MERGENCE
INVESTMENT MANAGERS

Impact Report 2014

Our contribution to Infrastructure Development

Renewable Energy project

Group overview

Mergence Africa Holdings (Pty) Ltd is an independent, entrepreneurial diversified financial services group founded in Cape Town in 2004 and is 100% black owned.

Mergence has R21 billion of assets under management. The long-term objective and strategy is to build a truly South African financial services group providing world-class investment and financial solutions.

The group has four operating subsidiaries:

- Mergence Investment Managers (Pty) Limited – asset management
- Mergence Africa Capital (Pty) Limited – derivatives structuring and trading
- Mergence Africa Properties (Pty) Limited – real estate investment and asset management, including the successful JSE-listed Real Estate Investment Trust (REIT), the Dipula Income Fund
- Mergence Health – strategic investment and private equity

This report therefore seeks to introduce the sectors in which we invest and describe the general impact achieved by the various Mergence Investee Companies (see Appendix 1 for a summary of the Mergence impact investments as at 30 Aug 2014).

Terminology – impact versus infrastructure development.
We use these two terms interchangeably in this report. Impact investing is an area in which Mergence has pioneered. While "impact investing" as a term is gaining currency in South Africa, "infrastructure" is the word more commonly used at the moment to refer to investments that address structural challenges in our economy.

Dipula buildings and shopping centres

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Ten years of impact

Mergence is this year celebrating its 10th anniversary, a fitting milestone to launch our inaugural report on impact investing and infrastructure development.

With the vision of “creating shared value” and defining itself within the national discourse around structural issues in the South African economy, Mergence has from the outset focused on investments that make a positive social and economic impact.

Cumulatively we have invested over R6 billion in community development and infrastructural initiatives nationwide on behalf of our clients, illustrative of the inclusive investment thesis.

Mergence has invested in a portfolio of unlisted impact companies whose primary objective is to generate a positive social impact together with a sound financial return.

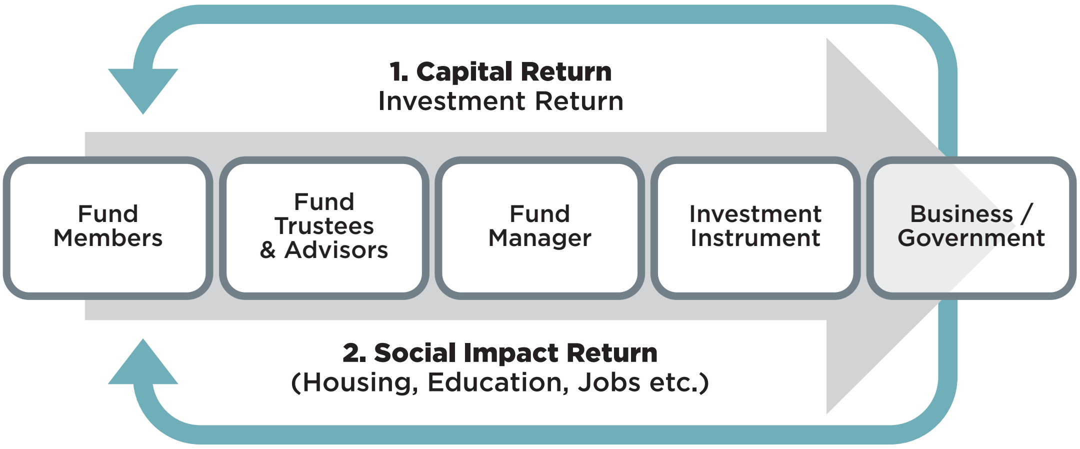
We believe that the success of our portfolio demonstrates that it is possible to achieve sound risk adjusted returns for our pension fund investors while at the same time generating positive social impact in the communities and businesses we support. A mere one per cent of the R4 trillion asset management industry is currently allocated to SRI mandates and we hope that others who read this report will be encouraged to become impact investors too and explore this exciting growing asset class.

Together we can make an even greater impact.

Yours sincerely
Masimo Magerman, Group MD

What is impact investing?

Whereas traditional investing seeks to make a financial return only, impact investing seeks to generate a competitive financial risk adjusted return while addressing environmental, social and governance needs.

