Barak
Quarterly Report - Q2 2017

BARAK FUND MANAGEMENT

Introduction

… as more global institutional investors have shown interest and invested into the STF Fund, the average size of these investments have increased considerably

DEAR READER

THE IMPACT OF GROWTH: BROADENING HORIZONS, BUT REMEMBERING THE ROOTS

Q2 2017 brought about some new landscapes for Barak as a whole, most notably the soft close announcement of the Structured Trade Finance Fund after reaching the USD500 million level as at the end of June. This soft close action was put in place to address the cash position of the Fund; as more global institutional investors have shown interest and invested into the Barak STF Fund, the average size of these investments have increased considerably to what Barak has seen in previous years. Month on month, the Investment Team has been working on deals to deploy this capital, but have been slightly behind meeting inflows with outflows. Hence this soft close allows some breathing space to align all interests, and get the Fund to a manageable cash level for the remainder of 2017.

The Barak Q2 2017 Report will focus on some recent announcements around the growth of the Deal Investment Team as Barak continues to grow its Assets under Management, as well as a recent collaboration with **African Capital Investments** (**ACI**). Although these announcements point towards strong growth for Barak, there is still absolutely a focus on maintaining each deal tenor profile into respective silos dependent on the mandates and strategies of each of the Barak funds. Short-term investments remains Barak's core focus and the company will continue to leverage off the relationships formed within the SME space in Africa. As one reads the updates on the new, longer-tenor Barak funds, it will be clear that this progression is approached in a separate manner to maintain exclusivity of all funds under management.

The Report will touch on current performance and remaining 2017 forecasts around the Barak funds and what the landscape in Africa provides for each respective strategy, and will then progress to 2017 quarterly Q2 Macro Outlook from Africa, Emerging Markets, and Globally. We will then touch on a more specific micro outlook for the African countries to which Barak is exposed, before ending off with some concluding remarks on what Q3 and the rest of 2017 holds for Barak's activities.

Announcements

NEW BARAK TEAM HIRES

As Barak has continued to grow its Firm AUM during the course of 2017, so has the critical need to maintain a growing head count in respective areas of business. Subsequently, Barak completed four key hires during the second quarter of 2017, all on the investment analyst and origination side of the South African Advisory business.

The strong growth of the Barak STF Fund over the past 12 months has opened up many opportunities for Barak on the whole, from both a growth in diverse short-term transactions to a natural progression towards growing the medium-term asset-backed financing side of Barak's activities in Africa.

The Barak Team reflects a skill-set of over 50 years of combined experience in Asset Management on the African continent, and the key experience has filtered from the top down. Barak recognises the importance of on-the-ground investment presence and knowledge is paramount to the success of any project around the globe, with the added importance of dealing with borrowers in potential volatile regions. The Team has created many well-established and long-standing client relationships over 9 years of business to provide positive exposure for repeat business, reinforcing Barak's growing reputation and progressive performance in Africa. The new Barak members have all been brought into the business to continue this legacy, with the added headcount providing the potential to create a Barak portfolio that has a risk-adjusted mix of some larger, higher credit quality transactions together with smaller, higher-yielding returns.

The four new Barak investment personnel to join in Q2 2017:

Kyle Smith **Deal Originator** (South African Advisory)

Kyle completed his studies in the United States while simultaneously working with the United States Marine Corp. Upon completion of both his service and Bachelor's degree in Finance, he moved back to South Africa to pursue a career in financial markets.

Kyle Smith

Prior to joining Barak, he spent 4 years working at Pan-African Investment firm as an investment analyst in both the Capital Markets and Asset Management divisions. Most recently he acted as Head of Research for Asset Management, with the responsibility to develop a research team to analyse both public and private companies across the capital structure. Kyle is both a CFA & CAIA Candidate and is working towards both designations respectively.

Christof Lombard **Fund Analyst** (South African Advisory)

Christof started his career at Standard Bank on their 2013 Risk Graduate Programme. After 18 months of rotating through several divisions within the risk function, he joined the corporate and investment banking credit team. During the 3 years of managing his own portfolio and working on numerous leveraged transactions, Christof gained invaluable exposure to the automotive, pharmaceutical, telecommunications and FMCG sectors.

Christof Lombard

Christof completed an undergraduate degree in BComm Mathematical Sciences at the University of Stellenbosch followed by a postgraduate honours degree in Financial Risk Management. He has also passed all three levels of the CFA exam.

Barak Fund Management

Rowan McKenzie Fund Analyst (South African Advisory)

Rowan completed a Bachelor of Science Honours in Property Studies at the University of Cape Town in 2015. His education has been complemented by a keen interest in finance, engineering and technology and supplemented by various tutoring positions at a number of institutions.

After he graduated, Rowan spent a year travelling South-East Asia as well as South America funded by teaching at various foreign schools. Upon his return to South Africa, he spent several weeks as an intern at Paramount Group where he was tasked with various engineering and cost structuring tasks.

Rowan McKenzie

Emily Adendorff Fund Analyst (South African Advisory)

Originally hailing from Durban, Emily completed her studies at Rhodes University, where she graduated with a BComm (Honours) in Economics and a BComm (Honours) in Financial Management; which is testament to her interest in the global financial system. Emily commenced her professional career in 2014 upon being accepted onto the Cadet Economist Graduate Programme at the South African Bank where she worked in the Financial Markets division, performing a dealer-analyst function in its market operations team which is core to the implementation of our domestic monetary policy.

Subsequent to this, Emily joined Barclays Africa Group where she worked in the debt and trade product and credit teams of its investment bank, and gained critical global markets insight whilst working on the emerging market bonds desk at Barclays' head office in Canary Wharf, London.

Emily Adendorff

ACI ANNOUNCEMENT

African Capital Investments

Barak Fund Management and African Capital Investments (ACI), a boutique sub-Saharan African focused merchant bank founded by Rob Hersov and led by Gianpaolo Pera, late Q2 2017 announced a collaboration where they will be working side by side to leverage off of each other's track record that each have respectively built up in Africa.

The purpose of the collaboration, which will see ACI and Barak co-locate in their respective Advisory offices in London and Johannesburg, is to co-operate on projects where each team's expertise can be leveraged to offer a wider suite of services to their respective clients. Barak will continue to focus on its credit funding solutions, whilst ACI will be able to continue providing advisory services to potential clients.

ACI, who have enjoyed considerable success since its founding in 2014 raising equity capital for African companies, have been exploring mandates that either have or would benefit from a fixed income component in the overall deal structure. The opportunity exists to combine Barak's lending expertise and ACI's equity expertise to create a broader service offering ranging from trade finance & lending through to corporate advisory, structuring and M&A.

