IMPACT INVESTING FUND MANAGER PROFILES

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CASE DISCUSSION INTRODUCTION

Imagine that you are a serial entrepreneur who has recently sold your third company. Several years ago, you set up a trust that you envisioned would be the platform for your philanthropic legacy. You invested the funds with a traditional fund manager, ensuring that the capital would be preserved for when you had the time and energy to actively begin your “legacy project.” Now, with the successful sale of your most recent entrepreneurial endeavour, you feel that the time has come.

When you set up the trust, you had envisioned that it would act as an endowment for charitable activities that you would select based on your philanthropic interests. You had planned to pursue the traditional model of using the investment proceeds from the trust to provide grants and donations to high-performing non-profit organisations. Following best practice, you would have also contributed a small percentage of the trust’s capital, understanding that the trust would be wound down over a period of several decades. Based on this model, it was extremely important that you choose a fund manager with a strong track record and invest in stable, if not high-performing, investments.

Over the last several years, however, you have been introduced to the concept of impact investing as a way to align your financial investments with your social interests. This type of investing seems to offer an alternative to the traditional model, allowing both the trust capital to be used for social good, as well as generating returns from which to invest in either for-profit social companies or non-profit charitable organisations. From your initial research, it seems that there are fund managers who have set up funds that provide stable, risk-adjusted returns, while at the same time investing in companies that provide a “social return.”

While it seems like an ideal scenario, you are a bit sceptical. Some of the fund managers that you have researched are relatively new, and their investment track record is still untested. The fund managers also have relatively small assets under management, compared to the large fund manager currently managing your trust. You are also concerned that the social mission of these fund managers may be merely a marketing tool: how can you be sure that their “social return” is solid?

You have reviewed the materials from several fund managers and have narrowed your choice down to a single manager. You’ve gone through their materials extensively and you’ve put down on paper what you believe to be a comprehensive profile. However, your questions still remain:

- In the absence of a significant track record, how can you gain comfort in the manager’s ability to generate returns?
- What implications does the relatively small assets under management have for your investments?
- Does the fund manager’s impact thesis align with your own mission? Does their impact measurement seem rigorous?
- How can you be confident that the manager will continue to pursue their financial and impact strategy for the long-term?

01
ATLANTIC ASSET MANAGEMENT

Overview

Atlantic Asset Management (Atlantic) is an asset management house specialising in income-related investments. Atlantic has a team (Specialised Finance) which focuses on investments in the unlisted space, with a particular emphasis on high social impact investments that have a positive socio-economic impact within Sub Saharan Africa. Their aim is to identify and manage investment opportunities that offer both a financial return as well as a measured positive social impact. Atlantic seeks benchmark-beating returns in all of its impact funds and investments, primarily by providing credit to intermediaries that seek expansion capital to support small and medium businesses.

Atlantic's investor base includes individuals (retail solutions) and institutions (Trusts, Multi Managers, Foundations, Pension Funds, Provident Funds, Medical Aids and Insurance). Atlantic's core investor base, making up 60% of its source of funds, are institutional.

Atlantic is a privately-held company. The founding members and staff all hold significant equity in Atlantic, as well as two external shareholders who have held ownership since inception.

History

Founded in 2007 by Arno Lawrenz and Murray Anderson, Atlantic was born out of an aspiration to establish a highly functioning specialist fixed income provider that manages risks and delivers returns for clients, while at the same time having a positive impact on society.

The Specialised Finance team is led by Heather Jackson, who co-founded one of the first impact investment funds in the South African market, at African Harvest Fund Managers (AHFM). AHFM was subsequently sold to Cadiz Holdings in 2006. Jackson and her team moved to Atlantic to focus on the development of impact investment solutions in 2012.

Investment Team (Specialised Finance)

Team members are financially orientated by qualification, and have significant experience in promoting impact investing in South Africa, creating models that have placed traditional capital in vehicles for socio-economic impact.

Atlantic is committed to employing new graduates from previously disadvantaged backgrounds. It has established a year-long paid internship program that employs new graduates and exposes them to the asset management industry while preparing them for long-term career opportunities outside of Atlantic.

