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GHANA INVESTMENT STRATEGY

Securitized COCOBOD Receivables (SCOREs)
– a short-duration, high Alpha opportunity.

★ ***IOUs payable by Ghana's state-owned Cocoa Board are currently being financed at monthly rates of 2-2½%.*** *The receivables relate to purchases of cocoa, over which the Board holds an export monopoly.*

★ *Rhombus Advisors has developed a* ***transparent structure enabling offshore investors to capitalize on this pent-up demand for capital*** *in the upstream cocoa sector.*

★ *Backed by claims on this sub-sovereign agency, and with a maturity of 60 days,* ***Securitized COCOBOD Receivables (SCOREs) offer a yield of approximately 28.85% p.a****. which represents* ***a premium of more than 600 b.p. over Ghana's three-month T-bill rate****, currently the highest in sub-Saharan Africa.*

★ *By hedging the currency exposure via NDFs, currently offered at approximately 19.25%, the SCOREs investor can look forward to* ***an expected USD return in excesss of 960 b.p.***

Ghana's Cocoa Industry - an Overview

Ghana is the world's second largest cocoa producer[1], with output for the 2013/14 crop year projected at approximately 830,000 MT. The crop accounts for 22% of the country's exports and appproximately one third of total employment. In terms of quality, the local product has enjoyed a consistently high rating[2] which is reflected in the premium that Ghanaian beans command on the international market[3].

Ghana's cocoa industry is an amalgam of public- and private-sector participation. Cultivation remains entirely in private hands (primarily family-owned farms), while local law requires that all cocoa be sold to the Ghana Cocoa Board (COCOBOD).

The intermediate segment of the supply chain is handled by a network of 21 licensed buying companies (LBCs), which act as agents for COCOBOD, sourcing the crop at the farm gate for delivery to the state-owned entity.

The LBC as Intermediary

LBCs buy and sell cocoa under a set of administered prices that are announced by the Minister of Finance and Economic Planning at the start of each crop season[4]. The producer price is currently fixed at GHS 212 per bag, with LBC intermediaries *guaranteed a sales margin of GHS 21.50 per bag*[5] on their own sales to COCOBOD.

In practice most of this margin flows to the bottom line since the costs of shipping the beans to the designated delivery point are reimbursed by the state agency.

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[1] i.e. Behind the Côte d'Ivoire.
[2] Ghanaian beans are particularly rich in Theobromine and Flavonoids.
[3] Generally USD 75-100 per MT relative to beans from neighboring Côte d'Ivoire,
[4] i.e. In mid-late September.
[5] i.e. A price of GHS 233.50 per bag.

The Intermediary Function

After purchasing beans at the farm gate, the LBC's first task is to prepare the load for an initial inspection by Cocobod's Quality-control division (QCD)[6].

❶ Upon successful completion, QCD designates a delivery point to which the LBC is required to ship the beans and where a second inspection is performed.

❷ Beans judged satisfactory are awarded a *certificate of purity* on which basis the Cocoa Marketing Company (CMC)[7] now takes delivery of the shipment and issues the LBC a *cocoa taken-over receipt* (Ctor)[8].

❸ The LBC then submits an invoice[9] to CMC's accounting department, where it is validated and then forwarded to Cocobod's finance department for processing.

The following chart maps out this sequence.

The LBC Cash Cycle - a Lesson in Time Value

As shown, there is a lag of between 33 and 52 days from the initial outlay of cash to purchase beans until the ultimate settlement of the invoice in question. On this basis[10] the LBC's *guaranteed sales margin of 10.14%*[11] *implies a return of 48.78% p.a. before compounding*.

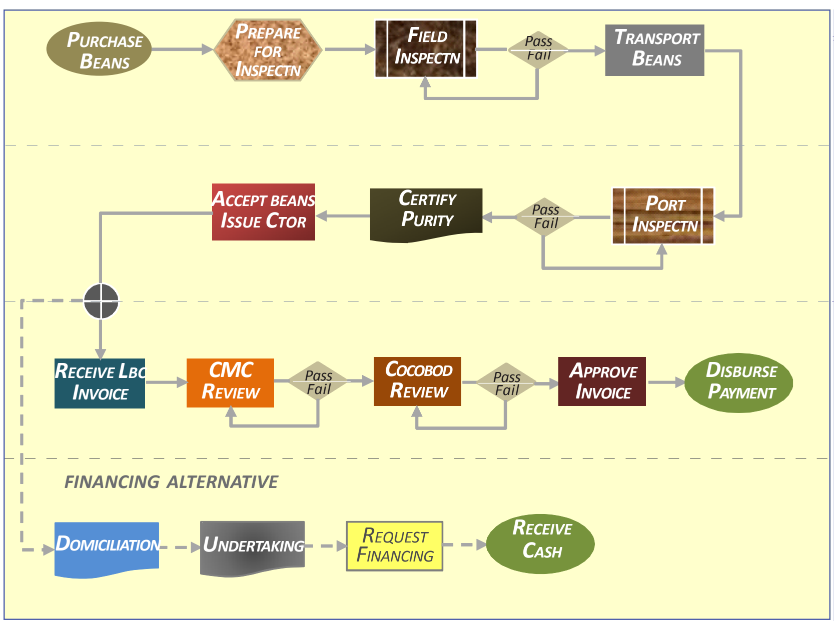
Since the collection stage accounts for approximately 40% of the cash cycle, an LBC has a strong incentive to speed up the process of cash-realization. Just *cutting the standard 30-45 day collection period in half*[12], *boosts the implied return on deployed cash to 68.29% p.a.*