Barak and ACI are excited to secure a market leading position in providing alternative financing solutions for African SMEs.

Performance & Landscape

BARAK STRUCTURED TRADE FINANCE FUND

The Barak STF Fund had another particularly strong quarter of growth in Q2 2017, with the Fund's NAV AUM growing by 17% over the three months. Although this continued growth created some cash drag on the Fund's performance, there were some larger transactions that were deployed at the end of the quarter to address this issue. Furthermore, the deal pipeline for early Q3 has proven to be effective in its utilization, with pay-outs until the end of August to be in excess of USD200 million.

Although the Fund's H1 performance has not been as strong as seen in previous periods, the forecast for the remainder of 2017 is particularly optimistic as returns will start to be realised off the back of the Fund deployments. Notable Q2 2017 pay-outs included:

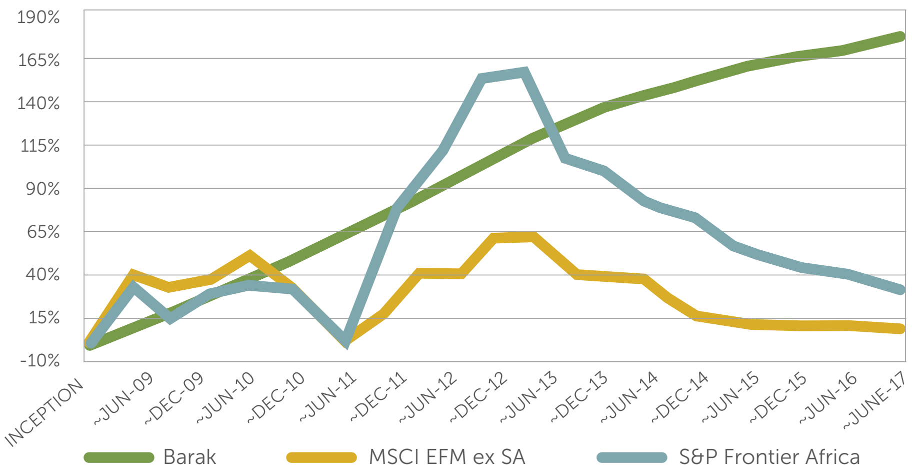
- **Republic of Congo Oil transaction**
- **Kenya Logistics transaction**
- **Namibia Zinc transaction**
- **South Africa Blueberry transaction**
- **South Africa Marine Equipment transaction**
- **Democratic Republic of Congo Coal transaction**

The Fund Manager has seen the average tenor of the STF Fund portfolio increase somewhat towards the end of the quarter as the pay-outs pointed towards some larger, longer-dated transactions that are calculated for the Fund on an average-weighted basis. Although this Fund tenor profile is outside of the ideal 120-150 days for the portfolio, there is not a cause for concern as the transactions have been structured to accommodate for this increased direction from a collateral and an appropriately-adjusted repayment schedule basis.

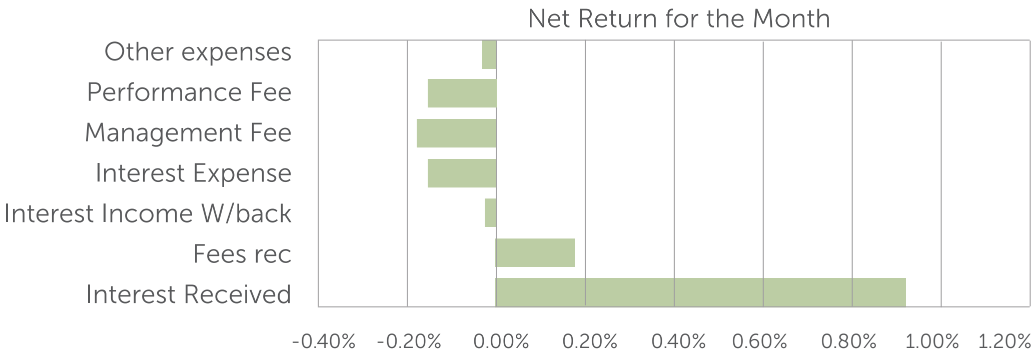
Performance & Landscape (continued)

The Barak Structured Trade Finance Fund remains particularly transparent in its reporting to current and prospective investors, clients and third-party providers, and the Fund Manager is committed to maintaining the high standards that Barak has set for itself in this regard. Should a request to receive the Barak STF Fund Transparency Report want to be submitted, please email investor@barakfund.com and this insight into the Fund's portfolio will be provided.

COMPOUND RETURN SINCE INCEPTION - STF FUND



PERFORMANCE BREAKDOWN - STF FUND



YEAR	JAN	FEB	MAR	APR	MAY	JUN	YTD	12-MONTH
'17	0.67	0.63	0.66	0.64	0.63	0.62	3.91	8.41%

BARAK IMPACT FINANCE FUND

Impact Investing in global Emerging Markets, and in particular Africa, remains a high priority for many investors and Barak remains committed to providing this investment option to its base of interested parties in the sector. The Fund Manager is looking to grow its investment criteria for impact deals somewhat for the remainder of 2017 as the Fund brings in some new investor inflows, keeping in line with the globally recognised IRIS Impact Investing Standards:

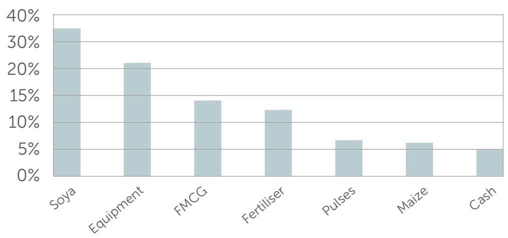
Ten Baseline And Annual Impact Assessment Reporting: Barak Impact Finance Fund

1. Job Creation: Equality & Empowerment
2. New Market Access
3. Productivity & Competitiveness Improvement
4. New Product Access
5. Wage Increase
6. Agricultural Productivity
7. Capacity-Building
8. Environmental Conservation
9. Access To Financial Services
10. Food Security

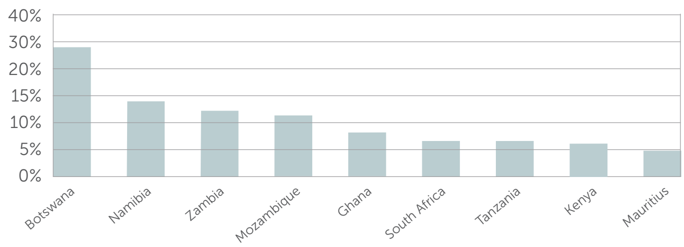
Regarding BIF Q2 Fund performance, noting the yield differential from May 2017, up by 13 bps, the factor attributable to this enhanced performance is due to liquidity: the Fund Manager has impacted the bottom line. With cash on hand being less than 5%, a clear monthly turnover for the portfolio sees fresh a position in Botswana (Soya) of over 30%. Being comfortable with both country and commodity risk, BIF has certainly risen to the double bottom line: Performance with a punch.