KEY INFO

Investor Type:
Primarily listed debt and equity, with unlisted debt in its impact funds

Founded:
2007

Geographic Scope:
Sub Saharan Africa, with initial mandates for South Africa

HQ:
Cape Town

Employees:
13 partners and employees, with 6 investment professionals

AUM:
ZAR 5.4 billion in Atlantic generally; ZAR 1.5 billion in impact mandates

Return Profile:
Total return, real returns above inflation

Impact Measurement:
IRIS taxonomy to measure 5-10 impact metrics per investment, quarterly

Minimum investment:
ZAR 30 million

Lock-Up:
None

REPRESENTATIVE INVESTMENTS

Franchising:
Roll out of food franchise operations with local job creation and training for unemployed youth

Dignified burial options:
Establishment of memorial parks for otherwise unusable and unsightly land. Training and employment opportunities are created to develop and maintain the park-like environment

Investment Approach (Specialised Finance)

The Specialised Finance team has a pipeline of ZAR 2.6 billion of investable opportunities and considers its ability to identify investments with both financial and social impact as one of its competitive strengths. This pipeline is widely distributed across the impact spectrum, with sizeable opportunities in low-income housing, education, healthcare and agriculture. The team seeks stable, growth-phase companies needing expansion capital and provides unlisted loans with a maximum 5-year term and strong underlying cash flows. The team sees corporate governance as one of the key measures of sustainability and uses this as a first-level screen on its investments.

The team has placed ZAR 500 million in individual institutional mandates, and is currently fundraising for its flagship impact fund, the Atlantic Credit Enhanced Guarantee Fund, which is targeting ZAR 700 million in committed funds. This fund is representative of the team's individual institutional mandates, but has the addition of a first-loss 50% capital guarantee from the South African Jobs Fund program. The Jobs Fund is a program by the South African National Treasury "supporting initiatives that generate employment in innovative ways." The first loss guarantee provides a pool of capital that the fund can access in the event of either capital or interest default. This guarantee, linked to anticipated social impact, is the first of its kind in South Africa and the team hopes to use this as a model for future investment funds. Atlantic currently has a partnership with the World Wildlife Fund (WWF) to grow an Atlantic/WWF Environmental Impact Fund.

Impact Approach

Atlantic targets investments that use market-based solutions to pressing social challenges at the "Bottom of the Pyramid" (BOP) in Sub Saharan Africa. Atlantic is committed to measuring and tracking impact using Impact Reporting and Investment Standards (IRIS), and is also trained in Social Return on Investment (SROI). Atlantic does not believe in anecdotal or accidental positive social impact as a consequence of its investments. Rather it seeks to identify, track and monitor key impact indicators across its portfolios. For each investment, the team selects 5-10 indicators from the IRIS taxonomy which are then tracked on a quarterly basis. The Credit Enhanced Guarantee Fund targets 30 jobs (15 permanent, 15 temporary) per ZAR 1 million invested.

Governance and Incentives

From a company perspective, Atlantic's investments are overseen by Investment Committees that operate within parameters set out by the Atlantic Credit Committee. Atlantic also appoints independent investment advisors to review the macro themes that generate the overall investment outlook. On a national and global basis, Atlantic is fully compliant to the Code for Responsible Investment in South Africa (CRISA) and a signatory of the United National Principles for Responsible Investing (UNPRI).

Incentives are performance-linked and the company operates on a salary plus bonus structure. A pre-determined percentage of pre-tax profits forms the bonus pool and is allocated to team members with high performance. Key staff become eligible for share ownership after serving at Atlantic for a period of time.

Investor Influence

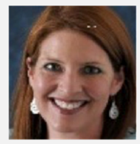
Apart from Atlantic's active committee level involvement with ASISA and CRISA, the Specialised Finance team seeks companies that are in expansionary mode, often behaving in a socially responsible manner because "it makes good business sense." Through the investment relationship, the team assists companies in being more intentional in their impact, integrating impact into their strategy in a more formal and measureable way.

SELECT AFRICA FUNDS

Credit Enhanced Guarantee Fund

- ZAR 700 million (AUM target)
- Target return: CPI +3%
- Impact target: Job creation, 30 jobs (15 permanent, 15 temporary) per ZAR 1 million invested

KEY INVESTMENT PROFESSIONALS

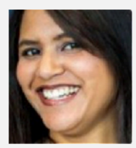


Heather Jackson
CEO (ASF)

Rob Nagel
CIO (ASF)

Dean Hand
Strategic Advisor

Mandla Khupe
Credit Analyst



Adliya van Niekerk
Project Accountant

02
FUTUREGROWTH ASSET MANAGEMENT

Overview

Futuregrowth Asset Management (Futuregrowth) is a specialist investment company which focuses on ethical and sustainable investing across a range of debt/fixed income products and developmental funds. The company acts as an institutional fund manager on behalf of diverse clients, which are predominantly South African retirement funds. Futuregrowth also provides debt and equity funding to organisations seeking to raise capital, which provides deal flow for its funds. Organisations include large and medium-sized private and public entities, as well the South African government and state-owned agencies and institutions.

