

Newsletter QIV 2011

One of our investors, a frequent China traveler, recently visited Ghana for the first time and was amazed with what he saw. Other than expected, he saw many similarities in terms of economic activity, development and technology providing big opportunities to "close the gap". Of course, he could not overlook the number of Chinese people coming to Ghana and their involvement in public works like road building. Clearly, there are also big differences between the two countries -or should we say regions or even continents?- in terms of politics, labor morale and culture, but the investors' first reaction is typical for many. Africa no longer is the "lost continent", but is increasingly being regarded as a true emerging market, with Ghana leading the pack with its average 6-7% annual growth.

An unfortunate consequence of this economic growth is rising prices for all matters that are business related, such as hotel accommodation, costs of transportation, rent, etc. Moreover, prices for real estate continue to rise, although some observe a gradual slowdown, if not downturn, at the high end segment (USD 500.000+). We will continue to monitor these developments closely.

3 deals closed in H2 2011

In the second half of 2011 we realized 2 co-investments with Oasis in GHS Housing Ltd and Penfield Schools Ltd. Furthermore we invested in Ebankese Venture Fund (EVF) that is managed by Oasis.

GHS Housing

GHS is a real estate company with some history. It became operational in 2009 supported by a modest investment from a UK group of people. GHS was doing okay, but clearly struggled, as many Ghanaian companies, with insufficient working capital for further expansion. With our capital, GHS can make the investment in the acquisition of additional land for further development and the purchase of equipment to improve its efficiency. Moreover, GHS can now pre-finance some of the construction work (although the majority of houses is being sold and partially paid for before construction work begins). GHS specifically targets the "affordable housing" segment, where the need is big, hence demand is high.

Penfield

SOVEC is slowly building a track record in investing in private education. The sector is attractive, with many private initiatives and a high social impact. Penfield is a good example of such private initiative, aiming to provide education from KG to senior high (secondary being split up in Junior High and Senior High). Somewhat unique is that Penfield is located at the outskirts of Accra, in a beautiful and quiet area, providing dormitories to all students at the secondary level. With these facilities, parents are freed from the increasing burden of commuting their children to school which sometimes, in the increasing traffic chaos of Accra, takes them 3-4 hours a day !



Ghana Macro Overview

Financial Data*

Inflation: 8.6% (December 2011)
 Treasury Bond Rate : 11.8 % (182 days, December 2011)
 Commercial Lending Rate: 24.7 % (2011)
 GSE (Ghana Stock Exch.): +0.56 % (CYTD)

Exchange Rate*

1 USD = 1.62 GHS (December 31 2011) -9.5% YTD

The Ghanaian Economy

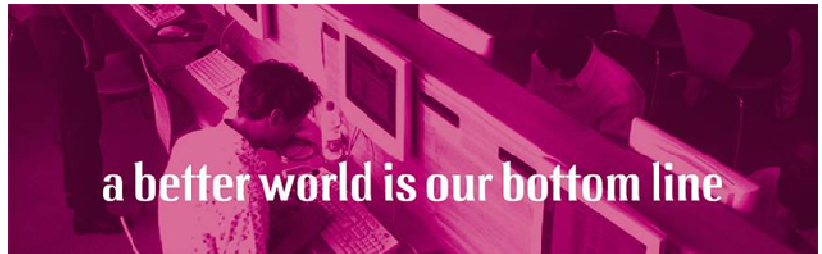
The overall macroeconomic trends in the Ghanaian economy are positive. However the exchange rate is somewhat slipping but inflation is still slowly diminishing and short term interest rates are (slowly) going down.

