

COVID-19 risks to investments are real - but lenders and borrowers have stepped up together in meaningful ways

Published: September 2020

We're in this together. Extraordinary times require an extraordinary response. Our people and partners have responded by dedicating time and resources to various initiatives.

This is how our investment team and deal companies have stepped up to weather the storm.

"We're in this together." Futuregrowth and many other businesses in South Africa (and the world over) have had to fully live by this dictum over the past six months. Our investment team has been working around the clock to protect our clients' funds and long-term interests. Weathering the COVID-induced storm has required a particular kind of synergy between Futuregrowth, as the funders, and our investee companies. We have had to come up with imaginative ways to support these companies, and they have had to devise new strategies for survival.

The small selection of examples below illustrates some of the needs that have arisen, how these have been met and - more importantly - why they have been met, together with the outcome in each case.

1. Retail Capital - Supporting SMME sustainability

Retail Capital is a funder of small, medium and micro enterprises (SMMEs). As such, its client base was heavily affected by COVID-19 and the lockdown restrictions, particularly in the earlier months.

Futuregrowth provided funding to Retail Capital at the end of March 2020, during the harshest lockdown restrictions, because:

- a. It has a proven track record as a strong well-managed business, with sound credit policies and processes and a responsible approach to managing risk within its book;
- b. It plays an important role as an SMME funder, providing funding to more than 10 000 SMME's across South Africa, with outstanding loans totalling over R500 million;
- c. The company went into the crisis from a strong base in terms of capital adequacy, profitability and low write-off's - this meant that it had sound buffers in place;
- d. There was evidence of strong shareholder support for the funding, if needed;
- e. Appropriate risk-adjusted returns would be achieved (which reflected the deteriorating macroeconomic and credit environment at the time); and
- f. Additional reporting requirements imposed in terms of frequency of reporting and level of detail allowed us to monitor on the business more intensively during the crisis.

What the support meant

Our funding gave Retail Capital the liquidity to withstand lower collections from its borrowers, which, in turn, allowed it to offer support and relief in the form of payment holidays to clients that were not operational during the lockdown. It was also able to advance additional funding where appropriate to SMME's that were eligible to trade under the various lockdown levels.

The outcome

Retail Capital's collections have risen from lows of around 10% in April 2020 to around 80% in July 2020. In the week ending 28 August 2020 trading volumes for its customer base reached about 87% of pre-COVID levels – and these continue to improve as the lockdown restrictions are eased.

By providing Retail Capital with the liquidity to support its SMME customers at a time when liquidity in the SA market was almost non-existent, we believe we demonstrated our commitment to supporting our borrowers in good standing, and to playing our role as partners in development in the South African economy.

2. SweepSouth - Assisting domestic workers

SweepSouth is a digital home services platform where personal services providers can get convenient and flexible access to a market for their services, while users get access to vetted and reliable service providers whenever they need them. As a result of the COVID-19 crisis and the lockdown imposed to mitigate its impact, the services offered on SweepSouth's platform were prohibited and therefore the company had to stop facilitating transactions.

Futuregrowth continued to pursue this transaction despite the uncertainty of the crisis, because:

- a. We believed in the strength of the management team and that they would be able to weather the crisis;
- b. We believe that the fundamental need and market opportunity for the business would persist beyond the crisis;
- c. The accelerated adoption of digital services would strengthen the market offering of the business and support its growth trajectory;
- d. The management team had further demonstrated the innovative and resilient characteristics that attracted us to the business and investment opportunity, by pursuing new revenue channels to sustain the business during the crisis; and
- e. The initiatives launched by the business to support SweepStars who were unable to work during the crisis, further demonstrated the high quality character of the founders and management team, and how this aligned to Futuregrowth's values.

What the support meant

The investment by Futuregrowth was critical for the business in funding its ongoing operating costs during lockdown while it was generating very little revenue, and further, it would also provide some capital for it to resume its growth path once that crisis had abated.

The outcome

SweepSouth had to make some tough decisions during the peak of the crisis to ensure the sustainability of the business both during the pandemic and beyond. The capital provided management with the platform to focus on these critical decisions and also to explore opportunities that arose as a result of the crisis.