Futuregrowth seeks commercial, risk-adjusted market returns in all of its funds, and utilises tools, such as interest rate management, to add returns to clients' investments. Futuregrowth's responsible investment approach varies across its funds, ranging from ESG screening in its debt products to intentional impact creation in its developmental funds. Futuregrowth is a specialist boutique within Old Mutual, a publicly listed, multinational insurance and banking company with operations worldwide. Old Mutual has a controlling interest in Futuregrowth, while Futuregrowth's management and staff have significant equity in the business.

History

Futuregrowth was launched in 1994 as a single product within Southern Life's investment management division. In 2000, FirstRand Group led the application for the Financial Services Board (FSB) approval to create Futuregrowth as a financial services company. In 2002 Women's Investment Portfolio Holdings (WIPHold), a women-owned black empowerment fund, bought a 40% equity stake in the company. At the same time, Futuregrowth transferred 20% of its equity to an employee share option scheme, which included every employee in the company. In 2005, WIPHold took control of Futuregrowth, increasing its holdings to 70%, and making Futuregrowth one of the largest empowered (black-owned) fund managers in South Africa. By this time, Futuregrowth had grown to manage over ZAR 30 billion in assets and was now positioned to attract significant clientele through its track record and ownership profile. In 2008, Futuregrowth was sold to Old Mutual Investment Group, which merged its fixed income practice into Futuregrowth's. Steady growth has continued since the acquisition and today, Futuregrowth is one of South Africa's largest fixed income managers, acting as a specialist investment boutique under the Old Mutual portfolio of operating companies.

Investment Team

The Futuregrowth investment team is made up of approximately 35 professionals based in Cape Town. The team represents one of the largest fixed income teams in the country, and the team have been honing their skillset in listed and unlisted debt and equity for nearly two decades. Futuregrowth was one of the first movers in the unlisted credit space in South Africa, and they have created a specialised practice that has the longest track record in the industry. According to CIO, Andrew Canter, "when you come to work at Futuregrowth, you bring your ethics with you." Futuregrowth sees itself first and foremost as a steward of people's savings. The Futuregrowth purpose statement states that, "Futuregrowth's purpose is to enrich our clients, communities, the nation and the world by investing our clients' money in a diligent, fiduciary way for suitable returns and, where we can, delivering positive social impact."

KEY INFO

Investor Type:
Listed and unlisted debt and equity

Founded:
1994

Geographic Scope:
South Africa

HQ:
Cape Town

Employees:
71 total, with 35 investment professionals

AUM:
ZAR 150 billion (June 2015)

Return Profile:
Market rate-of-return, risk adjusted

Impact Measurement:
Customised based on client needs

Minimum investment:
At portfolio manager's discretion

Lock-Up:
0-36 months, subject to fund

REPRESENTATIVE INVESTMENTS

Picketberg Farm:
Consolidation of three deciduous and stone fruit farms in the Western Cape. The investment has significant expansion potential which will increase exports and jobs (100 new jobs anticipated)

De Aar Solar Power:
One of the first solar facilities in the country to start construction as part of the South African Government's Renewable Energy Independent Power Producers Programme. 8% of the company is owned by a community trust and the project is estimated to contribute nearly 300 local, temporary jobs

Investment Approach

Futuregrowth's investment team uses a "bottoms-up" approach to asset selection, identifying opportunities by conducting an analysis of borrowers in both the listed and unlisted sectors of the lending markets. Futuregrowth sees its capacity to identify unlisted opportunities as a significant competitive advantage. Futuregrowth integrates environmental, social and governmental (ESG) analysis and screening into the majority of its investment processes for both risk mitigation and fiduciary responsibility. The ESG process is defined by client preferences, or, if no preference exists, at the discretion of Futuregrowth.