The level of comfort with Emerging Market risk remains to the upside. Hence, the Fund Manager will be less concerned about the perception of Emerging Market risk than anything that is currently trending in Developed Markets. June 2017 defines impact for 2017H2.

ASSET ALLOCATION BY COMMODITY AND CASH



ASSET ALLOCATION BY COUNTRY EXPOSURE



YEAR	JAN	FEB	MAR	APR	MAY	JUN	YTD	12-MONTH
'17	0.57%	0.42%	0.43%	0.36%	0.39%	0.52%	2.72%	6.37%

Performance & Landscape (continued)

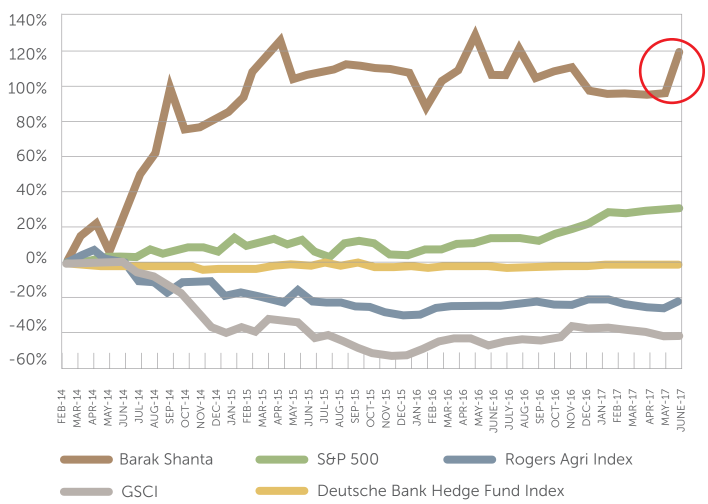
BARAK SHANTA COMMODITY FUND

What a difference a month makes for June 2017 to conclude the quarter. The surge in volatility across many commodity markets resulted in strong gains for the fund last month. At the end of May we highlighted the growing concerns in a number of key wheat producing areas across the globe as well as the extreme short positioning that had evolved across many agricultural markets. Both needed to be watched closely and for good reason. The Fund Manager saw an explosive move higher in spring wheat prices as it became clear that the drought in the Northern Plains of the United States was going to significantly curtail production and that it would likely leave 2018 carryout stocks at precarious levels. At the same time the Fund also cut production estimates in the EU as well as Australia. Canada has moved into our watch-list as the hot and dry conditions prevalent in the Northern Plains is now spreading north into the Canadian prairies at a time when crops can be materially affected should conditions not improve.

In the Midwest conditions have been drier than normal through June although temperatures have been moderate and crop concerns are yet to manifest. July and August are the key months for corn and soybeans and there appears to be no threat yet of deteriorating forecasts. However given the sub-par start we had to the growing season we feel the market may be a little too complacent given that prices have little risk premium attached and that short positioning, particularly in the case of soybeans, remains extreme. Conditions are ripe for a bout of short covering at the very least.

Coffee volatility saw a jump last month as the Fund saw a steep selloff mid-month followed by an equally impressive recovery for prices to end the month relatively unchanged from where they had started. Like in soybeans, short positioning remains extreme and whilst we see no immediate catalyst for short covering we believe that prices have largely discounted the 2018 crops and that any weather hiccups will have a disproportionate impact on prices. Producer behaviour will be interesting to watch over the coming months as the market will need sell side liquidity to satisfy ongoing roaster demand with the funds already heavily deployed on the short side.

COMPOUND RETURN SINCE INCEPTION



At the risk of being too early, the Fund believes some of the changes occurring on the supply side of the global grains market are significant enough to potentially shift the markets out of the bear cycle that has been experienced for the past 5 years, especially in the case of wheat. With these changes occurring we expect many more opportunities to present themselves in the weeks and months ahead than has been seen during the past 12-18 months.

BARAK MIKOPO DEVELOPMENT FUND

The Barak Mikopo Fund has now been up and running for a little over 12 months, and during this time the Fund Manager has ensured that the correct structure for the Fund – for both the geared and ungeared share classes, is in place as well as targeting the correct investor base to invest into the Fund. During the second quarter of 2017, there were strong investment inflows seen and this has allowed the Fund Manager to grow the Fund's portfolio across the client, country and commodity sectors in Africa.

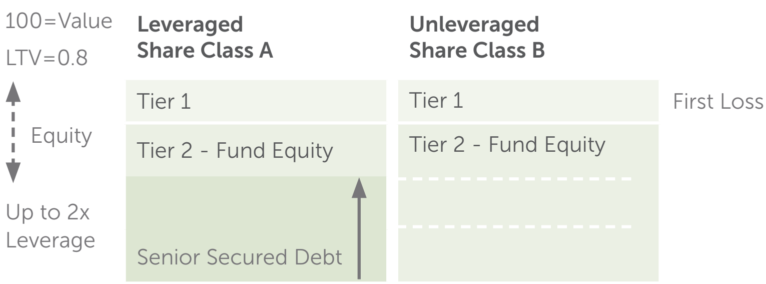
One Concept, Two Share Classes

An unleveraged share class targeting 10-12% p.a. and a leveraged share class, catering for a maximum of 2 times senior debt to equity, targeting equity returns of 13-16%. The underling investments are secured loans to African SMEs, characterized by strong operational cash flows.

The Fund will uphold Barak's focus of SME funding in Africa. The businesses are to be supported by a strong track record of successful production, processing and supply chain management with the need for external funding. Businesses should preferably operate in growth environment, participating in defensive sectors.

The Fund's borrowers typically have a financial profile of one or the other:

- **Turnover of USD 5 million to USD 50 million and/or**
- **Assets of USD 5 million to USD 50 million and/or**
- **Equity of USD 1 million to US$ 25 million**
- **Borrowers typically employ staff of 5 to 250**



Given this increased inflows to the Fund, there have been strong progressions on the Mikopo Fund Pipeline. Some of these deals include:

- **Republic of Congo Oil Syndicated Debt Facility**
- **Kenya Logistics Term Facility**
- **Nigerian Marine Equipment Sale & Leaseback Transaction**
- **South African Zinc Mining Asset-backed Debt Facility**
- **Guinea Exploratory Ore Drilling and Mining Services Term Facility**

YEAR	JAN	FEB	MAR	APR	MAY	JUN	YTD	12-MONTH
'17	0.28	0.49	0.75	0.82	0.77	0.39	3.46	7.38

Performance & Landscape (continued)

BARAK ASHA IMPACT FUND

The Barak Asha African Impact Fund, with the appointment of Portfolio Manager Justin Murray in Q1 2017, has grown from strength to strength as the focus on the Fund's long-term Project Pipeline has been the major focus for the quarter in order to attract investment.