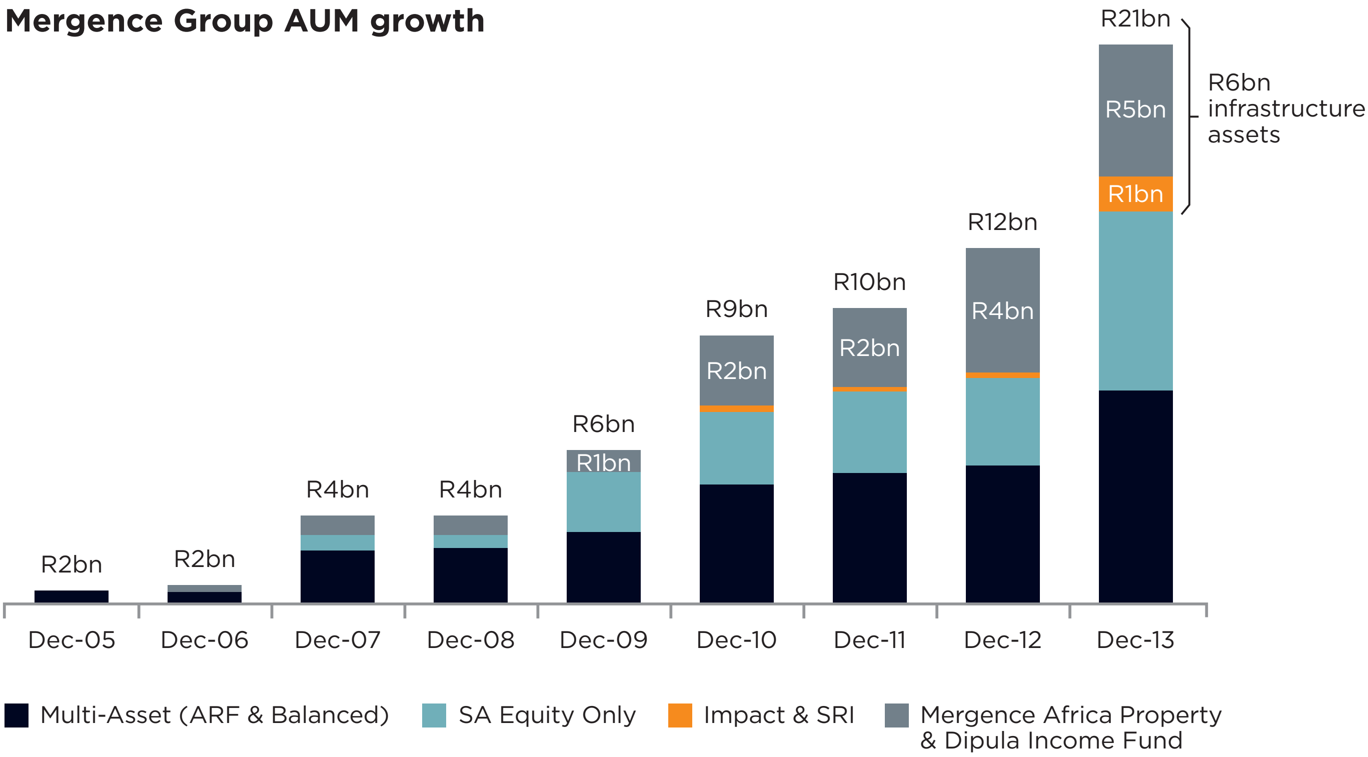


Wind turbine foundation, Dipula, Lendcor

The Mergence impact investing journey

Realising the disconnect between the financial services environment and the environmental and social needs within Southern Africa, the Mergence Group launched its first private real estate equity fund in 2006. Mergence has continued to expand its unlisted investment offering and invests in both the debt and equity of viable investment opportunities. The diagram below illustrates our complete investment offering.

Mergence Group AUM growth



Our private equity real estate fund grew into what is now the Dipula Income Fund which was successfully listed on the JSE in August 2011. This Fund, led by Izak Petersen, invests mostly in retail properties within underserviced areas (with good retail prospects) throughout all the provinces in South Africa and has grown to a value of R5 billion including development properties and properties still to transfer.

Paradigm shift

Masimo Magerman, Mergence co-founder and Managing Director, was developing his thesis on the barriers to sustainable investing and was very aware at a personal level of the need to contribute to society while making a profit. He says 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. This belief guided the team and opened the way for Mergence's paradigm shift in its investment thinking where financial returns could be achieved while generating sound impact objectives.

