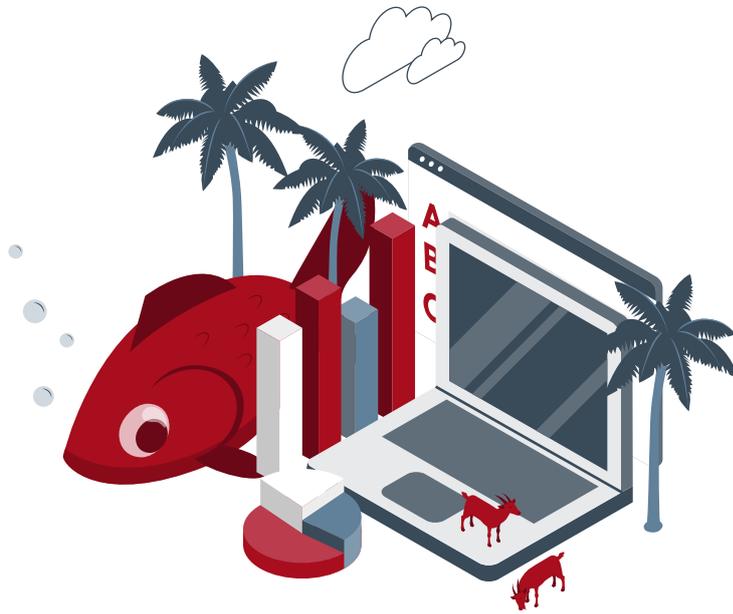


NO. 03/2019

PERSPECTIVE NEW FRONTIERS





KGAL INVESTS ITS OWN MONEY IN NEW IDEAS

No company can survive in today's world without continuously improving and advancing. KGAL explores potential investment opportunities through a company called KGAL New Frontiers (KNF) that was established for this purpose. Our goal is to identify attractive investment objects and then, after a successful test phase, potentially offer them to institutional investors.



DR. KLAUS WOLF
MANAGING DIRECTOR
KGAL NEW FRONTIERS

I've been examining new business approaches for KGAL for quite some time now. It's particularly interesting in this regard to be able to constantly learn about new ideas and meet new people. I truly enjoy it, but I'm not the only one, as every employee involved in the process is wholly committed for the same reason. Irrespective of this, we would be misjudging the signs of the times if we were to just remain satisfied with the status quo and our healthy core business.

In the case of renewable energy, for example, we can now clearly see how changing overall conditions are impacting our core business. The strategies employed for our ESPF 3 and KGAL ESPF 4 funds are completely different from one another, despite the fact that the funds' designations make them seem like they're part of a series. The only thing the funds have in common is that they both benefit from the expertise KGAL has acquired in this field over a period of many years.

Indeed, KGAL's wealth of experience plays a major role in the selection of investments to be made by KGAL New Frontiers. We hold shares in SunErgy, for example, which is a Norwegian company that's building small solar power plants in Cameroon. We have also invested in Artsakh HEK, which is a small energy provider that operates a hydropower plant in Artsakh in Armenia. Along with investments in traditional areas that are closer to home for KGAL, so to speak (for example renewable energy and real estate), we also now plan to become active in the food sector and participate in small venture capital and private equity schemes.

No institutional investor today would ever think to associate us with investments in the food sector – but that's exactly why we established KNF. If we are able to gain initial experience in new investment areas and markets, and perhaps even get a co-investor on-board, we'll definitely be able to find institutional investors more easily for subsequent transactions of a similar nature. That's because our presence in the market in question, and our willingness to invest ourselves, send a clear signal to other investors, who then view us as being competent to invest on behalf of others in that market.

Due to the very nature of the business, we reject the majority, if not most, of the investment objects we examine. The closer such objects are to our asset classes of real estate, aviation and renewable energy, the more strongly we make use of our expertise at KGAL. If the object in question is not very closely interwoven with KGAL's standard business, we call in third parties to help us form an opinion. The goal here is to establish a track record in new investment areas.

When I say track record, I'm referring to more than just returns and yields. Establishing a track record also means creating a network, demonstrating an ability for effective implementation, and monitoring and managing investments throughout their duration, which in some cases may amount to several years. This is exactly the idea behind KNF – to establish a track record and then get institutional investors interested later on down the line.