Impact Approach

Beyond negative screening, Futuregrowth has six development funds that intentionally seek to create positive social impact. Futuregrowth has invested in social impact instruments for 19 years, and defines its development funds as those that contribute risk-adjusted commercial returns with tangible social impact. These funds, which include both debt and equity, cover a number of industries, such as infrastructure, agriculture, property, housing, healthcare and renewable energy. To measure the impact of its developmental funds, Futuregrowth classifies each of its funds' investments into high, medium and low impact, depending on the specifics of each investment. Futuregrowth then provides customised reporting to clients requiring additional metrics associated with social impact.

Above all, Futuregrowth believes that delivering excess returns is the prime goal, and financial success gives them the ability to pursue social impact. In its more than 20 years since inception, Futuregrowth has grown to manage more than ZAR 150 billion on behalf of approximately 40 direct, third-party clients.

Governance and Incentive

Futuregrowth is governed by several bodies, including the Compliance and Risk Officer, by Old Mutual South Africa's Audit and Risk Committee, and by KPMG as external auditors. On the investment side, the Credit Committee monitors credit risk and the approval of new transactions and exposures, the Investment Committee approves and monitors equity investments, and the Valuation Committee approves valuation policies and methods. Futuregrowth also subscribes to best global practices for codes of conduct.

In its incentive structure, Futuregrowth seeks to align team interests. Bonuses are pooled annually, and the entire team shares in the success of individuals. This "mutual accountability" is thought to align team members' interests with the shared purpose of the firm. Furthermore, although the original employee ownership scheme was altered in the Old Mutual acquisition, all senior and middle management staff still own identical shares in the company, and employee ownership is in line with most South African investment firms.

Investor Engagement & Influence

Futuregrowth engages with investee companies to encourage improvements on ESG factors as a means of improving long-term sustainability within their operations. As Angelique Kalam, Manager: Sustainability Practices describes: "We don't tell companies how to run their businesses, but we do try to influence positive changes that will bring about sustainable change." Futuregrowth is also an active member in the South African and global investment community. As a member of the Association for Savings and Investment South Africa (ASISA), Futuregrowth has been vocal about issues which it believes to be detrimental to clients. Furthermore, Futuregrowth has taken firm stands on trends that it believes are predatory or harmful to the investment community, as well as the community at large. Futuregrowth's position in the investing space is to uphold what it believes to be a "sacred honour" to look after its clients' investments.

SELECT DEVELOPMENT FUNDS

Agri Fund:

- ZAR 0.5 million
- Target return: CPI +10%
- Investment in agricultural land, biological assets, infrastructure and other related farming implements

Development Equity:

- ZAR 1.7 billion
- Target return: CPI +10% by 18-22% per annum
- A range of social and developmental projects and businesses

Infrastructure & Development Bond:

- ZAR 9.5 billion
- Target return: ALBI +1%
- Listed debt across a broad range of social and developmental sectors

Power Debt Fund:

- ZAR 4.3 billion
- Target return: STeFI +2.25% per annum
- Investment in mixed and variable debt instruments specialising in energy-related industries.

KEY INVESTMENT PROFESSIONALS

Andrew Canter
CIO

James Howard
Portfolio Manager & Head

Jason Lightfoot
Portfolio Manager

Paul Semple
Portfolio Manager

Smital Rambhai
Product Manager

03
GOODWELL INVESTMENTS

Overview

Goodwell Investments (Goodwell) provides early-stage capital and technical support to companies primarily operating in the financial services and technology industries. Goodwell manages a network of funds investing in both India and Africa, and is in the process of raising capital for its next fund, which focuses on Sub Saharan Africa and increases its mandate to include water and sanitation, technology, health and education investments. To-date, Goodwell has invested in 20 financial inclusion businesses, providing more than US$1.5 billion in financial services to over 9 million families.

Goodwell's investor base include development finance institutions, institutional investors, family offices, foundations and private individuals. Goodwell's core investor base, making up 60% of its source of funds, are institutions and family offices. Goodwell strives to deliver a market rate-of-return through investing in financially stable, scalable businesses and adopting a strategy of local partnership to ensure support to investees.

Goodwell's funds are managed by Goodwell Investments B.V., a company owned by the members of its management team. Goodwell invests directly or through separate sub-funds which it co-manages with its local investment partners, and acts as the cornerstone investor in its vehicles with the objective of catalysing further capital from institutions and funds.