In June 2010, Mergence Investment Managers launched its suite of impact funds and in 2011 Mark van Wyk, a chartered accountant with 12 years' experience in developmental and structured finance, joined Mergence. As Head of Impact Investing at Mergence, Mark now leads a team with R1,1 bn in assets under management. The impact funds are the Mergence SRI Fund, the Mergence ESG Equity Fund and the Mergence High Impact Debt Fund. In 2013 we formed a fund specialising in investments towards renewable energy projects. Looking ahead, we continue to evaluate our experience in both debt and equity finance for development in the wider SADC region.

2014 Accolades

- Masimo Magerman, Mergence Group MD - ranked in the Africa Asset Manager 2014 Power 50 annual guide as one of the 50 most influential, innovative and powerful figures on the African continent in the investment fund industry.
- Mark van Wyk, Head of Impact Investing at Mergence - announced as Alternative Fund Manager 2014 by the Association of Black Securities and Investment Professionals (ABSIP).

The Mergence paradigm shift

2004
Mergence Africa Holdings Incorporated on 2 Aug 2004

2005 2006 2007 2008 2009
Mergence Africa Property Fund launched

2010
Launch range of impact funds as alternative to our conventional product offering
- Mergence SRI Fund
- Mergence ESG Equity Fund
- Mergence High Impact Debt Fund

2011 2012
Listing of Dipula Income Fund on JSE
Merging of Mergence and Dipula's Property Funds

2013 2014
Launch Mergence Renewable Energy Debt Fund

Infrastructure challenges

All Mergence's impact funds are strategically aligned to address, by way of investments, some of the challenges facing South Africa and were influenced by two major studies into the South African post-democracy economy:

- the National Planning Commission Diagnostic Report issued in June 2011 detailing the country's long-term vision and national strategic plan and the obstacles to achieving that plan
- the South African Social Attitudes report, a survey carried out by the Human Sciences Research Council and published in 2010.

Both these studies provided detailed analysis of the structural challenges facing South Africa, ranging from education, job creation, housing and enterprise development to energy security and the widening inequality in our society.

At the same time, a mindshift had been taking place worldwide among investors and asset owners, with impact and infrastructure investing emerging as a new asset class, driven by the notion of responsible investing based on environmental, social and governance (ESG) considerations. The United Nations Principles of Responsible Investing (PRI) was announced in April 2006 and Mergence was among the first signatories in South Africa to this milestone accord. In South Africa itself, the Code for Responsible Investing (CRISA) was launched on 19 July 2011. Mergence made inputs into this document and was an initial signatory. Adding to this, in July 2011 changes to Regulation 28 of the Pension Funds Act have increased awareness of incorporating ESG factors into fund managers' investment processes.

Infrastructure development is a growing theme globally and in Southern Africa. Mergence sits on various industry bodies aimed at exploring ways to harness the power of institutional funds to contribute to infrastructure development and we make regular inputs at conferences and workshops.

Global impact rating

GIIRS RATINGS & ANALYTICS for Impact Investing

The Mergence High Impact Debt Fund was successfully rated in May 2013 by the Global Impact Investing Rating System (GIIRS), a worldwide ratings system for impact investing, analogous to Morningstar investment ratings or S&P credit risk ratings. The fund is one of only two funds in South Africa to have been awarded this rating as a GIIRS Pioneer Fund.

The GIIRS recognises the positive impact generated by a fund and its investee companies and provides investors with rigorous, transparent, comprehensive and comparable ratings of a fund's impact, grading the fund's impacts on a scale of one to five stars and an overall score.

The GIIRS fund rating is comprised of a weighted average of the fund's 'investment roll-up' score and its 'fund manager assessment' score. To determine the investment roll-up, a weighted average of the scores of the investments in the fund's portfolio and the total amount invested in each investment (company) are aggregated, which comprises of four impact categories: governance; workers; community; and environment.

The fund manager assessment score is measured against three categories regarding a fund's policies and practices in deploying and managing its capital: targeted for investment; the investment criteria; and portfolio management.

