

## SocialAlpha Update

### Investment Updates

**In Latin America**, USD 500K was disbursed as a 2<sup>nd</sup> tranche to a new superfood company in Peru and USD 2M to a fintech company in Mexico. 2 new loans were also given to current portfolio companies to help scale their operations.

**In Africa**, An additional tranche of USD 500K was disbursed to our solar-powered pump company in Kenya.

**Loan extensions:** In January, the fund amended its loan extension policy to require the amortization of loans before new loans are issued. While this policy still stands, the Investment Committee will be considering appeals for payment restructurings or bridge funding on a case-by-case basis as portfolio companies are impacted by COVID-19.

**Fund liquidity:** SocialAlpha currently holds USD 1.8M in cash. Planned disbursements are being reviewed with the COVID19 lens. We will continue developing our pipeline, primarily for 2020H2, but we intend to allocate up to 70% of the fund's cash reserves to current portfolio companies.

**Preliminary risk assessment:** The severity of the pandemic in each country as well as the duration of government shutdowns will have a big impact on the risk profiles of our companies in the coming months. We will hold an investor webinar in April to address COVID19's impact on our portfolio companies.



Bats are a favourite indigenous protein in various parts of Asia.

### Environmental Disruption & COVID19

The New England Journal of Medicine explains that COVID-19 is “a bat-origin virus infecting unidentified animal species sold in China’s live-animal markets”. A study by University of California, Berkley finds that bats’ “fierce immune response to viruses could drive viruses to replicate faster, so that when they jump to mammals with average immune systems, such as humans, the virus wreak deadly havoc” (Science Daily, 2020). Bats can tolerate viruses and become a unique reservoir from where the virus can transmit to other animals through saliva, urine and feces. Disrupting bat habitat stresses the animals and makes them shed even more viruses. This is why in the past years SARS (via palm civets), MERS (via camels), Ebola (via gorillas and chimpanzees), Nipah (via pigs), Hendra (via horses) and Marburg (via African green monkeys) all originated from bats. The 1<sup>st</sup> COVID19 patient was diagnosed in Wuhan, China, on 8 December 2019. On 30 December, the regional government forbid public announcements about the virus. The 1<sup>st</sup> death was reported by China on 11 January, and 10 days later, the 1<sup>st</sup> case was reported in the US. The WHO declared a global health emergency on 30 January. France reported the 1<sup>st</sup> death in Europe on 14 February. Sub-Saharan Africa reported its 1<sup>st</sup> case on 28 February, and the US their 1<sup>st</sup> death one day later. 16 March was the 1<sup>st</sup> day with no new infections in China. There were 750K cases and 36K deaths globally by 31 March 2020, with both numbers still rising rapidly. The worst-case scenario, though still unlikely, estimates a 2% death rate and a 6% decline in GDP (WEF 2020).

## AlphaMundi Update

### COVID19

We hope this newsletters finds you healthy and safe during these uncertain and trying times. At AlphaMundi, we are prioritizing the health and safety of our employees and have encouraged staff to work from home since 16 March, suspending all business trips and events till further notice.

While almost all our portfolio companies had a strong start to 2020, it has become clear in recent weeks that none will escape the global COVID-19 pandemic unscathed. We have reached out to all 25 companies to track the contagion’s impact on: 1) People, i.e. staff & clients, 2) Operations, i.e. supply, production, distribution, and 3) Financials – treasury, sales, debt servicing & restructuring/refinancing, fundraising. We expect all businesses will slow in Q2 and fundraising will be hampered as diligence trips are postponed and investors reconsider capital allocations and new commitments in the wake of market uncertainty.

### Resources for SMEs & Impact Funds

Many organizations are working to compile lists of resources for investors and SMEs as they navigate the COVID19 environment. We have found the following especially helpful.

