



26

Out-growers supplying moringa to Raintree Farms of which 41% are women



10

Total current employees of which 30% are women

ince Yield Fund's investment, the business has faced a number of challenges which were largely unforeseen and which in turn have affected the future viability of the business, culminating in its temporary closure in November 2019. The critical event being the loss of its sole international customer due to excessive inventory stockpiling on the customer side and then finding they were unable to produce a high enough quality product to attract new international buyers.

With debt holders extending interest payment moratoriums for over 12 months, the CEO was able to refocus the business operations to developing retail products for the local and regional market. Throughout their financial year 2020/21, the company successfully produced, branded and sold three retail moringa products under the Qwezi Beauty brand name – powder, oil and soap, through online sales channels as well as a number of boutique outlets in Kampala.

2020/21 also saw the business work extensively on their business plan and recovery proposal, first with an Oxfam grant with Open Capital Advisors, focusing principally on the Qwezi Beauty brand, before then working with an IFAD appointed consultant on a complete company turnaround proposal to include wholesale and retail moringa sales. This proposal also introduced a newly formed company – Raintree Inc. which is a US based company, set up to channel the retail moringa products into the US market.

During the year, Raintree was largely unable to utilize the BDS facility, with a very small nominal claim in respect of an ongoing UNBS certification application for their retail products. Underutilization has been driven by the lack of commercial activity over the year as well as a lack of working capital, required to prefund BDS activities.

The innovative SIP program, which paid out-grower farmers a regular, fixed income in return for their crop was suspended in May 2020 and remains suspended. Despite the attractiveness of this scheme to the out-grower farmer, it remains with many challenges in terms of incentive and working capital burden. Any reintroduction of the program will need a careful evaluation of how it should operate moving forward.

Since June 2021, the company has recommenced small scale operations as they work to fulfill the retail product orders from Raintree Inc. Adopting the approach to limit operations and contain costs as they seek to re-instate the foundations of the business, employ key personnel, re-establish themselves in the market and work on securing a new wholesale client base for their bulk moringa products.

To reflect the lack of commercial operation during the year and the viability of the business, Yield Fund's investment in Raintree Farms remains fully impaired in their audited accounts for the year end June 2021.



The company successfully produced, branded and sold three retail moringa products under Qwezi beautybrand name-powder, oil and soap, through online sales channels as well as a number of boutique outlets in Kampala



Chemiphar

Chemiphar is an independent, privately owned and internationally accredited analytical laboratory and inspection body based in Kampala. The company was founded in 1988. Its core business is to provide testing, support, inspection and verification services to the food, beverage, environment, pharmaceutical, water, agricultural and consumer product industries. The company is well positioned to exploit the opportunities in the marketplace as this sector of commerce becomes ever more stringent.



€308k

Investment approved in October 2018



26

Total current employees of which 58% are women

he impact thesis of the company is therefore to act as an enabler to other businesses by certifying products which can then be sold on local, regional and international markets. By doing so, product awareness, distribution and sales will increase, thereby benefiting those businesses which utilize Chemiphar's services.

Yield Fund approved an investment in October 2018 of c. EUR 308,000 in the form of a six-year senior loan facility at an interest rate of 8% per annum with a one-year moratorium. The facility also included a 20% EBITDA premium. The investment is expected to return a minimum IRR of 15%.

The investment was aligned to provide funding for working capital and capital expenditure.

The effects of the COVID19 lockdown enforcement procedures to try to contain the pandemic have hugely affected Chemiphar (U) Ltd business model. First on the level of access to export markets for their typical clients as resumption of freight/flight availability has not yet returned to pre-pandemic levels and second on the local market where the

thrust is to develop the local value proposition for an independent and internationally accredited laboratory. Finally, the project that relies on supplies from partners in Europe has also stalled with an expected completion at the end of the calendar year 2021. Recovery will be slow to realise and the business has indeed missed the opportunity to further develop its commercial strategy which is critical for long term sustainability.

The promoters are currently in talks with a strategic firm, Baltic Control from Denmark, that is seeking entry into the Africa and East Africa market. Chemiphar is the only laboratory they could find of such a quality/standard in the east Africa region. We see these as positive steps for the company.



Chemiphar is considered a strong enabler to the sector to certify their processes and products. It is also a solution provider in enhancement and attainment of these standards.

