

Stakeholder Report First Quarter of 2013

The first quarter of 2013 was marked by an unprecedented influx of investment opportunities. For the first time in our short history, the group found itself managing multiple live situations, each offering a promising prospect for strong returns. Overall, the quarter has been one of consolidation, due diligence, and progress.

The firm has handled changes in business relationships with relative ease and has successfully made decisions as to where to wind-down existing investments and where to deploy new capital. We have shown that you can “recover” from tricky situations in Africa and restructure your operations. Vavaki’s strategy is gradually evolving to include both traditional private-equity style investments (where we support existing management) and entrepreneurial projects (where we build a team from scratch). This allows us to be flexible on an

ever-changing continent and lends itself to the diverse backgrounds of our team members.

We have also been encouraged by recent political developments. Zimbabwe, for example, has just held a referendum on its new constitution. In South Africa, we have not seen the pessimistic predictions of commentators materialise so far. In fact, we continue to thoroughly enjoy living, working, and developing relationships in these countries.

The emotions that come from investing in Africa keep us on our toes: we are frequently balancing a mild frustration at the speed of progress with excitement about the number of opportunities ahead.

Please accept this quarterly report as a summary of our recent activities and upcoming work. As always, we welcome your feedback and expressions of interest.

Existing Projects

- *Equipment Leasing Harare, Zimbabwe* *Investment Return: TBD*
The problem of liquidity and capital is widely documented across Southern Africa, particularly where it concerns capital-intensive activities undertaken by small firms. Too many local businesses possess the expertise but lack the financing to execute their plans. Vavaki has redeployed equipment from a previous venture and is renting it to partners who will use it for profit-sharing ventures with small-scale entrepreneurs.
- *Cable Fin (Pvt) Ltd Harare, Zimbabwe* *Investment Return: 36% IRR*
Cable Fin is a financial services firm that provides micro-loans to working people whose financial needs are not served by traditional banks. Recognizing the need for financial services and short-term credit among Zimbabwe's large unbanked population, Vavaki provided a 12 month amortising term loan to Cable Fin, which allowed the company to continue its rapid expansion and plan for the future. Vavaki is currently working with Cable Fin on a next round of investment.
- *Ornate Resources (Pvt) Ltd Bulawayo, Zimbabwe* *Investment Return: Wound-down*
In late 2011 - early 2012, Vavaki structured a debt and equity transaction with its partners at Ornate. We purchased capital equipment upfront, entered into a 12 month Hire-Purchase facility with Ornate, and took an equity stake in the company. Ornate begun trading in early 2012. Following a thorough review of the operation, extensive deliberations with our partners, and plenty of patience, Vavaki has now wound-down its investment.
- *Joint-Venture Mozambique Maputo, Mozambique* *Investment Return: N/A*

Vavaki has begun building a presence in Mozambique, where it seeks compelling trading and investment opportunities in partnership with local entrepreneurs and corporates.

- *Trading & Trade Finance* *Investment Return: N/A*
Johannesburg, South Africa & Global

Vavaki has seen firsthand how a lack of capital has severely limited the flow of trade in Africa. Vavaki will tackle local and regional trading assignments on a case-by-case basis, where supply and demand dynamics make sense.

What Has Worked?

- **Restructure operations when needed:** faced with an underperforming investment, many investors would be tempted to throw in the towel. Instead, work through the situation with your partners and redeploy your assets. This is made even easier if you can count on long-standing relationships and have not disappointed your partners in the past.
- **Spend time where no one else is spending time:** you never know where your next great investment or partner will come from. It also pays tremendous social dividends if communities see that you are investing in them.
- **If you want it done right, do it yourself:** build the relationships you need in person (not over the phone), be persistent, and check transaction details yourself.
- **Keep several balls in the air at any one time:** because of the speed of progress on the ground, it is very easy to get frustrated at the slow pace of results. Instead of focusing on only one situation at a time, split your efforts across a number of different projects to keep you busy.
- **Civic and religious institutions are important:** it is somewhat cliché to repeat the old adage that “relationships matter.” However, we would go even further, by saying that “where you build those relationships matters.” We know from studying history that religion and civil society play an important part in African culture. We have also seen first-hand how you can develop meaningful business relationships through these networks.

What Lessons Have We Learned?

- **Supervision is key:** even the most trusted employees need to be supervised consistently. Sometimes this means that positive feedback is needed. Other times, you simply need to maintain standards.
- **Never pay entry-level workers on a Friday:** odds are, you will be asked for loans on Monday. Obviously, this does not apply to most professionals, but depending on educational background, this may be non-trivial. It is also important to ensure that families and children are provided for between Monday and Friday.

What Is Next?

We expect to work on the following items this quarter. Some of these opportunities may result in investment opportunities.

- Commitment made to fund an **SME & trade-financing business in South Africa**, “Mukana Growth (Pty) Ltd”. Administrative, legal, and financial work is underway.
- Commitment made to fund a **real estate and construction business in Mozambique** “Mukana Imobiliaria, Lda”. Administrative, legal, and financial work is underway.
- **Short-term trade finance for a leading Zimbabwean consumer goods company.** Exploratory and structuring discussions underway.
- Continuing due diligence on a high-potential, high-growth **insurance company in Zimbabwe.**
- Continuing negotiation of a **second round investment in Cable Fin (Pvt) Ltd**, building upon our existing relationship.
- Potential exploratory trips to **Namibia and Malawi in 2013.**
- Due diligence on **agriculture / food plays in the region.**
- Discussions with **local firms in the invoice discounting (or “factoring” space)**, an emerging financial product for the region.