@CASEatDuke to find capital:

<https://bit.ly/COVID19CapitalRelief>

The Miller Center: <https://www.millersocent.org/covid19/>

ANDE Global: <https://www.andeglobal.org/page/covid-19>

BAIN Capital PE risk assessment of COVID19:

<https://www.bain.com/insights/bain-private-equity-risk-assessment-of-covid-19/>

Measuring the social impact of COVID19:

<https://socialsuitehq.com/covid-19-assessment/>

## Industry Updates

### Impact Investing

- There is an urgent call for DFIs to act quickly and creatively to help emerging markets survive the COVID19 crisis. Dalberg advisors recommends prioritizing [5 critical actions](#) including scaling up coordinated liquidity models, expediting deal times, guaranteeing that concessional financing focuses on the most vulnerable, assessing risks with an impact-first lens, and adapting priorities while doubling down on impact agendas.
- The African Development Bank [launched](#) a record-breaking USD 3B “Fight COVID19” Social Bond. This landmark transaction is the largest US dollar denominated social bond transaction to date in capital markets. The bond will have a 3-year maturity and pay an interest rate of 0.75%.
- Open Road Alliance, which specializes in the “everyday emergency room of impact” [released a report](#) asking impact investors to seek action over perfection.
- UNCTAD warned FDI flows are liable to drop by 30-40% in 2020. Multinationals in developed countries have revised profit forecasts downwards by 35% since the outbreak, vs. 20% in developing countries.

### Food & Agriculture

The Food and Agriculture Organization of the United Nations [predicts](#) that in April and May we will start seeing more disruptions in the global food supply chains, affecting the poor and most vulnerable populations first. While staple crops will likely continue with minimal interruption, higher value and more specialized crops will face a greater number of hurdles around labor, transport, closing of restaurants, etc.

### Financial Inclusion

CGAP notes there is little evidence that the global micro-finance community, which serves 140M low-income clients, has internalized the full extent of the crisis. MF economics require high repayment rates. CGAP estimates that a slip in repayment rates from 95% to 85% would render many MFIs insolvent in less than a year. The industry has never faced market disruptions on this scale, and high-touch business models will remain vulnerable as social distancing measures are implemented.

### Energy & Environment

On 26 March, a group of 26 off-grid solar companies published [an open letter](#) noting that the lockdowns across much of the world could “irreparably damage our momentum in bringing energy to the world’s underserved, causing many companies to fail, and leaving customers with no one to service their products. This would leave millions of people in the dark, as well as cut their access to the information they rely on from solar powered radios, TVs and phones.” The group is proposing the establishment of a COVID19 Liquidity Fund that considers grants or long-term subordinated debt and can review and decide and disburse quickly, in weeks.

### Women & Girls

The WEF [predicts](#) that the fallout may be worse for women, even if the death rate has been higher in men. Women are on the front lines fighting the virus, representing 67% of the health work force in 100+ countries (Boniol 2019). Reproductive care suffers from strained health resources with deadly consequences, and school closures affect women more than men.

## AlphaMundi Foundation

### COVID19

AlphaMundi Foundation is actively trying to raise a pool of concessionary capital to support SMEs through the COVID19 crisis. The Foundation is also exploring re-directing some of its grant capital to relief efforts.

### Gender Lens Investing

AlphaMundi Foundation, in partnership with Value for Women, signed a USD 500K contract with USAID to expand gender-smart practices with 5-7 SMEs in the AlphaMundi portfolio. Learnings and tools developed from this initiative will be shared with a broad set of investors and practitioners, with the aim of catalyzing further investment with a gender lens.

### Powering Ag

AlphaMundi Foundation (AMF) is kicking off 2 new R&D and 6 new technical assistance projects. These projects will provide support to 3 portfolio and 2 priority pipeline companies. Since March 2018, some USD 10.5M has been catalyzed in private sector investment as a result of Foundation support.



*A female sales agent from our biodigester portfolio company is pitching products and services to farmers. This company received technical assistance support from AMF to assess sales, loan collection and repayment processes with a gender lens.*

## COVID19 Update

Country	Confirmed Cases	New Cases	Total Deaths	New Deaths
United States	140'640	17'987	2'398	286
Switzerland	15'412	1'138	295	38
Ecuador	1'962	127	60	12
Mexico	993	145	20	4
Peru	852	181	11	-
Colombia	702	94	10	4
Rwanda	70	-	-	-
Kenya	38	13	1	-
Uganda	33	-	-	-

WHO data, 31 March 2020

## COVID19 Investor Response

**CGAP** recommends pushing out repayment terms, relaxing covenants on repayment rates & capital adequacy ratios, supporting digital payment solutions and blended finance facilities.