POTENTIAL INVESTMENTS					SOCIAL IMPACT				
Country	Category of Business	Funds Required	Tenor (Years)	IRR	Job Creation	New Product Access	Access to New Markets	Food Security	Skills Training
RSA	Blueberries	$7 695 000	6	21%	x	x	x	x	x
RSA	Almonds	$2 041 000	7	16%	x	x	x	x	
Ghana	Juice Concentrate	$13 250 000	6	15%	x	x	x	x	x
Zanzibar	Sugar	$15 500 000	7	19%	x		x	x	x
Ghana	Sugar	$4 000 000	5	17%	x	x	x	x	x
Mozambique	Tomato Paste	$11 000 000	5	18%	x	x	x	x	x
Namibia	Table Grapes	$22 000 000	7	20%	x	x	x	x	x
TOTAL		**$75 486 000**							

The top three projects of the above Asha Fund Deal Pipeline table encompass what the Fund's mandate is; investing in sectors biased towards agricultural and agro-processing industries, focusing on those companies that meet the Barak impact criteria ex-ante, and deliver social and environmental benefits in addition to financial ones ex-post. These three deals will be looking to go live within the Fund during Q3 2017.

BARAK IBDAR SHARIAH TRADE FINANCE FUND

The Barak Ibdar Shariah Trade Finance Fund achieved a strong finish to the second quarter of 2017, bringing the Fund's performance to 2.37% on the back of being fully deployed. As can be seen in the tables below, the Fund's recent growth (with AUM nearing USD30 million) has allowed a solid diversified portfolio to form. A spread of seven commodity sectors across four countries, whilst achieving a monthly return of 0.61% for June, sees the Fund heading confidently into the second half of 2017.

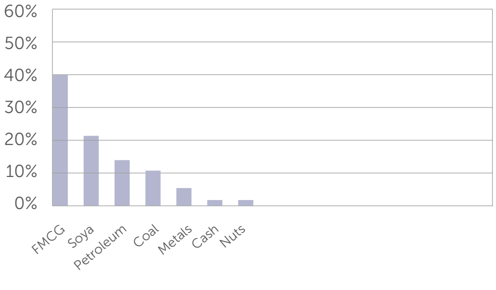
Some of the underlying deals seen in Q2 of 2017 include:

- **Zambian FMCG transaction**
- **Botswanan Soya transaction**
- **South African Coal transaction**
- **Zambian Petroleum Products transaction**
- **South African Metals transaction**

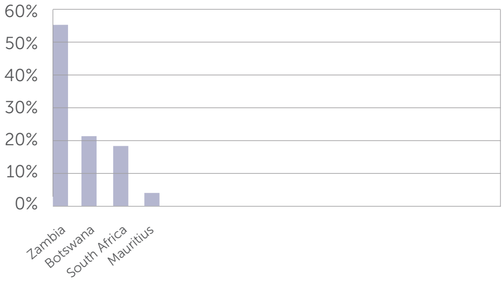
NET PERFORMANCE AFTER FEES (%)

YEAR	JAN	FEB	MAR	APR	MAY	JUN	NOV	DEC	YTD	12 MONTH	STD DEV
'16							0.37	0.22	0.59	N/A	0.1
'17	0.55	0.24	0.45	0.26	0.24	0.61			2.37	N/A	0.2

ASSET ALLOCATION BY COMMODITY/PRODUCT



ASSET ALLOCATION BY COUNTRY EXPOSURE



Barak Macro Outlook Q2 2017

The avid reader of the Barak monthly commentaries may have noted record emerging market (EM) fund flows for 2017H1. Every month saw new highs which then further propelled the flows the following month. Be it momentum, yield, central banks' (CBs – notably the Bank of Japan, BoJ and European Central Bank, ECB) inflationary stance, EM has seen a run which only the likes of Usain Bolt can ridicule. EM debt, in particular, has been the beneficiary of yield-starved managers; the bonds initially dipped dauntingly downwards albeit fleetingly, after D. Trump tweeted himself into the White House.

FX inflows tend to give breathing room, and some, with respect to hard currency reserves yet data from COFER[1] (an IMF-managed database) reiterate most of EMs are just catching their breath:
"Reserves have barely recovered from their USD 800 billion collapse in 2015/16. Q1 2017 data shows accumulation of USD 177 billion; Q2 may well be almost flat."[2]

EMs and commodities tend to perform well in tandem ***yet, this time it's different***. Without surmising, the divergence in the below-graphed indices is clear, irrespective of precise composition; one can only speculate.

Q2 2017 will mark a turning point in G7 central banking. Thus far, as the Fed heads towards higher rates coupled with balance sheet reduction as a means to withdraw stimulus, so too have Draghi, Kuroda, Poloz recently chimed their intended shift towards policy normalization. No longer harassed by the macroeconomic threats of deflation, the narrative of the liquidity gatekeepers have caught markets off guard. Central bankers' rhetoric is that of contentment with respect to overcoming threats of deflation.

1. COFER is the currency composition of official foreign exchange reserves (COFER) database.
2. Julian Brigden, Macro Insiders (July 2017), "Emerging Markets: IN FOCUS."

MSCI Index (Emerging Markets Index). Copyright 2017 Bloomberg Finance L.P.

In contrast to this, growth in world debt continues to outstrip the growth in broad money and nominal GDP – this is largely indicative of an anticipated deflationary episode[3]. The logic is as follows: If the velocity of money has been falling, one requires growth in money to sustain/create consumer price inflation, asset price inflation and higher real economic activity[4]. Napier explains: ''*If money grows more slowly than debt despite the actions of central bankers' efforts, ultimately there will be insufficient cash flow to support interest payments and/or falls in asset prices will undermine collateral values. However, the most recent total debt to GDP ratio has reached a new record high at a time when many short-term government bond yields are below zero''*.