During the reporting period, there was a training of farmers on food safety standards in partnership with MAAIF as well as the training of exporters of fruits & vegetables and horticultural products in partnership with UEPB. These trainings are expected to enhance capacity within the mentioned sectors as well as play a role towards community support.



Clarke Farm Limited

Established in 2015, Clarke Farm is an agri-business farm located close to Fort Portal in Western Uganda. The farm's principal activity is growing Robusta coffee; seeking to combine quality planting material, good agronomic practice and commercial wet processing, in order to produce single origin, fine specialty washed Robusta coffee for the international market.

Yield Fund approved an investment of EUR 1,343,666 in June 2019, consisting of a term loan and a revolving working capital facility, both at a 10% interest rate and with an audited annual EBITDA premium of 20%.



€1,343_m

Investment approved in June 2019



51

Total permanent employees of which 16% are women



90

Total casual resident laborers of which 9% are women

seen consistent growth and expansion. With Yield Fund's investment focusing primarily on the development of the Robusta coffee plantation and value addition; and with the sourcing of an experienced coffee plantation manager, much has been achieved.

Land under coffee has more than doubled from 120Ha to c. 250Ha, the mother garden and nursery has been extensively developed, 45Ha of irrigation (drip and hose and basin) has been installed along with a full wet processing mill, eco-dryers and storage facilities. Development has also been achieved across the farm infrastructure, employment growth, staff welfare, accommodation and sanitation as well as administrative policy, procedure and compliance.

2020/21 was a busy year for the business as it looked to complete the coffee planting expansion program, continue development of the mother garden and nursery, finalize the installation of the irrigation systems and also finalize the installation and commissioning of the wet processing mill in time for the December 2021 main season.

The farm saw coffee yields considerably increase ahead of plan, as the quality and health of the planting stock begins to bear fruit, with over 1,000 MT of cherries picked for processing in the reporting year, translating to c. 128 MT of specialty green bean for sale into the market. The international market for specialty coffee continues to be deflated

by the pandemic, with demand flattened as many restaurants, coffee shops and boutique outlets closed. The resultant oversupply has resulted in a deflated price in the market, with specialty Robusta trading c. USD 1.70 per Kg.

The business continues to utilize its BDS facility well, with ongoing activity across all three interventions. The environmental impact assessment and UTZ / RA certification are nearing completion and in Feb 2021, the out-grower program consultant was identified and appointed. The program has quickly achieved a high level of traction, with the setting up of the project team, extension workers and agronomists as well as the enrolment of over 600 out-grower farmers in the first four months on to a traceability database, land mapping, coffee yield modeling and engagement with a micro-finance provider. Work is ongoing with the development of a model farm and the setting up of collection hubs and agroinput stores in preparation for sale and distribution of coffee seedlings and the first out-grower yields in December 2021.

Looking forward, the main work of the farm is now focused on embedding all that has been implemented over the last two years and the continued development of the out-grower program as the Promoter continues to explore the international markets for new customers and an improved selling price.



Following the appointment of the consultant in February 2021, Clarke Farm established an out-grower program. Along with the ongoing development of the model farm, central collection hubs, and agro-input stores, approximately 800 farmers have been recruited.

Furthermore, all of the farmers have been registered on a traceability app.



NASECO Limited

NASECO is a Ugandan seed company that has grown steadily within Uganda for more than 20 years. It has established strong foundations built on two key strengths: high quality proprietary seed products underpinned by an established production base and a growing marketing and sales network. The company has been able to demonstrate sustainable growth in complex and non-traditional seed markets.

Yield Fund approved an investment of. EUR 1,157,475 in February 2020. The investment consists of a convertible debt being a secured five-year loan facility at an interest rate of 15% per annum. The investment is expected to return a minimum IRR of 16%. The investment was aligned to fund the company's working capital and capex needs.



€1,157m

Investment approved in February 2020



580

Out-growers supplying certified seeds to NASECO of which 45% are women



50

Total permanent employees of which 27% are women

The impact thesis for the company is anchored on four main limbs:

- Indirect employment creation for the outgrower network multiplying the foundation seed and certified seed.
- Food security and increase in incomes for small scale farmers who buy NASECO improved seed through increase in yields and earnings.
- Employment creation for the permanent and casual laborers, Distributors/Agro dealers within different districts in Uganda.
- Research and Development investment in the sector.
- Sanitization of the seed industry in Uganda.

As at reporting period end Yield Fund had disbursed 100% of the approved amount.