**Domini Impact Investments** recommends companies provide paid leave, prioritize health and safety, maintain workforce employment to resume operations quickly after the crisis, maintain supplier and client relations, limit senior management compensation and suspend share buybacks during the crisis.

**The IFC** will lend USD 8B to existing clients to share bank risks in serving SMEs and help replenish their capital.

**IDB Invest** is preparing a USD 500M facility for short-term loans to SMEs.

**Greta Bull, CEO, CGAP:** *"If the solutions were easy, this wouldn't be a crisis. Without hard questions and COVID19 plans, it won't be poverty that is in a museum, but potentially the modern microfinance movement."*

**Portfolio Company:** *"Our contingency plan, which focuses on the health and safety of our entire team, ensuring business continuity, and preserving value. The next six months will create a "new normal" in the world... A renewed focus on profitability and less funding for new businesses. Great companies are built in good and bad markets."*

**Portfolio Company:** *"We expect decreased sales volumes for the next 3 months, until the public health crisis has stabilized. Once the country declares the emergency over, we will recover: our products are products of necessity and basic need. We have developed a cost reduction plan to close several offices and reduce staff working time, and forecast 2020 revenues will equal 80% of our 2019 revenues."*

**Amit Bouri, CEO, GIIN:** *"As a result of the crisis, we see the downsides of having an unequal society. Investors are thinking about how they can adjust terms and provide emergency financing. There will be a lot of soul-searching about what is 'market rate'. All of a sudden, those issues are brought to the forefront in a very powerful, visceral way. This is a real leadership moment for catalytic capital investors."*

**Portfolio Company:** *"As a food processor, we are deemed a critical supply chain business, fully authorized by the Government to operate during the state of emergency. We implemented a COVID19 risk mitigation plan including transportation, sterilization, communication, full-time medical attention, remote working, and 15 days of paid leave for any worker with flu symptoms."*

**Portfolio Company:** *"We classify risks in 4 categories: supply chain shortages and price increases; customers return to rural areas or consumer habit changes; lockdown effect and customer capital constraints; and staff absenteeism or mass infection. We also anticipate leap-frog changes in consumer behaviors that we can take advantage of."*

## Country Updates

At the time of this writing on 31 March 2020, there were over 858K confirmed cases of COVID19 and 42K deaths. Testing is still very limited in all our countries of operations and the true numerator remains unknown. Emerging Markets are feeling the combined impact of COVID19, an increase in the value of the dollar, and an oil price war. The Institute for International Finance shows cumulative capital outflows from developing countries since January 2020 are double the level experienced during the 2008/2009 crisis. Brief updates on our countries of operation are noted below.

### LATIN AMERICA

**MEXICO:** 993 cases and the government has declared a state of emergency although not yet mandated stay-at-home orders. President López Obrador recently encouraged citizens to “continue dining out and help the economy”. The S&P downgraded Mexico’s credit rating from BBB+ to BBB, and the country’s economy might suffer the most in the region from social distancing, due to the importance of sectors such as tourism, as well as its deep trade ties with the US. The country’s currency has also been the worst performer in the region.

**ECUADOR:** 1,962 cases and the most confirmed cases of COVID-19 in Latin America per capita (31). The growing demands for higher spending to tackle COVID19, coupled with the collapse in oil prices, will cause a widening of the budget deficit – which had narrowed sharply in recent years. The fall in oil prices has also caused dollar bond spreads to surge, essentially locking the government out of capital markets. The government announced plans to secure more IMF financing and re-profile its external debts. Those who defy the 2pm curfew & stay-home order face a fine of up to USD 6K or 3 years in jail.

**PERU:** 852 cases with early signs suggesting that the damage to the Peruvian economy may be smaller than in the rest of the region. A strong balance sheet has given policymakers room to move quickly to provide support. The Central bank in Peru has already lowered interest rates by 100bps and has launched a fiscal package worth 1% of GDP. Peru’s growth outlook this year was revised down to 2% from 2.7%. The President asked and received help from China to fight COVID19.

