

Black-owned asset manager Mergence leads the way,

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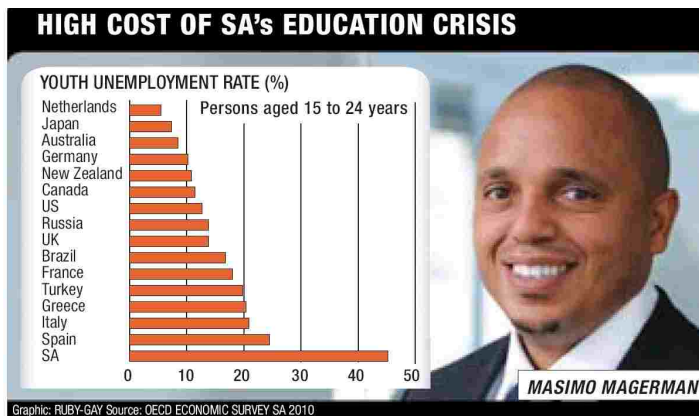
New in-thing: social responsibility

IMPACT investing is becoming one of the hottest tickets in the markets as socially responsible investment factors start playing an increasingly important role in fund managers' and the government's investment strategies.

While the industry remains small and the challenge is for managers to make competitive returns, the winds of change are blowing fast and well-placed managers are starting to gain significant traction.

A forerunner in this market is independent, black-owned boutique asset manager Mergence, which has R12bn in assets under management. While it aims to generate competitive financial returns as it addresses social responsibility needs, its idea is to mainly use debt to raise the capital, rather than the popular method of taking equity stakes in a private equity venture.

The main difference is that by linking funds to prime mortgage rates, for example, more security and stable returns can be achieved over the long term than the higher volatility that can be seen in private



Graphic: RUBY-GAY Source: OECD ECONOMIC SURVEY SA 2010



MASIMO MAGERMAN

equity — while allowing overall ownership to stay in the hands of founders. It is a concept expected to take off across Africa as businesses look for more efficient ways to raise capital, while retaining ultimate control of their businesses.

Mergence has achieved organic compound growth of 32% a year since its inception in 2004 — in June 2010 it launched a suite of impact

funds called the Mergence ESG Equity Fund, the Mergence High Impact Debt Fund and the Mergence Socially Responsible Investments Fund.

“This is a serious issue as only 1% of funds are in socially responsible investments,” says Mergence MD Masimo Magerman.

The portfolio manager of the Mergence impact funds, Mark van

Wyk, says while the market is still in its infancy, the role of these funds will become more critical. For example, improving access to education via the impact fund can help to cut the unemployment rate.

Mergence's impact funds have been designed to be aligned with SA's infrastructural and growth needs, seeking to address structural issues in areas ranging from housing, education, income disparity and unemployment to energy shortages. “Youth unemployment has a ripple effect as it shadows that generation for the future,” says Mr van Wyk.

Mergence utilises prime-related linked investments, which it says will outperform bonds over the long term. Since 1990 the all bond index had a 14.49% average annual return rate over the period, while prime boasts 16.25%.

Mergence Investment Managers is a subsidiary of Mergence group. Another subsidiary, Mergence Africa Property, has a significant stake in the R5bn JSE-listed property company Dipula Income Fund. pickworthe@bdfm.co.za