With these disbursements, the company was able to increase procurement of inputs - chemicals, herbicides and fertilizer - for distribution to the out growers for the current season's plantings, facilitate timely payments to the out growers, procure vegetable seed and supplies such as packaging material at more favorable prices. Prior to the ongoing current planting season (Aug-Sept 2021), the company has extended a harvest advance which

saw the farmers deliver 90% of the seed on time and ploughing services to 90% of its out growers funded through the first disbursement. This was the first time that the company was able to provide out growers with this advance in the month of July - the shortest interlude before the next planting season.

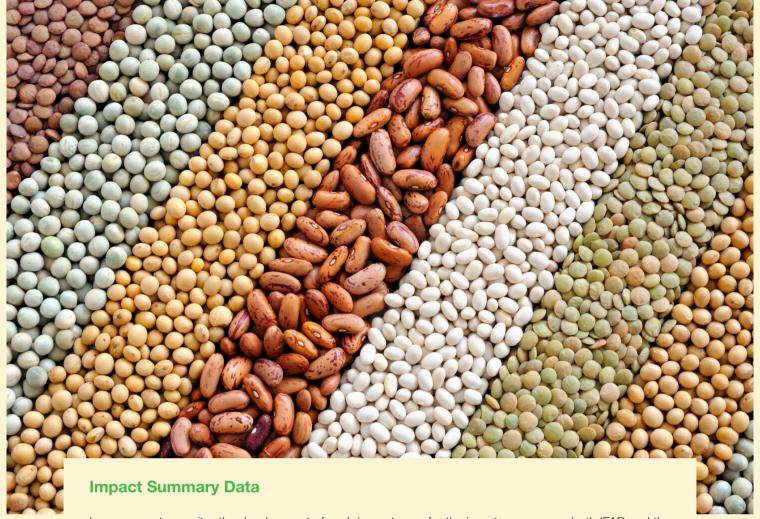
The company's performance post investment was ahead of investment projections with audited 2020 revenue being 27% above business plan. Gross profit and EBITDA margins achieved 32% and 6% for the year, respectively. The company continues to be current on all its financial obligations to Yield Fund having successfully paid a dividend of EUR 1,214 to Yield Fund as per investment agreement.

The company continues to implement its strategy of making most of its sales through the distributors and agro dealers segment instead of relying on government contracts.

The impact of the COVID-19 pandemic was moderate for NASECO which being a primary producer was being listed as an essential service provider thus avoiding most travel restrictions. The company observed as much as possible SOP's and made investments to protect staff, like the glazed sales counter.



NASECO continues to provide better training consequently increasing the number of farmers that supplied seed and boosting their yields. The company also has an additional 580 casual laborers (260 male and 320 female). 435 of the 580 casual laborers on the farm are youths (195 male and 240 female)



In summary, to monitor the development of each impact case for the investee company, both IFAD and the Fund Manager designed a tool to evaluate the progress in each investee company against that which was forecasted in the investment memorandum.

The tool has been specifically designed to monitor for each company its performance, profitability, value of exports and employee numbers and then for the out-grower farmer; the farmer numbers, income realized for the farmers and volumes supplied to the investee company.

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Yield Fund Business Development Support (BDS)

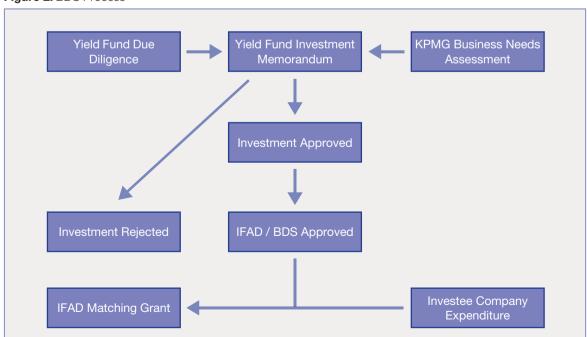
KPMG's annual BDS report to March 2021 and the quarterly report up to June 2021.

rom the commencement of the Fund, KPMG was contracted as the Business Development Management Company (BDSMC) who, under the terms of the arrangement first identifies and then coordinates the provision of business development support aimed at supporting the investee company become more effective, growth orientated and profitable.

Initially, KPMG conducts a business development needs assessment which forms part of the Yield Fund's investment appraisal and subsequently documented in the Final Investment Paper. In the event of a successful investment decision, a BDS support plan and proposal is submitted to IFAD, which if approved then enjoys a matching grant agreement between the investee company and IFAD.