Read more at www.giirs.org

Mergence impact areas

Infrastructure Property in rural areas

dipula INCOME FUND

Housing

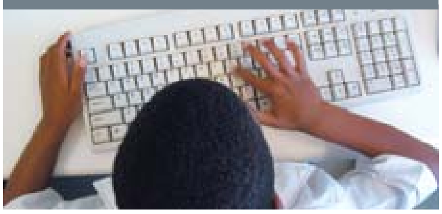
LENDCOR

TUHF

Renewable Energy

Portfolio of 10 Renewable Energy Independent Power Producer Procurement Round One Projects

Education



eduloan™ unlocking potential

Job creation / Enterprise Development

ITIKENI Investment Company

Rand Trust business, on your terms

Transport

SA Taxi driving our nation forward

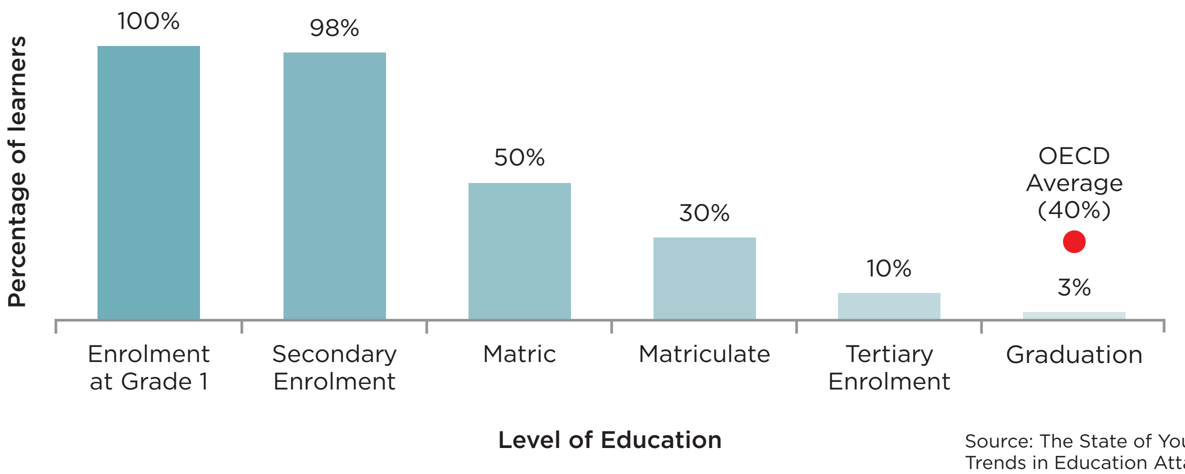
EDUCATION

There is a strong relationship between education and poverty. According to a Statistics SA report titled Poverty Trends in South Africa which was released in April 2014 and looked at poverty trends from 2006 to 2011, the lower the level of education obtained, the more likely adults were to be poor. For example, in 2011, 67 out of 100 adults who had no education were living in poverty. This figure dropped the higher the education level obtained, such that only 44 in 100 adults who had some secondary schooling were living in poverty and 24 in 100 of those who had matric were living in poverty.

Another report, The State of Youth in South Africa Trends in Education Attainment (Dr Charles Sheppard, University of Johannesburg), showed that a focus by government on primary education means that a projected 98% of appropriately aged learners will complete the primary school cycle by 2015. However, only 3% of those learners graduate with a tertiary education, compared to the Organisation for Economic Co-operation and Development (OECD) average of 40%. See the graph below. Socio-economic status is the main cause for this appalling statistic, with "no money for fees" and "finances" cited as the main reason for non-enrolment.

South African Education Cycle

Attainment levels



Source: The State of Youth in South Africa - Trends in Education Attainment (2009)

It is statistics such as these that led Mergence to invest in Eduloan (Pty) Limited.

Eduloan is a leading education finance and education fund management solution specialist operating within Southern Africa.

Since establishment in 1996, Eduloan has advanced over 750 000 loans to the value of R4 billion, assisting hundreds of thousands of individuals with affordable access to education loans which would not typically have been given by other financial services or loan providers in the market. In addition, in 2000 Eduloan pioneered South Africa's first fund administration smartcard solution and has since administered more than R3 billion in bursary funds.

As the only private education finance specialist in Southern Africa, Eduloan is committed to unlocking potential through education. Its success over the past 18 years has been built on the premise of partnerships, which has enabled Eduloan to provide a number of benefits to students. Among these is the unique Eduloan repayment model, where the loan repayment is deducted directly from one's salary. This model facilitates a far easier credit approval process, thereby allowing more people access to much needed education financing loans.

Eduloan has tight controls in place to ensure that all loans are used solely for the purposes of education. Thus, the funds for fees are advanced directly to the relevant educational institution. To ensure the intended educational use of bursary funds, Eduloan supplies bursar funders with the Eduxtras solution which entails pre-loading bursary funds using smartcard technology. The funder can then allocate specific amounts to determined expense categories, be these tuition fees, books or accommodation.