In pursuit of such powerful leverage, LBCs have naturally resorted to financing their Cocobod receivables. *Current lending rates range from 2% and 21/2% monthly - with a 33.33% haircut.*

Capitalizing on the Demand for Liquidity

Rhombus Advisors has developed *a transparent stucture* that allows the offshore investor to participate in the lucrative returns described above. The strategy involves three straight-forward steps:

■ Process-flow for Cocoa Procurement & Supply



Stage	Location	Agent	Days
Procurement	District	LBC [1], QCD [2]	14-21
Delivery	Port	CMC [3]	5-10
Collection	Accra	CMC, COCOBOD [4]	30-45
Financing	Accra	LBC, Lender	3-5

Notes

1. Licensed Buying Company
2. Quality Control Division
3. Cocoa Marketing Company
4. Ghana Cocoa Board

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[6] The beans are dried, sorted, bagged and stacked to Cocobod specifications.
[7] i.e. Cocobod's wholly owned procurement subsidiary.
[8] The Ctor records the quantity and grade(s) of beans delivered as well as their provenance (on the basis of which reimbursable freight expenses are calculated).
[9] In addition to the value of the tonnage delivered, the invoice includes a claim for its transportation expenses on each individual load in the relevant shipment.
[10] Using the mid-point of this range amd based on a 10-month crop year.
[11] i.e. Spread of GHS 21.50 on purchase price of GHS 212 per bag.
[12] i.e. Thereby reducing the total lag from 43 to 36 days.

❶ identify one or more local finance houses with a successful track record of providing credit to LBCs against the latter's invoices payable by Cocobod;

❷ arrange for the selected lenders to reassign these receivables to an entity controlled by the investor;

❸ on the basis of this collateral extend short-term asset-backed funding to selected finance house(s).

Indicative Term Sheet

Arranger:	*Rhombus Advisors LLC*
Instrument:	*Securitized Cocobod Receivables (SCOREs)*
Form:	*Collateralized note*
Borrower:	*ABC Financial Services Ltd.*
Purpose:	*To fund advances to procurement agents licensed by Ghana Cocoa Board*
Collateral:	*Payments due from Ghana Cocoa Board in respect of deliveries of cocoa.*
Haircut:	***15%***
Currency:	Ghana cedi
Maturity:	*60 days*
All-in rate:	*TBD - currently 28.85% p.a.*
Governing law:	*Ghana*
Legal advisor:	********

Key Investment Considerations

- *No performance risk*, since disbursements are only made after the state-owned Cocoa Board has accepted delivery of the relevant cocoa consignment.

- Not only is the payor of the receivables underlying the *SCOREs* one of the most important agencies of the Ghanaian government, *the actual payments are pre-funded*.

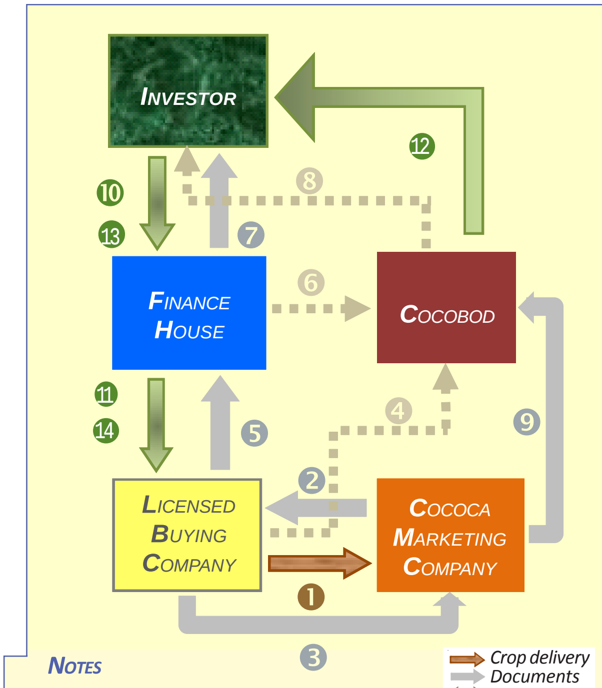
- Credit exposure is *over-collateralized by 1.5x*.

- Yielding approximately 28.85%, *SCOREs* offer a premium of *more than 600 b.p. over local T-bill rates* - already the highest in sub-Saharan Africa *(see Appendix)*.

- Since local regulations prohibit non-residents from holding Government obligations with final maturity of less than 3 years, *SCOREs provide access to an otherwise excluded point on the Ghanaian curve*.

