CITY PRESS, Business
15 Feb 2015, p.5

Investing for good – and reaping returns

MAMELLO MASOTE
mamello.masote@citypress.co.za

When African Bank collapsed, South Africa's microlending sector was collectively tarred and feathered.

But Cape Town's Mergence Investment Managers believes microlending is the key to high-impact investing - and reaping returns with a clean conscience.

That's why the black-owned and managed firm has a R1.1 billion debt fund to finance innovative solutions to social problems.

Mark van Wyk, who heads the fund manager, says impact investing shouldn't be confused with corporate social responsibility - or as just a by-product of another investment.

He says that in a country where the "government can't solve everything and the private sector can only do so much", there are investors who want to help by "using business principles".

"We assist by facilitating finance to invest in addressing housing challenges and educational outcomes," he explains.

One of the companies Mergence supports is microlender Lendcor, which focuses specifically on home-improvement loans and providing unsecured lending for building materials.

"[The company] is for people who stay on tribal or community land and want to build a home but cannot get a loan, because the land cannot be provided to the bank as security; so the market then needs an unsecured lender. Lendcor comes in and meets that need of people who self-build," Van Wyk explains.

Ninety percent of Lendcor's clients are in rural areas.

Mergence has also invested in Eduloan, which specialises in educational finance.

"The economics of the sector is difficult. You get a very high dropout rate in the first year [of tertiary education] and therefore you don't have loans given to students in this country.

"It's invariably a loan given to the parent and not the student, while in other countries it is a loan to the student because they have a higher chance of getting through the system," he notes.

But how can Mergence be certain Eduloan won't follow in the steps of African Bank?

Van Wyk points out Eduloan's collection method and its targeting of government employees and their children counts in its favour.

"With Eduloan, the money is deducted from the payroll before the parent even receives his or her salary - whereas with African Bank it was debit orders."

MARK VAN WYK

He's also bullish about Lendcor's future.

"It's not the size of African Bank, because with a company like African Bank the fixed components need to be fed - and that will mean you keep hiking interest rates.

"Here [at Lendcor], the fixed-cost component is small and you can afford to be selective about who you lend to and not just lend to anyone in the hope you get the money back," he explains.

Mergence concentrates on long-term investments - it isn't for those looking to make a quick buck and get out.

There are currently three institutional investors managing pension funds who are on board with Mergence's vision.

Van Wyk hopes to reach out to more of these funds.

But are the returns worth it?

Van Wyk says that when Mergence enters into an agreement, it dictates the return expected.

"[We say]: for this risk we should get the prime interest rate, for instance - as long as [a client's] business can survive on prime plus 1 or 2 interest rate percentages.

"But we're also not trying to kill the business, but support it and hope we can reach a compromise," he adds.

Van Wyk highlights that his portfolio has always outperformed its benchmark and "in this rising interest rate cycle should continue to constantly outperform it".