ELECTRICITY FOR CAMEROON



A roughly estimated 1 and 1.5 billion people around the world live without access to electricity. One reason for this is that building large power grids is too costly and infrastructure is therefore missing in most developing countries. The Norwegian company SunErgy, founded by Dr. Stein Skjorshammer in 2011, provides communities in Cameroon with off-grid solar power. KGAL New Frontiers acquired a 22% share of SunErgy in April this year.

Dr. Skjorshammer, what was the idea behind starting the project?

I have always been passionate about helping those less fortunate, and decided some time ago to devote myself to doing just that. By drawing on my life experience and experiences of teaching courses on entrepreneurship, business development and innovation as Dean and Associate Professor at the business school combined with my experience as CEO for Alcatel InnoVA. I started the SunErgy project with the goal of enabling people to start small businesses. I wanted to create something that would be a strong driving force in propelling people out of poverty.

Did you think about solar power right away?

Initially, I was not thinking about solar power or renewable energy. However, there were a lot of discussions about solar energy at that time and the project needed a driving force. Something that would propel the project, so I founded SunErgy, with electricity being the driving force.

Why is solar energy a key to eliminating poverty?

Small solar plants can generate electricity which, is a crucial tool for social and economic development. For instance, if you think of a homemaker in Africa, she needs

approximately eight hours a day to make the fire, prepare food and do the laundry. If you provide her with electric household appliances, you will give her back around 30 hours a week. With the time that this frees up, she will be able to work or start a small business and, as a result, her family's financial situation may improve significantly.

What are your thoughts on education?

We also provide people with internet access, which promises to transform the school system in developing countries. I once asked a head teacher at a school in a local village school if I could see his library. He had five books, safely secured in his office, all more than thirty-year old editions of Britannica! Internet access will facilitate the means for students to read thousands of new books via the internet or using mobile phones. The same with the health centers; they communicate with doctors and nurses abroad, which will greatly help them when caring for their patients.



» *THE WORLD IS DRIVEN BY ELECTRICITY.*

» *WE BUILT A SMALL SOLAR POWER STATION FOR ONLY ONE VILLAGE AND THEN LAID WIRES TO THE HOMES DEEP IN THE RAINFOREST, AND IT WORKED.*



- » PEOPLE WANT TO SEE FOOTBALL MATCHES AND NEWS.
- » IN ONE VILLAGE WITH 600 INHABITANTS, 40 SMALL BUSINESSES HAVE BEEN STARTED.
- » WE ARE PLANNING TO HAVE ONE MILLION USERS INVOLVED IN THE PROJECT BY 2025. THAT IS 200,000 FAMILIES.

Are mobile phones part of your business model?

Yes. SunErgy builds small-scale grids, offers electricity, cable TV and Internet communication via smart phones, as well as micro-credits for those who buy electricity from us.

You support people by helping them to develop their own small businesses. Could you give me one example?

There was a man who used to come through this one village once a week selling fish. The villagers would then smoke the fish in order to preserve it. Then one man set up a cold store, with some refrigerators and some freezers. Now, they go to him and they can have fresh fish for six days. We have tons of examples of people who have started and successfully run their own business.

What is the income situation in Cameroon?

They already earn money. Let's say the average income is € 2,000 a year. But they own their own houses or farms; they have no debts. They grow their own food, so the money they make is basically spending money. When we are finished with the project in Cameroon, we will have created 30,000 new jobs which will bring around € 45 million annually into the local community, which will provide for social and economic development.

Which targets does SunErgy have regarding financial results?

We are operating SunErgy as a commercial business. The cost of providing electricity is so huge that we must have investors from outside – and investors want a return. Our return on investment is from three to five years, depending of the size of a village. It is a fantastic business because, in addition to fast return, it will run for at least twenty years generating money. I think we have found the key to enabling the escape route from poverty and at the same time make money for the company and for the investors. This is a win-win situation.



Could you tell me how high the return on investment is?

The yield is fantastic; we assume a clearly double digit return. The high yield is important for attracting investors as it compensates for the risk.

Do you have any competitors?

Nobody is doing what we are doing in Africa. You cannot make money solely by selling electricity because the consumption is too small. You have to have several streams of revenue to build a viable and sustainable business. We have earnings from electricity cable TV and Internet, sale of electrical household appliances. In addition, we carry out house wiring and have some income from microfinancing.

How many people work for SunErgy in Africa?