**COLOMBIA:** 702 cases and 19-day nationwide quarantine that commenced on 24 March. In Colombia, lower oil prices imply that the large current account imbalance will widen, likely exceeding 5% of GDP. But the real pressing issue is the fiscal outlook. The pre-existing social unrest and the new twin shocks will require additional government expenditures in the short-term. Colombia’s growth outlook this year was revised down to 2.7% from 3.1%.

### AFRICA

**KENYA:** 38 confirmed cases, partial lockdown & curfew in place for the last week. Only 6% of Nairobi’s land host 2/3 of its population. The president directed banks to restructure loans during the period with a freeze on default listings on the Credit Reference Bureau. The Central Bank also cut the policy rate to 7.25% to spur increased liquidity. Inflation is expected to spike due to food supply chain disruptions. Kenya’s shilling has also depreciated 2.4% since the 1<sup>st</sup> case was announced.

**UGANDA:** 33 cases and nationwide lockdown in place for 14 days. Prices of commodities have been soaring, including locally produced goods as supply is not sufficient to fulfill the demands induced by panic buying. Like most countries, the poor will bear the brunt of the shutdown. The executive has asked law makers for another USD 75M to fight COVID19.

**RWANDA:** 70 cases with the country on nationwide lockdown since 22 March. Rwanda, which provides near universal healthcare, is imposing some of the strictest measures in Africa with nonessential movements outside of the home prohibited. The country successfully combated Ebola from entering in 2019. However, like other countries in the region, it is struggling with testing to grasp the full extent of the outbreak.

### USA & SWITZERLAND

**UNITED STATES:** 140K+ cases with 80% of Americans under “Stay at Home” orders. Unemployment claims soared to a record high of 3.3M last week. The country passed a USD 2T stimulus package but Goldman Sachs still projects that US economic output will plunge at an annualized rate of 34% in the second quarter and the unemployment rate will hit 15%. The stock market wiped out the USD 11T+ in gains since 2016 when President Trump took office.

**SWITZERLAND:** 15,412 cases with social distancing urged but not required. The government will extend unemployment benefits to the 330,000 self-employed with regular employees receiving about 70% of their previous gross income from compulsory unemployment insurance funds. Experts project a dip in 2020 growth to -1.5% versus their pre-pandemic estimate of 1.3%. Over 80% of SAIF-Bastion’s AUM is from Swiss individual and institutional investors.

## SocialAlpha Investment Fund – Bastion

	European Investors	US Investors
Fund Name	SocialAlpha Investment Fund - Bastion	SocialAlpha Investment Fund US - LP
Fund domicile and type	Luxembourg, SICAV - SIF	Delaware Limited Partnership
Fund Custodian	Société Générale	Banked by Tristate Capital Bank
Fund Administrator	Société Générale	Essential Fund Services International
Auditors	Price Waterhouse Cooper	Berkower LLC
Legal Counsel	Arendt & Medernach SA	Nelson Mullins
Swiss Representation Agent	Montfort Funds AG	Not applicable
Swiss Paying Agent	Banque Cantonale de Genève	Not applicable
Fund Currency	USD	USD
Target net return	3-5%	3-5%
Management Fee / Performance Fee / Hurdle	2% / 20% / 3%	2% / 20% / 3%
NAV Calculation	Quarterly	Quarterly
Subscription of units	Quarterly	Quarterly
Redemption of units	Quarterly, subject to gate	Quarterly, Subject to gate
Minimum initial subscription	USD equivalent to EUR 125,000	USD 150,000
Co-Invest Option	For investments over USD 250K	For investments over USD 250K

**Our investment strategy** focuses on Latin America and East Africa. We identify emerging and established market leaders with annual sales of USD 500K to USD 10M, and build up fund exposure progressively as they achieve financial and impact milestones, with investments ranging from USD 200K to USD 2M per company. Portfolio companies are typically at an inflection point where AlphaMundi's support on information/reporting systems, operational and financial risk management, and value chain consistency can deliver substantial added value to them and the fund.

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