History

Following a sabbatical from his career as an institutional fund advisor, Wim van der Beek launched Goodwell Investments in 2006 to form a bridge between the for-profit and non-profit sectors. Goodwell was envisioned as a network of venture capital funds co-managed with local fund manager partners. Goodwell launched its first fund in India in partnership with Aavishkaar, an Indian venture capital fund, investing in microfinance organizations delivering both commercial and social returns. During the course of the investment period of its first fund, Goodwell survived India's microfinance bubble by maintaining a geographically diverse portfolio and avoiding companies with unrealistic multiples. Although the fund was required to write off 40% of its portfolio during this upheaval, the fund still met its performance objectives over the period. Goodwell launched its second India fund in 2010, again in partnership with Aavishkaar, with an extended mandate also covering affordable housing finance and financial technology. Between the two funds, Goodwell has a portfolio of 11 financial services companies.

Goodwell launched its West Africa fund in 2009. Similar to its India model, Goodwell identified two strong local partners, JCS Investments in Ghana and Alitheia Capital in Nigeria. The fund closed in mid-2013 at EUR€16 million and has built up a portfolio of 7 companies providing inclusive financial services in the growth markets of Ghana and Nigeria.

Investment Team

Goodwell's strategy is focused on ensuring local presence in its target markets, and matching financial capital with hands-on support from its investment team. Goodwell starts each fund by identifying a local fund management team and then jointly manages its investments and technical assistance with the local partner.

KEY INFO

Investor Type:
Venture Capital/ Private Equity

Founded:
2006

Geographic Scope:
India, Sub Saharan Africa

HQ:
The Netherlands, with a regional office in Cape Town, South Africa and local teams in India, Ghana and Nigeria

Employees:
12 dedicated professionals, across the various funds and entities

AUM:
USD$85 million

Return Profile:
Market rate-of-return, risk adjusted

Impact Measurement:
IRIS, PRISM

Minimum investment:
EUR€250,000

Lock-Up:
10 years

REPRESENTATIVE INVESTMENTS

Nomanini:
South African-based enterprise payments platform provider, enabling informal merchants to sell airtime, insurance and other digital products

Pagatech:
Nigeria's leading mobile banking platform that enables its clients to save, remit funds, and pay bills via a network of retail agents and mobile phones, providing financial services to 3 million+ clients with a focus on underserved segments of society

Investment Approach
Goodwell targets companies that serve the "Bottom of the Pyramid" (BOP) emerging consumer segment, specifically those operating in financial services, as this has been an industry with strong scaling potential and inclusive business models. Goodwell's latest fund (Goodwell III) will expand this mandate to include water and sanitation, health, technology and education investments.

Through equity, quasi-equity and mezzanine loans, Goodwell invests at an early stage and generally takes significant minority stakes (20-30%) in its portfolio companies. Goodwell participates in multiple rounds to provide a long runway to the investments, which are held long-term, averaging between 5-7 years. Goodwell's strategy is to help grow private equity activity in the financial inclusion sector to ensure profitable exits. Goodwell's experience is that a time horizon of 5-7 years will be necessary to realise its exit strategy. They anticipate that most exits will be via sales in secondary markets, transfer or exchange of shareholdings, realisation of distribution networks, or through self-liquidating mechanisms such as management buy-outs.

Impact Approach
Goodwell is founded on the belief that broadening access to goods and services for underserved populations contributes to long-term, sustainable development. Goodwell's impact strategy is to broaden access to basic goods and services by serving BOP markets with relevant products at affordable prices and in geographic areas that are traditionally hard to reach, such as rural areas. During its due diligence, Goodwell conducts an impact screening which measures the investment target's impact on the sector, organization and consumer. This impact is realized post-investment and is monitored and supported actively to ensure that the company is achieving its anticipated impact.

Governance and Incentives
Since 2007, Goodwell has built its investment infrastructure to manage its portfolio of impact investments in both India and Sub Saharan Africa. Legal due diligence, financial due diligence and deal support are provided by parties from the joint networks of the investment teams. An Advisory Committee is set up for each fund and actively supports Goodwell Investments in compliance with best practices. An Investment Committee is also set up for each fund which takes all investment and divestment decisions based on recommendations from Goodwell Investments. The Investment Committees take decisions by qualified majority (75%).

Goodwell operates on a standard private equity compensation model with a management fee of 3% during the investment period (2.75% thereafter), a carry of 20% of profits post-hurdle and a hurdle rate of 8% cumulative return per annum.

