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Mergence plans to expand 'impact' investments to R2bn

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MERGENCE Investment Managers plans to double the size of assets it has under management in "impact" investments to R2bn this year.

The 100% black-owned financial services group, Mergence Africa, has R1.1bn invested in impact investments, out of its total assets under management of R21bn.

Impact investing combines a social purpose, such as addressing environmental, social or governance concerns, while making competitive returns.

"This year we would like to double the size of our assets under management to R2bn," Mergence Investment impact funds portfolio manager Mark van Wyk said.

This would not be easy as impact investments were labour intensive, he said on Friday.

"Unlike traditional asset management where you push a couple of buttons to increase the size of your investment, we have to engage with management and proactively manage performance."

Mergence's investments, mainly via debt funding, are largely in unlisted companies in renewable energy, housing, education, transport, and small and medium enterprise development. In a report released last week, Mergence Group MD Masimo Magerman said only 1% of R4-trillion in SA's asset management industry was allocated to socially responsible initiatives. Similarly, Investment Solutions' annual survey on SA's asset managers' approach to responsible investing has found asset allocation to socially responsible investments is marginal.

The term "impact investing" was coined in 2007 at a meeting of the Rockefeller Foundation which looked at the need to build a global industry for investing for social and environmental impact.

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Mergence's four impact funds — Mergence SRI Fund, Mergence ESG Equity Fund, Mergence High Impact Debt Fund and a renewable energy project fund — were influenced by the 2011 National Planning Commission diagnostic report, the precursor to the National Development Plan and the Human Sciences Research Council's South African Social Attitudes survey.

The reports highlighted SA's problems including education, job creation, housing shortages and energy security.

The debt funds generated returns of about consumer price inflation plus 5%, said Mr van Wyk. This is higher than income assets, but below growth assets.

Mergence invested in 10 renewable energy projects between 2011 and August last year, through the government's renewable energy independent power producer procurement programme.

By August last year, Mergence had R852m invested in renewable energy, the equivalent of 415MW, or sufficient energy to power 60,000 homes.

Mergence had set a target of R1.5bn for its renewable energy fund, which had been successful in achieving its target "impacts" of rural development, job creation, and broad-based black economic empowerment, said Mr van Wyk.

Mergence has invested in the Trust for Urban Housing Finance, which finances inner city housing projects through mortgage loans, bridging finance and construction loans. It also has put money in Lendcor, which finances first-time home buyers, domestic workers and pensioners.

Mergence's other investments include Ditikeni, an investment holding firm that takes part in black economic empowerment deals to create a capital base used to fund not-for-profit organisations.

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