The transaction's structure and mechanics are laid out in the flow-chart along-side.

Transaction Structure & Mechanics



Notes

❶ *LBC delivers cocoa beans.*

❷ *CMC issues Ctor acknowledging delivery.*

❸ *LBC submits invoice and Ctor for processing.*

❹ *LBC sends Domiciliation Letter instructing Cocobod to issue relevant payment in favour of Finance house.*

❺ *LBC provides copy of Domiciliation Letter to Finance house, pledging pending Cocobod payment as collateral.*

❻ *Finance house sends Domiciliation Letter instructing Cocobod to issue relevant payment in favour of Investor.*

❼ *Finance house formally transfers its interest in Cocobod receivables to Investor.*

❽ *Cocobod issues Letter of Undertaking, acknowledging payment instructions in favor of Investor.*

❾ *CMC's Accounts department validates payment request then forwards it to Cocobod for processing.*

❿ *Investor extends Finance house a 60-day loan secured by pledge of Cocobod receivables.*

⓫ *Finance house advances loan proceeds to LBC for an identical 60-day term.*

⓬ *Cocobod settles invoice by check in Investor's name.*

⓭ *Investor's local custodian deducts principal and interest due on secured loan, then pays balance of check proceeds to Finance house.*

⓮ *Finance house deducts principal and interest amounts owed by LBC, then pays balance of proceeds to the latter.*

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Risk factors & mitigation

■ Credit risk

Each crop season, *the payments that COCOBOD expects to make in respect of supplier invoices are fully pre-funded* with the proceeds of a collateralized US Dollar facility arranged by a syndicate of international banks[13]. The facility announced in July 2013 by a banking syndicate led by the Bank of Tokyo-Mitsubishi was in the amount of US$ 1.25 billion[14].

In other words, the *Ghana Cocoa Board is completely insulated from the fiscal constraints* that have given rise to periodic delays on payments due from such statutory bodies as the Ghana Road Fund and the Ghana Educational Trust Fund[15].

■ Fractional credit risk

As *SCOREs* are a direct obligation of the finance house, investors would have a residual claim against the borrower in the event of any cash-flow shortfall from the pledged receivables. This contingency is highly unlikely, given the level of overcollateralization built into the structure. *The 33.33% haircut is in fact enough to secure the repayment of principal and a total of more than two years of interest payments* at the contractual rate of 28.5% p.a.

■ Collateral risk

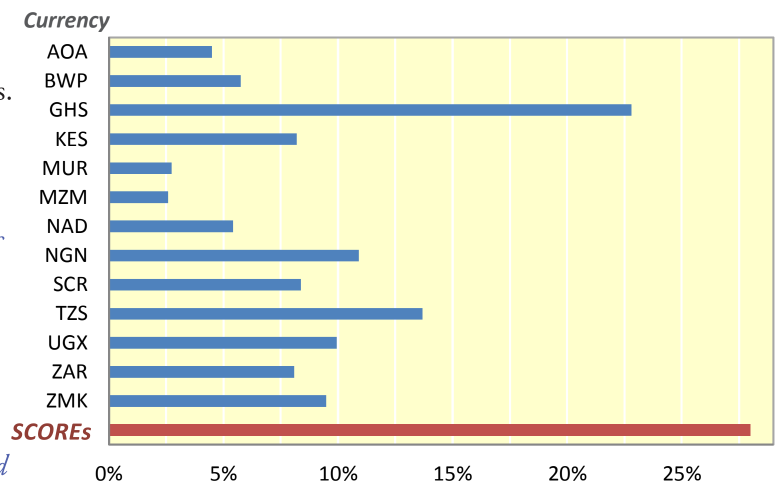
As is clear from the foregoing, the integrity of the *SCOREs* structure hinges on the *quality and perfectability of the collateral underpinning it.* To this end one of Accra's leading corporate law firms[16] has been engaged to *verify the authenticity and irrevocability of each Letter of Undertaking[17] issued by COCOBOD* – as a precondition for the disbursement of any loan advances under the structure.

■ Currency risk

The Ghana Cedi, in which *SCOREs* are denominated, is one of the more volatile currencies in the emerging market universe, having experienced significant currency devaluations every four years[18] over the last decade and a half. Indeed, the Cedi's year-to-date depreciation currently stands at 8.30%.

Under the circumstances, the dominant strategy is to hedge out the currency risk with *non-deliverable forward contracts - currently quoted at 19.25% p.a. – for a USD expected return of approximately 960 b.p.*

■ APPENDIX
Comparative short-term rates



[13] The facility is secured by a pledge of the export proceeds from that crop year's expected harvest.
[14] The transaction is scheduled to close on September 20, 2013.
[15] Responsible for financing road construction and repairs and schools rehabilitation, respectively.
[16] i.e. ******.
[17] i.e. Whereby COCOBOD expressly undertakes to disburse the payment(s) due under a given invoice to the designee.
[18] A quadrennial pattern driven by the electoral cycle and related fiscal excesses.