The described flow process is set out below:

Figure 2: BDS Process





- Revision of the reimbursement subsidy from 50% to 85% this will offer the much needed liquidity support to the companies who were already facing working capital constraints pre-COVID.
- BDS support was also extended to post investment phase to ensure investments made in the final months of the investment phase are also cushioned from the pandemic's aftershock.
- Pre-investment BDS allocation of 15% of the total BDS plan was also introduced to reduce the lead time between Investment Committee approval and signing of the BDS reimbursement agreement.



Environment, Social and Governance (ESG)

Table 4: ESG Traffic Light System



Positive without conditions: a green traffic light means that there are minor or no attention points.



Positive with conditions: an amber traffic light means that there are attention points, but that these can probably be resolved together with the Fund, either prior to investment or by having conditions included in the investment contract. Depending on the nature of the attention point, capacity building may or may not be advised. During the Clearance in Principle specifically, an orange traffic light could also mean that not all information has been received.



Negative: a red traffic light means that there are attention points, which are unlikely to be resolved and that the ESG expert team would advise against investing in the potential investee.

(i) SESACO Limited -



At the commencement of the investment in January 2018, the company was categorized as 'Amber' by the Manager using the traffic light system as it was established that there were some minor ESG risks which should be addressed. There has not been a change in the traffic light.

The company continues to experience cash constraints. The below are updates on ESG:

- The company tasked the new quality manager with the completion of the health and safety manual before the end of the year.
- The company's factory overhaul under BDS has been in progress albeit slow progress due to the business working capital constraints. The first phase was completed. The second phase of the overhaul has been dragged beyond the planned completion timeline. That said, the company is looking to have phase 2 of the factory overhaul completed by November 2021.
- The company expects an improvement in ventilation resulting from the installation of roof cyclone fans and casement window in the ingredient's store, which are scheduled for, in the ongoing second phase of factory overhaul.
- The company continues to encourage the adherence of COVID-19 measures such as hand sanitization, social distancing, and taking staff temperatures. This has helped protect the company against a potential COVID-19 outbreak at the facility.

(ii) Pristine Foods Limited -



At the commencement of the investment in June 2018, the company was categorized as 'Amber' by the Manager using the traffic light system as it was established that there were some minor ESG risks which should be addressed. There has not been a change in the traffic light.

The company continues to experience cash constraints. The following are the updates on ESG:

- UNBS certification The company obtained the distinctive Q-mark for Egg Powder against US 1683:2017 in 2020.
- ISO 22000 (Food Safety Management) certification was also secured in 2020.
- The development of the company's out-grower network is slowly progressing since IFAD is yet to approve the out-grower consultant.
- On the Occupational Health and Safety, the health and safety policy is in place albeit not adapted as a manual. The company's internal production and control manual was updated with the liquid egg expert's recommendations. The company also has the ISO quality manual, which it has been implementing.
- The company is seeking to onboard an ESG Officer under the support of aBi grant in the first quarter of the year 2022.
- On the Environmental Impact Assessment, a third-party consultant conducted the environmental compliance audit and submitted the Scoping Report and Terms of Reference for the audit to NEMA. The company awaits NEMA audit to renew the certification.

(iii) CECOFA -



At the commencement of the investment in June 2018, the company was categorized as 'Amber' by the Manager using the traffic light system as it was established that there were some minor ESG risks which should be addressed. There has not been a change in the traffic light.

The company has been in a recovery management situation with not much in terms of new update. The company's business operations have stalled since last year. CECOFA hasn't traded any coffee since the year 2021 begun mainly because the company hasn't renewed its 4C certificate. However, they are looking at renewing the license to help the company diversify its markets.

(iv) Raintree Farms Limited -



At the commencement of the investment in November 2018, Raintree Farms was categorized as 'Green' by the Manager using the traffic light system given the company was considered to have minor ESG risks.

Identified areas needing attention included, environment and impact assessment, development of an occupational health and safety manual, further development of a waste program, use of fuels and some minor governance issues.

The CERES Organic certification which was to take place in September 2020 will take place in midyear, 2021. This has been caused by the lack of operations at the farm.

The company has not completed a Health and Safety manual or the implementation thereof due to its current cash position.

The company has not been operational for the better part of the year hence no ESG issues were addressed. The traffic light rating is now 'Amber'.