Investor Influence
The investment team is an active shareholder, holding significant minority shares to have real influence. Goodwell operates at a strategic level via its board representation and in frequent close contact with management. Goodwell combines its financial investment with hands-on support, such as the introduction of technology, systems, procedures, management and governance. Goodwell also works to improve the eco-system within which its portfolio companies operate, building strategic relationships with stakeholders, funders, financiers and other partners who influence the investment environment. For the West Africa fund, Goodwell raised a technical assistance facility which is used to provide assistance to portfolio companies. This strategy will be replicated for the new uMunthu fund. Goodwell also operates an advisory services branch which provides consulting services to governments, funds and microfinance companies on strategy, operations and investments.

AFRICA FUNDS

Goodwell West Africa:
- EUR€16 million
- Target Return: 15% Net IRR in EUR
- Microfinance companies that combine social and commercial returns

uMunthu Fund:
- EUR€100 million
- Target Return: 15-20% Net IRR in EUR
- Financial services, inclusive digital economies and other impact sectors

KEY INVESTMENT PROFESSIONALS

Wim van der Beek
Founding Partner

Els Boerhof
Partner

Patricia Safo
JCS Ghana

Tokunboh Ishmael
Alitheia Capital

04
MERGENCE INVESTMENT MANAGERS

Overview

Mergence Investment Managers (Pty) Ltd (Mergence) is an asset manager providing services to institutional clients in South Africa. Mergence specialises in South African equity funds, absolute return funds and socially responsible impact funds which cater to a range of institutional clients. Mergence's products are also available to individual investors through platforms with other institutions.

Mergence's primary investor base includes multimanagers, parastatals, unions and pension funds. Mergence's core investor base is South African pension funds. Mergence strives to deliver superior, risk-adjusted investment returns across its portfolio of products. Mergence uses Environmental, Social, and Governance (ESG) screening as a means of embedding responsible investing within its investment process. Mergence is a privately-held company, with the original founders Masimo Magerman and Izak Petersen as the largest shareholders. In August 2014, 20% of the equity of Mergence Investment Managers was acquired directly by key investment staff members.

History

Mergence Investment Managers is a subsidiary within the Mergence Africa Holdings Group, founded by Masimo Magerman and Izak Petersen. The Group's aspiration is to create a South African financial services company that covers the financial product spectrum, and currently includes subsidiaries that provide asset management, derivatives structuring and trading and real estate investment. The group was created with the vision of building a highly-regarded, black-owned financial services group. Today, the Group has achieved significant progress in realising its vision, with assets under management at ZAR 21 billion.

Magerman had long envisioned an impact investing niche for Mergence, saying "he could only hold his head high when returning to the townships of his youth if his successful career in finance was also generating a sound impact for the community." The Group's impact investing began in 2006 with the launch of its first private real estate equity fund, with a focus of investing primarily in previously underserved township communities. This fund grew into what is now the Dipula Income Fund, which was successfully listed on the Johannesburg Stock Exchange in 2011. With the hiring of Mark van Wyk in 2010, Mergence launched its own impact investment product offering with its ESG Equity, High Impact Debt and SRI Funds. Mergence's High Impact Debt Fund has been successfully rated by the Global Impact Investing Rating System (GIIRS). It is recognised as a GIIRS Pioneer Fund and is one of the few funds in South Africa to have received this rating. Mergence has subsequently launched additional funds across different themes, including broad infrastructure, development and renewable energy sectors in South Africa.

Investment Team

Mergence's investment team consists of 20 highly experienced investment professionals, based in Cape Town and Johannesburg. Mergence motivates its employees through a sense of ownership and purpose, combined with attractive incentives tied to performance and retention. Mergence also actively invests in staff training and development and has established a Graduate Placement Programme to provide analyst training for four graduates per year.