3. TUHF Limited – Protecting inner-city properties

TUHF is a commercial lender that provides financing to property investors to increase the supply of affordable rental accommodation in previously run down inner city areas. TUHF borrows money from a variety of lenders and lends this to the property investors, who, in turn, repay TUHF through the rentals received from the tenants leasing the units in their properties.

The hard lockdown imposed in March sent shockwaves through the entire economy, and was a major event for TUHF and its borrowers who were not able to collect rentals from their tenants at pre-lockdown levels. While helpful for tenants at such a tough time, the moratorium on eviction orders during the lockdown also meant that landlords could not replace non-paying tenants – leaving them with no way to make up the shortfalls.

In order to assist those most affected, TUHF agreed to various types of payment relief for its borrowers. It therefore followed that TUHF had to approach its own capital providers for support, in order to meet its debt obligations.

Futuregrowth has provided support to TUHF during this lockdown period in our capacity as both a lender and shareholder, because:

- a. Riding out the short-term dips and protecting investment value is typically a good long-term strategy in the property space;
- b. TUHF plays a crucial role in the provision of affordable, safe and good quality rental accommodation for thousands of people across various inner cities;
- c. The fundamentals of the deal with TUHF still held; and
- d. We worked to ensure that the risk:return relationship remained in balance in order to ensure that our clients were adequately compensated for any additional risk taken on.

What the support meant

TUHF was able to continue meeting its commitments to the property investors they have funded, and down the line this will ensure that the supply of affordable rental units continues to grow. Scores of people in South Africa continue to move to the bigger cities in search for better opportunities, therefore TUHF plays an extremely important role in making access to affordable inner-city accommodation possible.

The outcome

TUHF's loan book experienced some pressure during the periods with the hardest lockdown restrictions; however, the business has turned a corner and performance has been improving in recent months. TUHF's own approach was to work with its clients and its funders to ensure that the clients could make it through these periods. The support that funders and shareholders provided was critical to ensure that they meet this objective.

This unprecedented event had a big impact on the business, but the trend for recovery has been sharper and better than expected. And TUHF looks forward to growing its loan book even further as activity resumes across most sectors of our economy.

4. In2food – Fast response adds value

In2food is a South African based business providing convenient food solutions to their customers. The business trades, processes and distributes food products in South Africa and Australia. They develop, manufacture and supply a wide range of fresh produce, chilled prepared foods, fresh juice and snacks, producing over 1 000 product lines. Quality is at the core of everything they do and that philosophy matches the values of their major customers.

When the effects of the pandemic hit In March 2020, In2food was already in discussions with its debt providers to support a growth opportunity. The company were keen to pursue this opportunity, despite the pandemic.

Futuregrowth approved an increase in working capital facilities and debt funding for In2food to conclude a business acquisition, because:

- a. We viewed this as supporting an essential provider during the pandemic and ensuring food security for the South African population;
- b. The concept had strong shareholder support;
- c. The cash flow forecast was strong; and
- d. The funding will result in future growth opportunities.

What the support meant

Our quick turnaround in assessing the funding requirement and provision of short-term liquidity allowed In2food to further entrench its relationship with its key customer, and in so doing, has paved the way for increased future business. In2food have since seen increased volumes. In addition, the business has been able to keep operations and delivery time to key customers at levels to the highest standards.

The outcome

As part of the funding agreement, we increased our engagement with In2food, and our monitoring of the company's profitability and cash flow analysis. Since providing the increased debt funding the business has continued to perform very well and well above the initial forecast. The support shown to In2food allows the business to continue their role as an essential food security provider to South Africans and maintain employment for their staff members during a difficult and challenging time for South African households, with unemployment rising further and further.

Conclusion: Responsible action is key

The COVID-19-induced economic crisis could not have happened at a worse time for South Africa, with the country already grappling with the consequences of a low-growth trap. It is incumbent on us as asset managers to do whatever we can to alleviate the situation, to protect our investments on behalf of our pension fund clients and to contribute to the wellbeing and recovery of the nation as a whole. Most importantly, we need to do this in a responsible and judicious manner that takes into account the current realities and risks, as well as the long-term impact and outcomes of our response.

For further information on these companies, please see:

1. [Retail Capital](#)
2. [SweepSouth](#)
3. [TUHF](#)
4. [In2food](#)

Published on www.futuregrowth.co.za/newsroom.

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