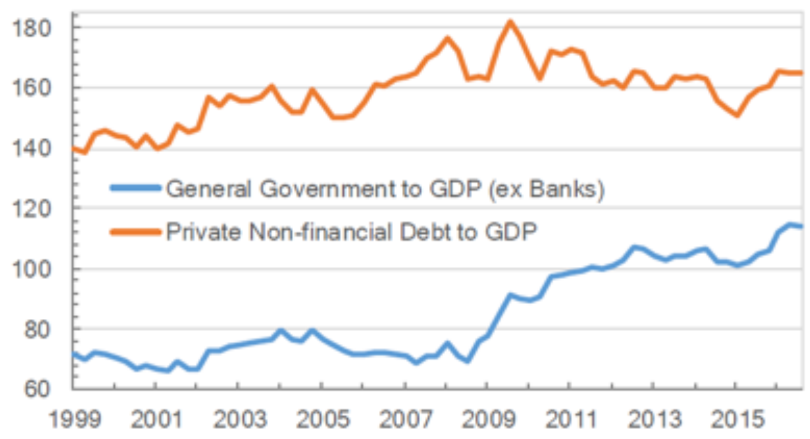
In developed markets (DMs), only the combined effect of an expansion of bank credit and creation of bank deposits, can ultimately lift nominal GDP growth and prevent debt deflation. In EMs, exchange policies dictate tighter monetary policy when the external accounts deteriorate. Napier further mentions *"...in China, Mexico and Turkey ...there will have to be either a dramatic slowdown in nominal GDP growth or major devaluations with very negative impacts for global growth and inflation"*.

Ultimately, debt to GDP ratios render the current scenario conducive to debt deflation, rather than inflation – implying credit has been driving economic growth, rather than anything real. According to the Bank for International Settlements (BIS), since the beginning of 2012, after the surge in government debt associated with the Global Financial Crisis (GFC), the **world total debt to GDP ratio, ex banks, has gone from 295% of GDP to 336% of GDP**. There is a greater risk associated with private non-financial debt burdens, given that this sector, unlike the government, cannot create the money necessary to service its debt burden:

3. Russell Napier (Q2 2017) "The Solid Ground", Orlock Advisors Limited.
4. The macro identity reference here is MV = PY, where M is a measure of the money supply, V its velocity, and nominal GDP is written as the product of the overall price level (P) with real GDP (Y).

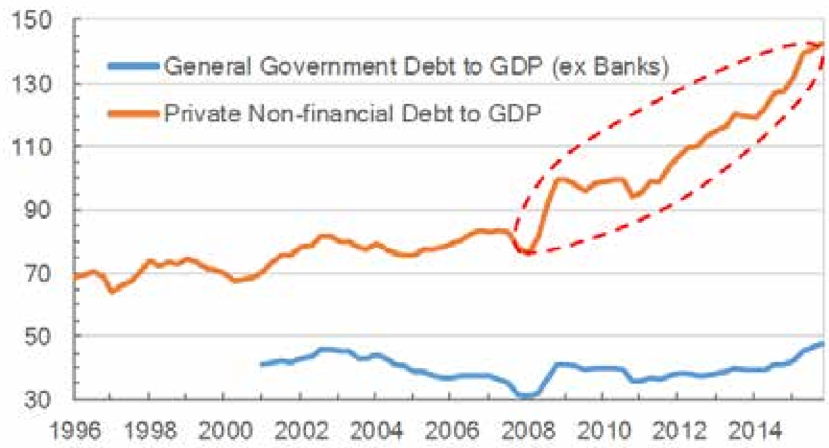
Barak Macro Outlook (continued)

DEVELOPED ECONOMIES



Source: BIS Total Credit Data

EMERGING ECONOMIES



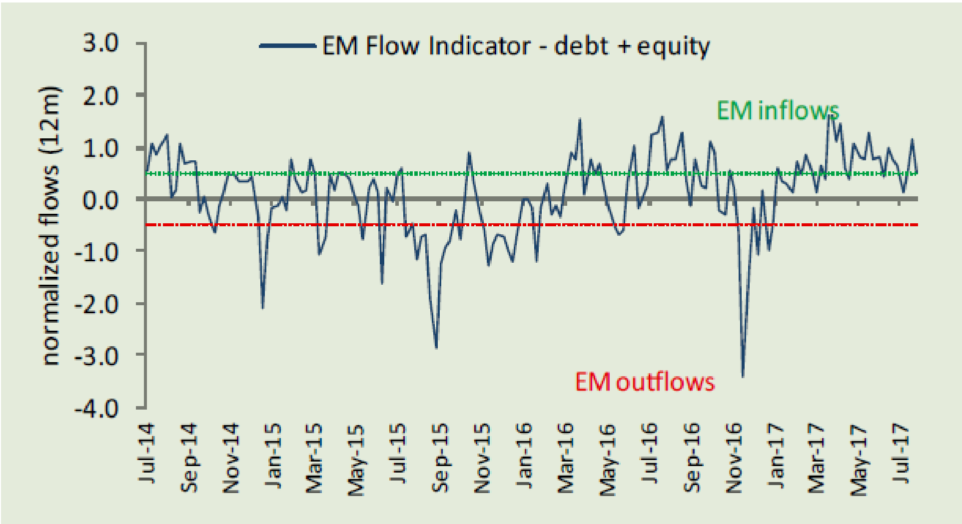
Source: BIS Total Credit Data

According to Deutsche Bank's[5] EM Flow Indicator, EM inflows returned to healthy levels post the Sintra-driven slowdown.[6] Since then, EM inflows – driven by both institutional and retail investors – continued at a robust pace. Their EM Risk Monitor remains far from extended levels, indicating scope for EM 'risk on' to continue in the near term. Thus overall, the macro outlook for EM is leaning towards a continuation of the current positive regime – caution with respect to inflation/deflation is advised.

5. Deutsche Bank (August 2017), *"FX Daily"*, EM Research.
6. https://www.forbes.com/sites/timworstall/2017/06/27/draghi-hints-ecb-may-stop-or-even-reverse-qe-euro-bounces-in-response

EM FLOW INDICATOR

Inflows into EM have bounced back after the post-Sintra slowdown.