In 2013, Eduloan started the launch of its offering in SADC countries, starting with Zimbabwe where uptake has been strong, indicating the need for affordable education solutions there and further afield in countries such as Botswana, Kenya, Zambia and Nigeria.






Improving the lives of an entire family

With four young children to care for, Maria Mokgokolo suffered a financial crisis when her husband died. She realised that the only way to ensure a better life for her and her children was through education. Maria approached a number of different banks and financial institutions for a loan, without success. She then heard about Eduloan which granted her the study loan she needed to enrol for a B.Com degree.

This remarkable woman not only completed her degree but went on to become a head of department at Abel Motshwane Secondary School in Mabopane. She applied to Eduloan for further loans to enable three of her four children to obtain a tertiary education. The fourth is still in high school.

"I approached other banks but could not get a loan. Eduloan came to my rescue and changed my life."

'Mama' Maria

ENERGY

Mergence has identified renewable energy as a key impact investment area to support the government-driven renewable energy independent power producer procurement (REIPPP) programme and to sustain South Africa's long-term energy security. The roll-out of renewable energy projects as part of the REIPPP programme has heightened the importance of renewable energy finance.

10 renewable energy projects

Between 2011 and August 2014 **Mergence has invested in 10 renewable energy projects** awarded through the REIPPP.

R852m

Total investment at August 2014: R852m

- equivalent to 415MWs
- equals 10% of the total MWs allocated to renewable energy in SA
- equivalent to removing 360 000 cars from the road or powering 60 000 homes

R1.5bn

Target fund size = **R1.5 billion**

Did you know?

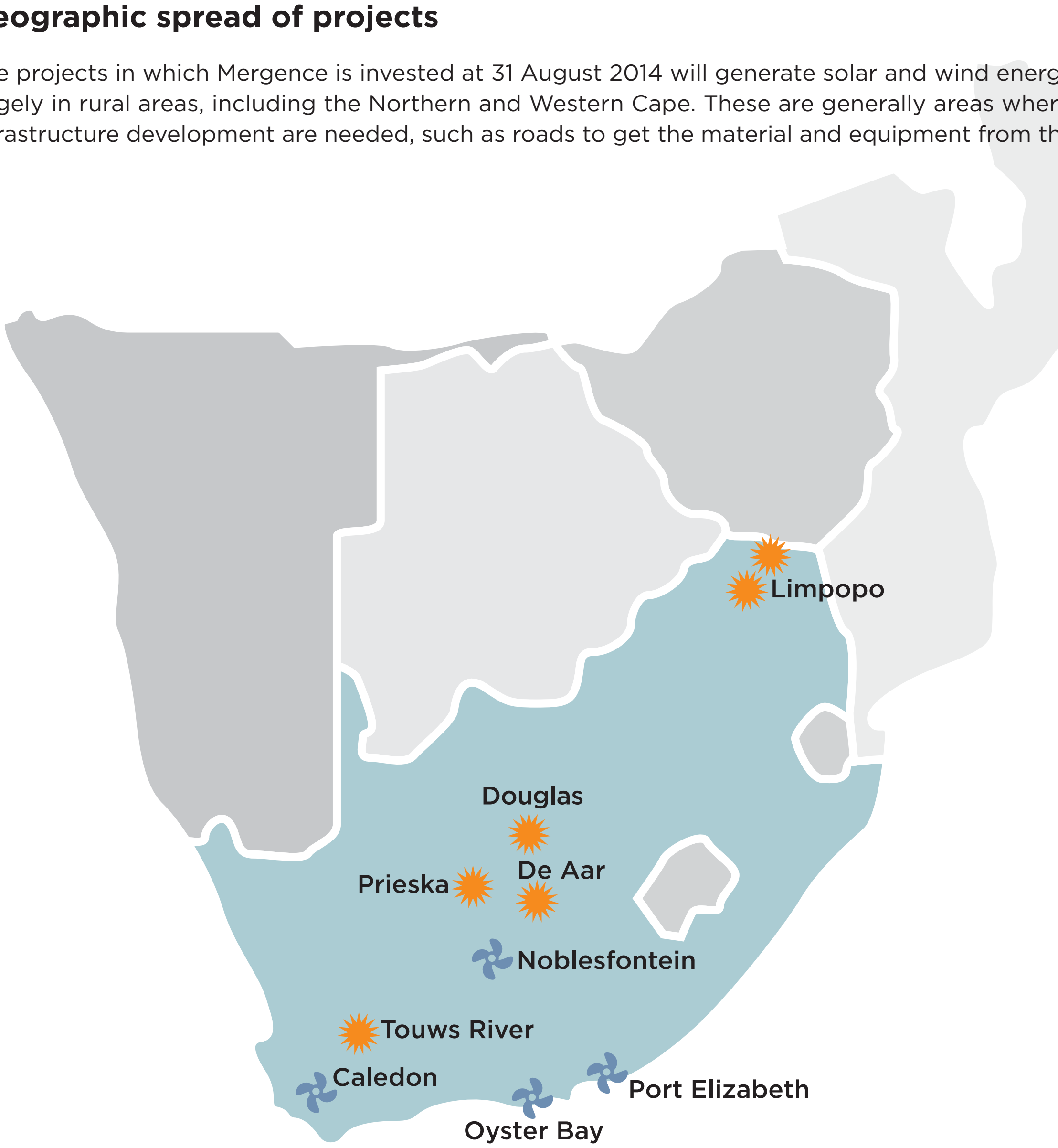
A May 2014 World Bank Report[1] places the South African REIPPP programme among the top ten privately funded renewable energy programmes in the world, saying that the speed of implementation has been unprecedented and that the vast majority of programme stakeholders judge it to be highly successful over its first three rounds.