We have 42 employees in Cameroon. We offer six jobs in every village. There are four security guards, someone to collect the money and a managing director. When we have finished the present project in Cameroon, there will more than 200 employees serving our customers.

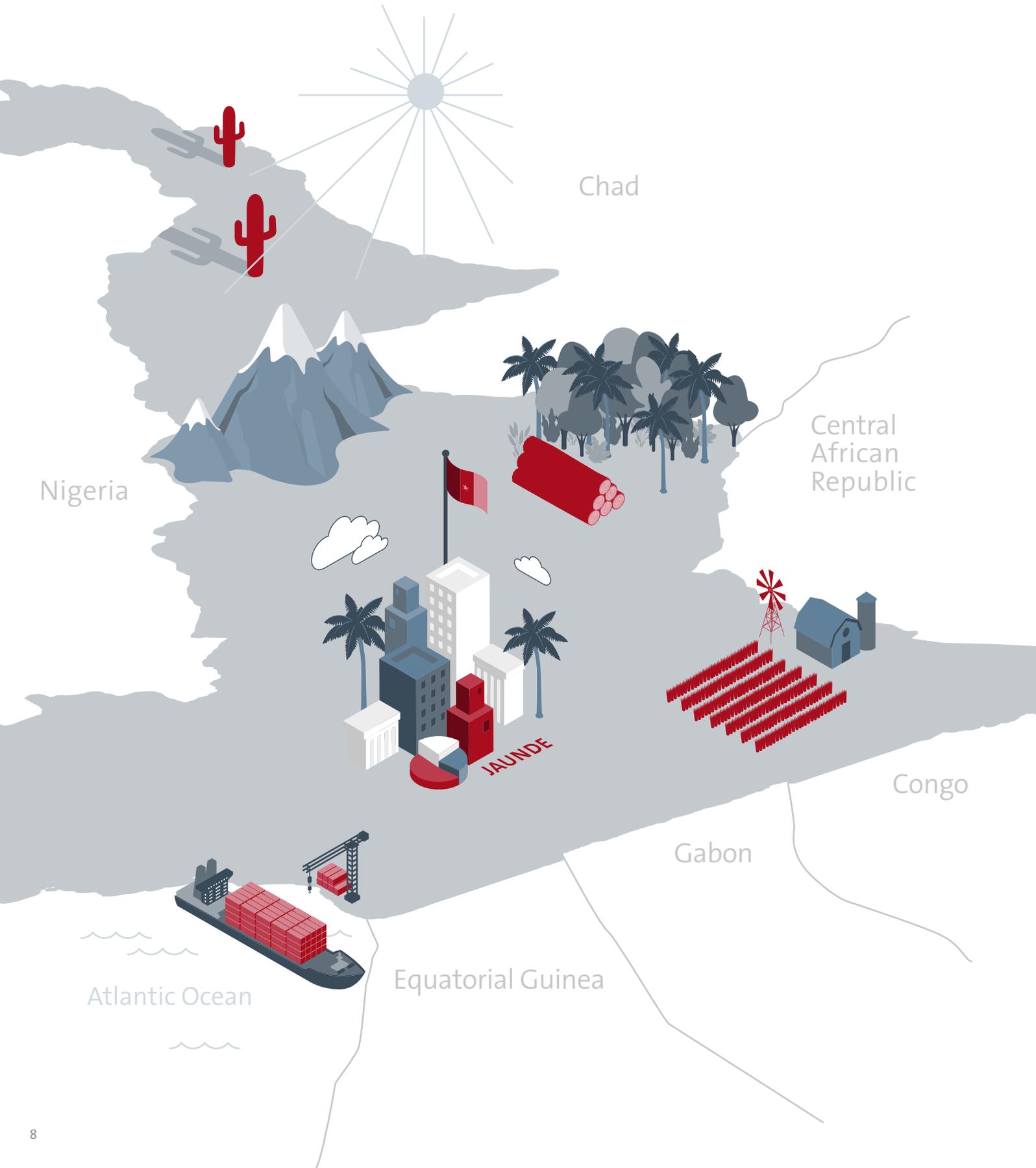
You have already worked a lot in your life. Do you ever think about retirement?

No (laughs out loud)! Why would I retire? To lay on the sofa? SunErgy is very meaningful to me and I hope to continue with the project for years to come. The most important thing that keeps you fit and healthy is having meaning and purpose in your life.