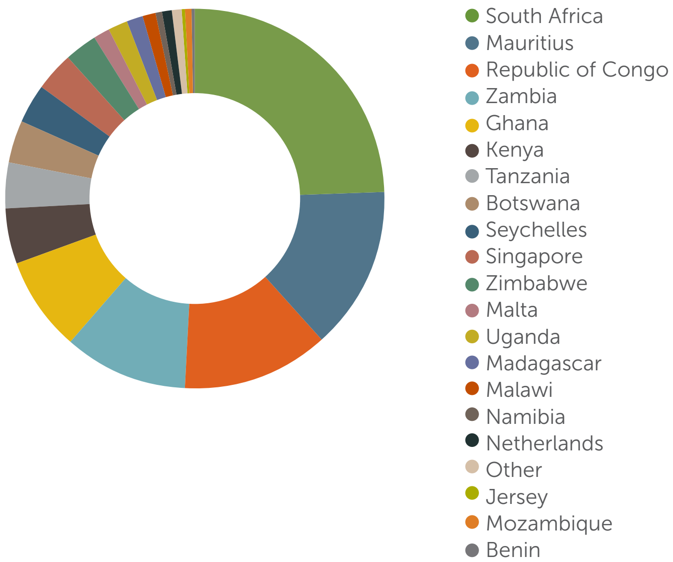


Source: Deutsche Bank, EPFR, IIF, Bloomberg Finance LP. Note: Values > +0.5 to indicate significant inflows and values < -0.5 to indicate significant outflows. Data as of 26 Jul 2017 and weekly data captures Thu-Wed flows.

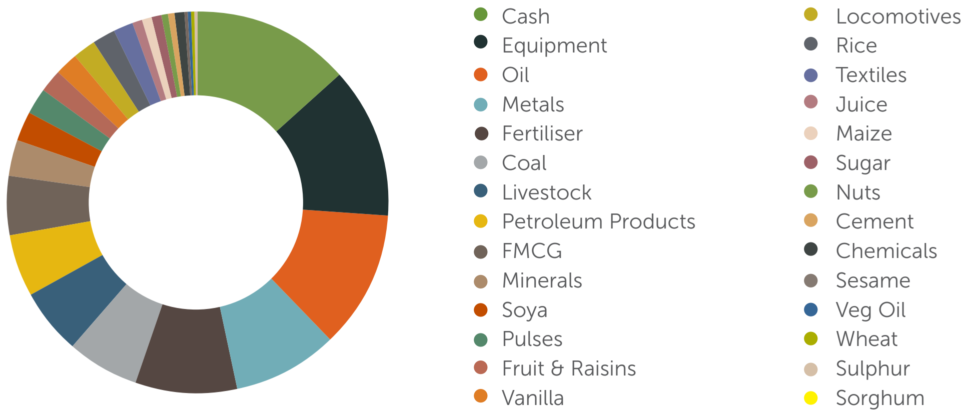
Thus currently, there are two opposing views with respect to inflation and deflation, which ultimately affects global growth. Given central bankers are responding to overall positive synchronised global growth, one may surmise the flows, referenced in the first paragraph, are likely to continue unabated for the near term future.

Africa Q2 2017 Outlook

BARAK COUNTRY EXPOSURES: ENDING Q2 2017



BARAK COUNTRY EXPOSURES: ENDING Q2 2017

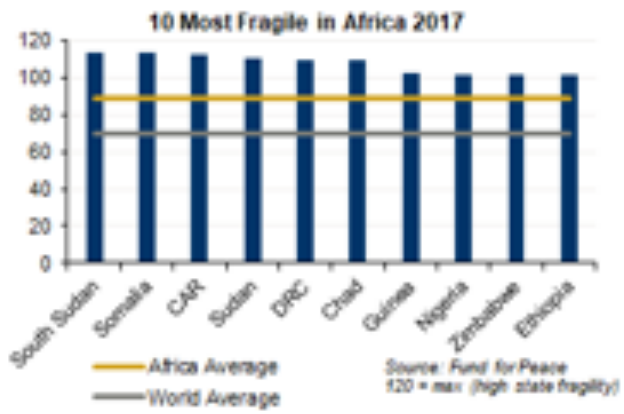


Q2 2017 was a quarter of mixed performance and forecasts for the African continent and Emerging Markets in general. Early June saw the IIF announce investor inflows into Emerging Market debt and equities are forecast to increase by 35% over 2016 figures, potentially reaching USD970 billion in 2017, and could pass the USD1 trillion mark by 2018 – the highest level since 2014.

For 2017, growth in sub-Saharan Africa was forecasted to improve with an overall forecast growth rate of 2.9%, which is slightly above the global growth rate of 2.7%. Moreover, 39 out of the 54 African countries were expected to grow by at least 3%. Thus far in H1 2017, these numbers have been achieved and set to continue into H2.

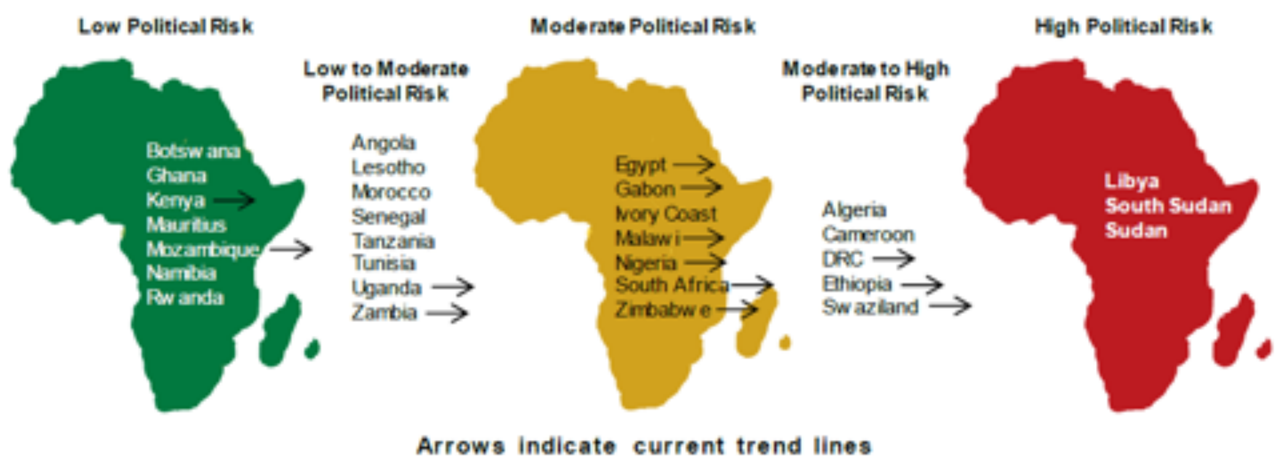
Focus for African countries for the remainder of 2017 will be about strengthening the economic integration within the various regional economic communities, in order to increase intra-African trade. Africa represents 1.2 billion people which represents an enormous domestic, regional and continental market that should be tapped upon for sustainable growth. Crucially, building institutions for better governance as well as economic reforms will be key to attract foreign investors in the future.

In terms of Barak's country exposure within the continent, there was little change over the quarter bar the inclusion to the portfolio of the Republic of Congo on the back of an oil transaction paid out. From the below graphs from Q2 2017 fragility of African countries, it can be seen that Barak continues to have a strong investment focus on countries in the 10 Least Fragile bracket; Mauritius, Botswana, Ghana, Namibia and South Africa.