[1]Eberhard, Anton; Kolker, Joel; Leigland, James. 2014. South Africa's renewable energy IPP: procurement program - success factors and lessons. Washington, DC; World Bank Group.

Renewable Energy project
near Caledon

Geographic spread of projects

The projects in which Mergence is invested at 31 August 2014 will generate solar and wind energy and are situated largely in rural areas, including the Northern and Western Cape. These are generally areas where job creation and infrastructure development are needed, such as roads to get the material and equipment from the suppliers to site.



HOUSING

The South African government has identified inner city housing development as a means of helping to redress the spatial distortions of apartheid. Housing solutions for low- and moderate-income households will enable access to the socio-economic resources of cities and help families and neighbourhoods to take control of their own community development.

Mergence supports this initiative and has therefore invested in the Trust for Urban Housing Finance (TUHF) which supports inner city property entrepreneurs, financing viable projects through a suite of financial products required for successful property investment, such as mortgage loans, bridging finance and construction loans.

TUHF drives inner city investment by helping potential investors become property entrepreneurs by providing loans to buy or improve residential property in South Africa's inner city areas. TUHF specialises in lending money to reasonably priced housing-projects in areas of urban decline. They give preference to small and medium-sized apartment buildings that are safe and clean and will offer good returns.

TUHF finances projects from R100 000 to R30 million, providing loans that are flexible and tailored to meet the requirements of applicants up to a 15-year-term, with interest and raising fees charged at market-related rates.

TUHF partners with good landlords who provide quality accommodation, good customer service and firm credit control. In this way, both commercial and urban regeneration objectives are met.

By converting "bad buildings" into livable spaces and drawing them into the formal economy, TUHF makes an important indirect contribution to local economic development by contributing to municipal income through property taxes and supporting a variety of inner city businesses through tenants' consumer spending.

According to the TUHF 2014 Annual Report, TUHF's loan book increased to R1,9 billion invested in the inner cities of South Africa and its ambition to rapidly achieve a book of R3,5 billion to R5 billion representing every major city in SA is now within reach.

Minfield Flats, Hillbrow

TUHF Impact 2014

18 778 rental units financed

R56,433

– Estimated cost per job created by TUHF buildings including permanent and temporary jobs in construction, security, maintenance and building management.

R945,171,792

– Average annual bill total to TUHF buildings for municipal rates, electricity, water, refuse collection and sewerage.

It was Sizakele Majola's mother who got her into the inner-city low-cost accommodation business.

"My mom had a project that was financed by TUHF," she explains. "But she didn't drive, so I would drive her to events hosted by TUHF. And, of course, while I was there, I listened to what was going on and what was being said. And now I am a TUHF client myself."

In 2013 Majola identified an opportunity - a small apartment building in the heart of Hillbrow, on the corner of Banket and Kaptein streets. The building, Minfield Flats, had been virtually hijacked and was in a dreadful condition, rubbish filling its passages and exposed live electrical cables posing a real danger to those living there.