» WE CAN PROVIDE A FAMILY WITH ELECTRICITY, CABLE TELEVISION AND INTERNET FOR LESS THAN THE PRICE OF A BOTTLE OF BEER PER DAY.

» WITH AN INVESTMENT OF € 500, YOU ARE ABLE TO GIVE A FAMILY ACCESS TO THE WORLD AND A BRAND NEW LIFE.

KGAL NEW FRONTIERS GMBH (KNF) ACQUIRED A SHARE OF ROUGHLY 20 PER CENT OF SUNERGY AS IN APRIL 2019. SUNERGY SUPPLIES OFF-GRID ELECTRICITY TO VILLAGES IN NEWLY INDUSTRIALISED COUNTRIES. THIS IS ACHIEVED BY SHIPPING SMALL TURNKEY SOLAR POWER PLANTS FROM NORTHERN EUROPE USING CONTAINERS. THE POWER PLANTS ARE CONNECTED TO HOUSES THROUGH THEIR OWN NETWORK, AND PROVIDE POWER. KNF INTENDS TO FINANCE SUNERGY'S FURTHER GROWTH WITH ITS INVESTMENT IN THE COMPANY.



“ENDURANCE TRUMPS STRENGTH.”

CAMEROONIAN SAYING

Cameroon is home to around 25 million people. The country is known for its rainforests and exports wood, mineral oil and cocoa. The government wants to become an emerging country by 2035.

	CAMEROON	GERMANY
Capital	Jaunde	Berlin
Area	475,440 km ²	357,580 km ²
Life expectancy	58 Years	81 Years
Internet users*	23.2 %	84.4 %
HDI**	151 st out of 189	5 th out of 189

* Internet users are defined as people who have used the Internet from any location over the last three months.

** The Human Development Index (HDI) measures human development in countries on the basis of specific indicators such as life expectancy at birth, education and per capita income. The HDI is published in a report issued by the United Nations Development Programme (UNDP).

**“I BELIEVE IN THE IDEA
BEHIND SUNERGY BECAUSE
I BELIEVE IN HELPING
PEOPLE HELP THEMSELVES.”**





**DR. FLORIAN ESTERS
HEAD OF THE KGAL
LEGAL DEPARTMENT**

Spring 2019: KGAL New Frontiers (KNF) is planning to acquire an interest in SunErgy. Dr. Florian Esters, Head of the KGAL Legal Department, is responsible for drawing up the contracts and negotiating with attorneys and tax advisers in Germany, Norway and Cameroon. He's also responsible for examining the SunErgy business model, which is why he travels to Cameroon. Esters gives the go-ahead for the acquisition – and is surprised, fascinated and touched by what he sees and experiences in Cameroon.

I WAS SURPRISED BY ...

the excitement and interest of the local people, their almost child-like joy to finally be getting electricity. Any expectations I had were drastically exceeded when I saw how resources became available and new ideas were developed. For us, electricity is a given, but in Cameroon electricity changes the quality of life. For example, women no longer have to spend around 40 hours a week collecting wood, since they now have electric hotplates. They can also open a hair salon, or a small kiosk with a refrigerator for selling cold drinks.

I WAS FASCINATED BY ...

how satisfied the people seemed to be. I've repeatedly observed this in developing countries – the fact that, like in Cameroon, many people, or even the majority of the population, enjoy very little material prosperity as compared to people in the West. In many cases, they have just enough to survive – but at the same time they're rich, or at least that's how you see them after you experience their humanity, their culture, and how they conduct themselves.

I WAS TOUCHED BY ...

how the local people equated SunErgy and KGAL with progress and prosperity for the village. I was also very touched by the sincere gratitude they expressed to us. The village chief and the governor of the province presided over the inauguration ceremony for the new solar power installation, after which a feast was held with celebration dances. For us, it was a beautiful experience and for the village it was the biggest event of the year, if not the entire decade.



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KGAL Group

KGAL New Frontiers GmbH is a 100% subsidiary of KGAL GmbH & Co. KG. The company's mission is to identify new investment areas and opportunities that offer high returns and then offer such investments to institutional investors following a successful test phase. KGAL is a leading independent investment and asset manager with an investment volume of approximately €20.5 billion. Its investment focus is on long-term capital investments for institutional investors in the real estate, infrastructure and aviation sectors.

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Image Source: KGAL

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