Source: NKC Research

AFRICA POLITICAL STABILITY: INTO Q3 2017



Source: NKC Research

Africa Country Views

SOUTH AFRICA

Barak Commodities
Metals & Minerals
Equipment
Coal
Fruit & Raisins
FMCG
Fruit & Raisins
Fertilizer

South Africa remains the highest exposure to Barak's portfolio at around the 25% level, below the 30% country limit and slightly down from the previous quarter as the Fund looks to bring some new countries on-board. Although private consumption and exports have risen in Q2 2017 on the back of a recovery in commodity prices and growth in export markets, economic growth is forecasted to continue to be weak for the remainder of 2017 before picking up again in 2018.

It has been recognised that the three prominent constraints holding back business growth in the country are:

1. **Economic uncertainty**
2. **Exchange rate fluctuation**
3. **Over-regulation**

Barak maintains a diverse commodity sector exposure across the country, with the mix of soft and hard commodities well balanced to adapt to some of these constraints. A focus for the country is certainly with the metals and minerals sectors, where strong prices and Asian demand has prompted the Fund Manager to maintain a strong degree of exposure on the books.

MAURITIUS

Barak Commodities
Coal
Locomotives
Vanilla

Mauritius continues to be the second highest exposure to Barak's books, and as seen from the aforementioned graph remains the top least fragile country within Africa. Ongoing political stability and sound macroeconomic management continues to promote investor confidence to the country, however it is widely noted that higher skills and productivity levels could make the country more competitive and innovative.

The vision of the current government to make Mauritius a nation of entrepreneurs is clearly set out in the recent budget speech, in which a series of measures were announced promoting the development and financing of SMEs within the country.

REPUBLIC OF CONGO

Barak Commodities
Oil

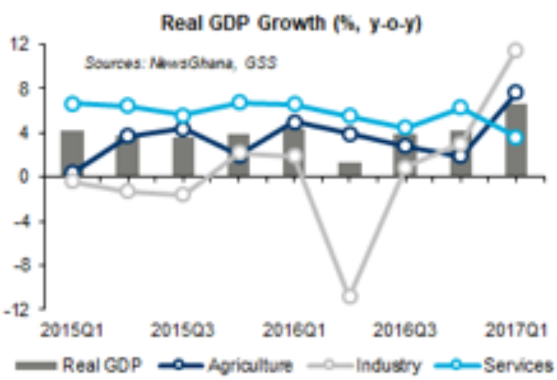
The government has reduced public spending to adjust fiscal policy to the decline in oil prices, which has reduced its revenues by 54.4 percent over 2014-2016. Economic growth is expected to recover with an average growth rate of 3.6 percent over 2017-2019, however currently the government is discussing with the International Monetary Fund (IMF) on a reform program as part of a coordinated policy response in the Central African Economic and Monetary Community (CEMAC).

GHANA

Barak Commodities
Equipment
Petroleum Products
Juice

Much like Q1 2017, Ghana continues to be the strongest performing country for Barak over two particularly strong transactions; a power generation and fuel transaction within the mining sector, and the financing of a juice concentrate business, which also has ties to its South American juicing operation.

Real GDP growth is estimated to have slowed for the fifth consecutive year due to tightened monetary and fiscal policies, among other factors, but is projected to recover late in 2017 and 2018 if the non-oil economy improves and as new hydrocarbon wells come on stream. Ghana remains one of Africa's top 5 countries expected to be best performers for 2017.



Source: NKC Research

Africa Country Views (continued)

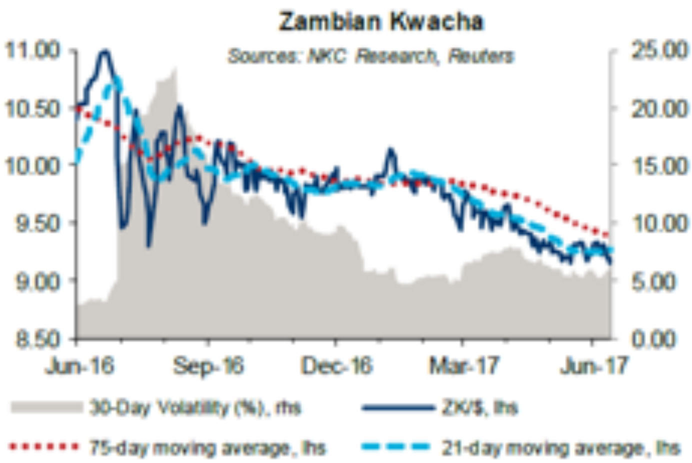
ZAMBIA

Barak Commodities
Fertilizer
Petroleum Products
Equipment
Metals

Although the next twelve months look more promising, Zambia faced economic challenges in late 2016 and early 2017 following 12 months of low copper prices and crippling electricity supply deficits affecting economic activity.

Zambia is set to emerge slowly from economic hardship going into Q3 2017 as agricultural, energy and mining sector performance improves, although prohibitively high commercial interest rates and policy uncertainty will constrain private sector consumption and investment growth. In turn, fiscal consolidation will act as a drag on short-term growth as the clearance of large arrears and phasing out of costly subsidies take precedence to growth-supportive government capital expenditure. Economic growth is projected to grow to 4.5% p.a. over the medium term for the remainder of 2017 as the country's infrastructural gap is closed.

The kwacha held onto positive momentum going into the second quarter of the year, buoyed by the improved supply of foreign exchange, higher copper prices and positive global risk sentiment. The local unit benefited from conservative liquidity management and a higher real interest rate differential in recent months.



Source: NKC Research

KENYA

Barak Commodities
Fertilizer
Rice
Pulses
Sesame
Equipment

Kenya continued to be a strong performer for Barak in the second quarter of 2017, with a broad mix of commodity sectors primarily focusing on the agricultural sectors within the country. The country has focused strongly on its macroeconomic and reform policies, and the forecast is positive in light of these policies safeguarding the country's robust economic performance.

The remainder of 2017 and into 2018's GDP growth is expected to climb, supported by large investments and growth in the service sector. Early Q3 will bring about the country's general elections, where two coalitions have emerged, one centred around the current ruling Jubilee Party and the other around the main opposition grouping, the National Super Alliance (NASA). The opposition parties led a spirited campaign calling for overhaul of the electoral infrastructure, but the general view is that the process will be a largely peaceful and smooth affair.