(v) Chemiphar (U) Limited _____



In December 2018 when Chemiphar gained IC approval for investment by Yield Fund, the company was categorized as 'Amber' using the traffic light system, this was mainly because it was an already established company without an environmental impact assessment. However, the traffic light rating now is 'Green' owing to the progress made in carrying out the Environmental Impact Assessment (EIA) and there being minor ESG attention points.

In 2020, the company submitted wastewater samples to the National Water and Sewerage Cooperation, which reported compliance to physiochemical characteristics except for Cadmium and Lead. The company then decided to contract the Ministry of Internal Affairs, Directorate of Government Analytical Laboratory (DGAL), for confirmation of the results, who established that the company conforms to the requirements in the NEMA standard for effluent water. A report on the same was written by the consultant and sent to NEMA. The company awaits further instructions/responses from NEMA.

On waste management, the company hires Bio-Waste, a company specialised in disposing waste and recognized by NEMA, to dispose off waste from Microbiology and Chemistry laboratories, while the rest of the garbage is managed by Bin-It.

(vi) Clarke Farm Limited —

Clarke Farm received investment approval in June 2019. The Manager categorized the company as 'Amber' on the ESG traffic light scale. This has not changed during the reporting period.

The following are general ESG status updates:

- On the UTZ/Rainforest Alliance certification a consultant, was appointed in 2020 to support the company through the certification process. The company is in the process of implementing the internal audit before applying for the certification. The process has been delayed by the introduction of new standards from UTZ/RA but is expected to be completed by September 2021.
- The Fairtrade certification process will not commence until there is an established outgrower program in place i.e., in early 2022 when farmer numbers and crop yields are established.
- On the Environmental Impact Assessment (EIA), a consultant was appointed to conduct the EIA with support from the Yield Fund BDS facility.

Work is ongoing, however, there continues to be some delays in National Environmental Management Authority (NEMA)'s response due to COVID-19 restrictions which have subsequently impacted the process.

- Both the HR manual and Occupation Health and Safety (OHS) manual were finalized and became formal company policy in May 2021.
- The company also selected and trained two individuals to undertake pest management at the farm.

(vii) NASECO Limited -



NASECO received investment approval in February 2020. The Manager categorized the company as 'Amber' on the ESG traffic light scale.

The following are general ESG status updates:

- The Health and Safety manual has been delayed due to issues with the previous service provider.
 The call for proposals for a new consultant to develop the health and safety manual is underway.
- The company also provides the following: protective gears, face masks for all employees (COVID measure), three active carbon filter face mask and nitril gloves for the crop protection team. Further, the staff and causals working in noise environments have ear mufflers.
- On Agrochemicals and Pest management, a Standard Operating Procedure on the safe use and correct use of chemicals is being worked on.
- The company conducted a fire and safety training by the help of the Hoima Police Station.
 Additionally, they have attained a fire brigade and certificate.



Yield Fund Finance and Annual Audit

The Fund auditor, BDO East Africa, who were appointed on 31st July 2018 are still eligible and expressed their willingness to continue in office for the financial year 2021/22.

Table 5: Extract of Statement of profit or loss and other Comprehensive income

	2021 EUR	2020 EUR
Income		
Interest income	556,339	222,257
Other income	34,132	53,897
Fair value gains on investment at fair value through profit and loss	8,729	7,972
Decrease in impairment provision for expected credit losses on loans and advances	48,122	-
Total income	647,322	284,126
Expenses	(803,382)	(1,336,193)
Total comprehensive loss for the period	(156,060)	(1,052,067)

Table 6: Extract of Statement of financial position

,		
	2021 EUR	2020 EUR
Non-current assets		
Loans and Advances	3,072,744	2,232,941
Investments at fair value through profit or loss	197,216	187,891
	3,269,960	2,420,832
Current assets		
Loans and advances	1,023,768	791,167
Other receivables and prepayments	2,231,719	101,079
Cash and cash equivalents	1,213,204	1,452,964
	4,468,691	2,345,210
Total assets	7,738,651	4,766,042
Equity		
Ordinary share capital	5	5
Accumulated losses	(2,735,836)	(2,579,776)
Redeemable ordinary share capital	10,456,656	7,318,551
Total equity	7,720,825	4,738,780
Current liabilities		
Other payables	17,826	27,262
Total liabilities	17,826	27,262
Total equity and liabilities	7,738,651	4,766,042





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