*Source: The Bank of Ghana (BOG; <http://www.bog.gov.gh/>) and Ghana Stock Exchange (GSE; <http://www.gse.com.gh/>)

SOVEC Portfolio summary December 2011:

As at December 2011 SOVEC has 8 direct participations (another 5 indirect through FEFII) where the total amount of committed capital is USD 4.5 mio. About half of this amount has been disbursed to date. The table below gives an overview:

Participations USD '000	Total commitment
Fidelity Equity Fund II Ltd.	2,000
Oasis Capital Ghana Ltd.	150
Rising Sun Schools Ltd.	300
Charlestons Hotel Ltd.	100
Diagnostic Centre Accra Ltd.	650
GHS Housing	400
Ebankese Venture Fund	500
Penfield Schools	400
Total	4,500



Ebankese Venture Fund

SOVEC is also proud to announce an investment in Ebankese Venture Fund the co-investment partner fund besides Fidelity that is managed by Oasis. This investment strengthens the already close relationship with Oasis and promises a good investment case.

Rising Sun Montessori Schools

You may recall that the goal of our investment in Rising Sun (RSMS) is to create a chain of 5 or so schools in Ghana. Half of our investment in RSMS has been reserved to that end. The extension of the first site in New Bortianor has meanwhile been completed successfully (and within budget) and we are now discussing the acquisition of a school in Accra, with almost 500 pupils and some 60 staff. With that transaction hopefully realized in February, RSMS would be well on target with our aim to have some 1.000 pupils in 2013 !

Pipeline projects

We (again) have several very interesting pipeline projects in a range of industries. In all instances, these regard small companies that are in their early stage and encounter difficulties in attracting bank financing. It must be said though, that the banking sector is developing rapidly. Increased competition, pressure from political sides and decreased opportunities for investment in "lazy items" such as local government bonds (previously yielding a 35%+ return), has caused the banks to increasingly look for ways to service the SME market. Nevertheless, we have projects in the real estate, education, (agri) food and beverage, eco tourism and light industry on our desk and we are investigating these with our partners.

At present we are discussing another investment in a real estate company. This company has a more modest track record and operates a similar business as GHS. It is targeting a higher market segment because the level of its developments (location of the land and quality of the houses) is a bit higher than GHS'. We expect to close this investment within a month. The background of this company is in land trade, but it developed rather quickly into construction as they found very little availability of good construction works. Moreover, we are still working

on a medical project (clinic only for women) as described in our earlier newsletter. This project is still under discussion with our Board. We hope to secure such approval as soon as possible.



Clean Energy as a fundamental driver for economic growth and opportunity for a better environment and attractive returns !

Some Nigerians prefer to live in Ghana because of its relative secure and stable environment. This certainly includes the provision of energy. Although "continuous" still is too big a word, it should be noted that Ghana has been able to provide for a more or less secure energy supply. In the African context, this means that power interruptions only happen once in a while, rather than a few times a day (as is the practice in Nigeria a.o.). Ghana's rapid economic development however increases its energy consumption, which in turn requires significant investment.

The Netherlands is struggling with a "feed in law", for political and economic reasons. Such law would accommodate the delivery of energy to the grid, by individual households or companies (power to the people) and provides true democratic (individual) right on creating and using your own clean energy.

Contrary to the Netherlands Ghana's government has recently approved a feed in law and may soon be outperforming the Dutch.

The law provides the possibility to become less dependent on the grid (hence being less vulnerable to power shortages) and makes alternative (clean) energy systems viable. But more importantly, it is sparking some kind of awareness of the urgent need for clean energy, from sustainable sources such as solar, wind, hydro, biomass, or even fuel cell and gas technology.

We are currently discussing various projects in this area, with great enthusiasm and see big time interest from outside investors flooding Ghana, as happened a few years ago when South Africa adopted a feed in law.

Investment Strategy

Now the bottom of our "treasure chest" is approaching, and the end of our investment phase is not that far away anymore, we are considering to adapt our investment policy a bit and focus on "more mature" companies. Also, our practice will gradually shift from investing to monitoring and managing. For the latter, we would like to develop our E4E concept better and provide more value to our portfolio companies. We still consider our E4E concept a major potential added value to our investments and will endeavor to fully make use of it. The experience we have gained so far is construction and education, so it seems logic to start there.

Broken Deal

We have decided to terminate our plastic recycling project. During Due Diligence, we found various issues that could jeopardize our investment, especially our pan Ghana ambition. We unfortunately had to conclude that it was too risky on the operational side.