TANZANIA

Barak Commodities
Pulses
Rice
Fertilizer
FMCG

Growth in real GDP was estimated to be at 7.2% in 2017, and the first half of this year has echoed this forecast. This high forecast has been driven mainly by strong performance in industry, construction, services, and information and communication sectors. Fiscal position has remained healthy and ongoing efforts by the government to improve revenue mobilisation as well as efficiency in public spending will help in maintaining the good performance.

Given that Africa will become a mining hotspot in years to come, it has been a recent interesting move by Tanzanian President John Magufuli; he has brought into effect amendments to the country's Mining Act, which include requiring the government to own at least a 16% share in mining projects with the option to buy up to a 50% share. Although Barak's exposure in the country mainly focuses on the agricultural side, there will certainly be the option to look at mining transactions down the line, and these new amendments are something to follow closely.

Africa Country Views (continued)

BOTSWANA

Barak Commodities
Soya
FMCG
Maize
Sorghum

Growth prospects remain favourable but crucially depend on continued rebound in the global diamond market, improved reliability in electricity and water supply, as well as reforms. Furthermore, the expansion in construction activities in the context of the government's Economic Stimulus Programme (ESP) is crucial for medium to long-term sustainability of the country's economy.

Late in the second quarter of 2017, the Botswana Development Corporation (BDC) announced that Moody's Investors Service assigned a first-time rating of Baa2/Prime-2 to the Corporation, with a stable outlook that will go a long way for the country's economic growth and sustainability.

In addition to this recent rating is Botswana's A2 (stable) issuer rating acting as the "anchor" for potential support; and Moody's assessment of a high probability of government support, in case of need, reflecting BDC's sole government ownership.

ZIMBABWE

Barak Commodities
Locomotives
Coal
FMCG
Petroleum Products

Barak's exposure to Zimbabwe remains limited at 2.6%, and there continues to be no new investments that Barak is looking at into the country. The transactions that Barak is funding continue to perform solidly, however there is still difficulty in getting US Dollars out of the country. The Fund Manager is continuing to work on solutions for this extraction.

The country remains in debt distress, exacerbated by the lack of a diversified export base and declining terms of trade that make it difficult for the country to adjust to changing world demand for tradable goods. These structural weaknesses have constrained the country's ability to generate high and sustainable growth that is necessary to mitigate the debt distress. Moreover, the external position is projected to remain under severe pressure in the medium term on account of poor export and import performance on the back of an appreciating US dollar.

The fiscal space remains constrained due to underperformance of domestic revenues, increase in public expenditures, depressed exports, limited foreign direct investment (FDI) and other capital inflows into the country. This has undermined development expenditure and social services provision in both urban and rural areas, exacerbating the incidence of poverty. Financing for urban development, both housing and transport, has been negatively affected.

UGANDA

Barak Commodities
Textiles

With a significant share of the active labour force (35.5%) engaged in entrepreneurship, Uganda is one of the world's most entrepreneurial nations but lacks a dedicated strategy or policy and comprehensive programme to support it effectively. The country has made limited progress in improving human development but the National Development Plan envisages significant investments that could contribute to increased human capital development.

Ending off Q2 2017, Nasdaq reported that the Ugandan private sector economic activity accelerated during the second quarter, boosted by stronger performance in the agricultural and construction sectors. Stronger underlying demand, more projects, increased money circulation and greater customer purchasing power had all helped fuel private sector activity.

MADAGASCAR

Barak Commodities
Vanilla

The economy expanded by 4.0% in 2016 with 4.5% predicted for 2017 after five years of sluggish growth, predominately driven by timber, agro-industry, construction, tourism and agriculture. The country is teeming with micro and small enterprises, mostly in the informal sector, and this can be seen within the Vanilla funding that Barak is providing which is majority inclusive of small scale vanilla farmers in the region.

Madagascar was in 2016 one of the top five performers in terms of growth improvement – improving its growth rate by some 30%. This performance is forecasted to continue improving for the latter half of 2017. On June 28, the IMF completed the first review of Madagascar's economic performance under a program supported by an Extended Credit Facility (ECF) arrangement, and the feedback was highly positive. Scaling up investment in infrastructure and human capital, raising social spending, and advancing structural reforms were of high priority.

In Conclusion

"...the correct mix across Barak's portfolios, and ...the sustainable Fund Pipelines will carry Barak strongly into the new quarter"

In a global environment of volatile quarterly performances across a spectrum of asset classes, we believe that the African commodities credit space across all deal tenors continues to hold the key for consistent, risk-adjusted returns for investors. Importantly, the existing business activities that Barak continues to uphold, as well as its new ventures, are providing African counterparties with the opportunity to receive funding to not only service short-term trade and working capital finance, but to also have the ability to grow businesses on many development and infrastructure levels.

Although the underlying theme for Barak in Q2 2017 has been growth across its funds' expansion and team, importantly this growth has been pinpointed towards addressing cash levels particularly being seen in the flagship Structured Trade Finance Fund. The Barak Investment Team grew by four new members during the quarter, boosting its origination, analyst and operation monitoring of the deals coming into the Fund as deployment increases. The Barak footprint across Africa continues to expand with some key new deals paying out during the quarter, as seen with the large Oil Deal stemming out of the Republic of Congo. Although the sub-Sahara African region continues to be Barak's sweet spot, countries across the west (Ghana and Ivory Coast) and east regions (Kenya and Tanzania) are leading the push for a fully diversified Barak continent diversification.

As addressed in the Q2 Macro Outlook, Emerging Market inflows, driven by both institutional and retail investors, continued at a robust pace during the quarter. During the period, the current inflow momentum lasted 22 weeks and amounted to total inflows of USD38.6 billion (USD41.9 billion thus far for 2017) making it the strongest sustained period of inflows since 2013. The EM Risk Monitor remains far from extended levels, indicating scope for EM 'risk on' to continue in the near term. Thus overall, the macro outlook for EM is leaning towards a continuation of the current positive regime.

Barak remains committed to servicing both a loyal, existing investor base as well as a growing global base of prospective parties. To achieve this, in-depth and timely research into global commodity markets and jurisdictions remains paramount for continued consistent success across all Barak funds, for example the close monitoring of South African mining data (which pointed to low production late Q2, but positive for the remainder of 2017). The Fund Manager believes there is the correct mix across Barak's portfolios, and is confident that the sustainable Fund Pipelines will carry Barak strongly into the new quarter. Forecasted deployments for early Q3 are particularly strong, and ultimately the proof is in the monthly performance.

Quarterly Report - Q2 2017

CONTACT

Marbella Road, Pellegrin,
Trianon, Quatre-Bornes,
Mauritius

T +230 698 0397.
contact@barakfund.com
www.barakfund.com

BARAK
FUND MANAGEMENT