KEY INFO

Investor Type:
Listed debt and equity; unlisted debt in its impact funds

Founded:
2004

Geographic Scope:
South Africa

HQ:
Cape Town

Employees:
33 employees, 20 investment professionals

AUM:
ZAR 19 billion; ZAR 1.5 billion in impact mandates

Return Profile:
Market rate-of-return, risk adjusted

Impact Measurement:
Custom based on client requirements; ESG Equity Fund measures carbon emissions against index; The High Impact Debt Fund measures number of lives impacted per ZAR million spend

Minimum investment:
Varies by fund

Lock-Up:
Up to 36 months

REPRESENTATIVE INVESTMENTS

Eduloan:
Provides education loans to learners with collection through salary deductions. R3.7 billion in loans disbursed

Trust for Urban Housing Finance (TUHF):
Supports inner city property entrepreneurs to buy or improve residential property, financing viable projects through a suite of financial products. In 2014, TUHF's loan book increased to ZAR 1.9 billion invested in the inner cities of South Africa

Investment Approach

Mergence's three impact funds are focused on both debt and equity investments that have a positive social and/or economic impact as well as a competitive financial return. Each of the funds has a different approach to impact: the High Impact Debt Fund invests in unlisted projects and frontline businesses that address key issues affecting long term development in South Africa; the ESG Equity Fund is focused on investment in companies that have a lower level of CO2 emissions than the average on the SWIX Index; and the SRI Fund is a blend of the two funds with the "asset allocation" informed by Mergence's macro-economic house view.

Across its funds, Mergence conducts a regular review of market dynamics and sector movements, using this information to reposition its holdings to meet investment targets. In the unlisted debt space, Mergence maintains a pipeline of investment opportunities which are sourced either internally through its industry relationships or via arrangers and advisors. This pipeline is monitored for opportunities that meet the returns, diversification and impact objectives of the funds. Once an opportunity is identified, and after an initial screening for impact, return and risk, a detailed due diligence is conducted. Credit and impact are assessed separately, but are deemed equally important as Mergence maintains a "no trade-offs" policy with regard to financial and social return.

Impact Approach

Mergence developed its impact strategy by reviewing the South African National Planning Commission's diagnostic report which has strategic objectives of eliminating poverty and reducing inequality. Mergence corroborated the impact targets with the Human Science Research Council's Social Attitudes survey revealing employee concerns about their challenges. The aim has been to align the impact funds with the results of these studies, supporting frontline businesses and projects that address the challenges impeding South Africa from achieving its goals of eliminating poverty and reducing inequality. As a credit provider, Mergence's impact measurement objectives are generally performed at the outset, through rigorous deal screening and building the impact purpose into loan agreements. Ongoing measurement is focused on compliance rather than improvement. The High Impact Debt Fund provides reporting based on the GIIRS framework while the ESG Equity Fund is measured through publicly-available carbon emissions reporting. The new renewable energy and infrastructure funds will be measured by legislative mandate for renewable energy projects (i.e., to comply with community impact spend in terms of socio-economic development and enterprise development spend).

Governance and Incentives

Fund governance is provided through the deal and investment committees that monitor all investment decisions. Fund administration, portfolio reporting and compliance matters are outsourced. Portfolio managers are incentivized by fund financial performance and execution of the fund strategy in line with the set impact objectives.

Investor Influence

The Mergence debt funds have limited (outside of contractual) influence on portfolio companies compared to private equity funds, largely because of the nature of the relationship between debt provider and loan recipient. However, Mergence does have the benefit of exposure to a wide number of companies and initiatives, and it uses this knowledge to assist its investee companies in strategic development and partnerships. From an industry perspective, Mergence has acted as an advocate for sustainable investing by being one of the initial South African signatories to the United Nations Principles of Responsible Investing (PRI), providing inputs on the Code for Responsible Investment in South Africa (CRISA), and sitting on industry boards that promote the practices of sustainable and impact investing.

IMPACT FUNDS

ESG Equity Fund:

- ZAR 244 million
- Target return: Outperform the JSE Shareholder Weighted Index (SWIX)
- Listed equity with overweight positions in positive ESG companies, specifically with less CO2 emissions than the SWIX average

High Impact Debt Fund:

- ZAR 134 million
- Target return: Consumer price index (CPI) +3%
- Investment in projects, businesses, organisations and funds that encourage and enhance growth and development in South Africa

SRI Fund:

- ZAR 197 million
- Target return: CPI +3%
- Blend of the ESG Equity Fund and the High Impact Debt Fund

KEY INVESTMENT PROFESSIONALS

Masimo Magerman
Managing Director

Fabian de Beer
Chief Investment Officer

Bradley Preston
Portfolio Manager, ESG Equity Fund

Mark van Wyk
Portfolio Manager, Impact Funds

Peta Chennells
Investment Analyst

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