Buying the building was the relatively easy part of Majola's first venture into low-income rental accommodation; turning the building around, fixing it up and making it a sustainable investment would be much harder. "That is why TUHF were so important to me," says the City of Johannesburg emergency-services professional. "TUHF were realistic; they helped me to plan what the building would cost to renovate, what all the other expenses would be and what cash flow I could expect." (Majola paid R1.8 million for Minfield Flats and budgeted R650 000 to renovate it.)

TUHF also advised the new property entrepreneur on the processes involved in having the building vacated so that the builders and renovators could move in. Working through the Housing Tribunal an eviction order was obtained and executed. By July 2014 the once dilapidated Minfield Flats had been transformed; 29 smart new units (including three small ground-floor spaza shops) had been carved out of the once-decaying property; a fire escape meeting SABS standards and access control had been installed and tenants had already moved in, paying R1 300 and R2 500 for the 12m2 and 18m2 studio flats. Immaculate Painters & Renovations had just a month in which to transform Minfield. As project manager Mandla Radebe explained, the work included getting rid of a passage that ran from the front of the building to the rear and that served no real purpose other than to provide dark recesses that undermined the building's security. The space claimed from the passage was used to enlarge the apartments while the builders also installed communal sinks and shelves and bathrooms for each group of four flats.

To illustrate what a terrible state Minfield was in at the time that he and his crew of 15 came on site, Radebe mentions that some 2.4 tons of rubbish was removed from the passages. (Rubble removed from Minfield during the month-long renovation filled ten truckloads.) Apart from 15 Immaculate employees, more than a dozen sub-contractors people were on site at any one time, carrying out electrical, plumbing, carpentry, tiling and welding, each sub-contractor employing four to six people on the job, according to Radebe.

From July 2014 Minfield Flats has employed three full-time staff, a security person, a cleaner and a caretaker. The three small spaza shops are leased by informal traders for R3 500 per month, their presence boosting security and creating a welcome measure of economic activity. The new owner is proud of the impact her hard work and investment are having on a small corner of teeming Hillbrow. "This is one of the hardest places in the city in which to do business," Majola says, "But you can make money if you manage and control the place properly, and make sure that your tenants feel they are living in a good, secure place and that they are being well looked after".

"TUHF have looked after me exceptionally well - especially [CEO] Paul Jackson and [loan officer] Rekwele Mmatli - and I intend to look after my building and my tenants just as well".

Source: TUHF annual report 2014

Lendcor Housing project

HOUSING

The issue of housing the nation in sustainable homes is one of the most demanding challenges facing the government. The country's housing deficit has grown to 2.1 million households, the number of informal settlements has skyrocketed to more than 2 600 sites and there are 1 million urban poor families living in simple shacks in informal settlements (Worldbank, 2011; FinMark Trust).

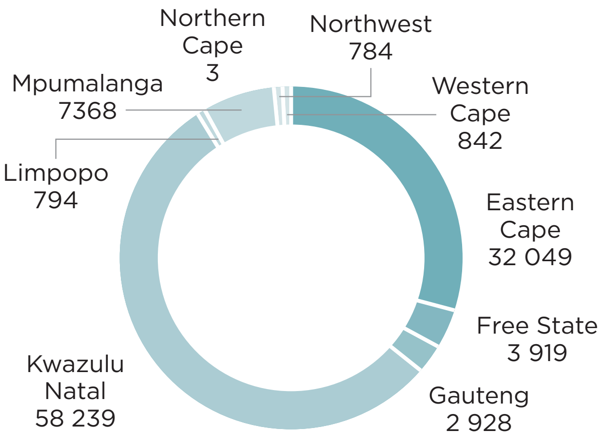
While the government has introduced a number of initiatives to address the housing challenge, unfortunately the issue of housing delivery remains a challenge, particularly in the rural areas and for the poor and the middle class. This is further compounded by the lack of funding available from the banks together with the fact that few South African households can save sufficient funds to buy a new home and only a fraction of the population qualifies for loans needed to purchase homes built by the formal sector. We believe that incremental housing is an effective solution to providing housing to lower income households in the rural areas.

Mergence has accordingly invested in Lendcor, an institution established in 1998 with a vision of being a major player in incremental home improvement finance through building supply merchants. Lendcor has been instrumental in the provision of innovative housing finance for rural households in South Africa. The company's innovation is in the provision of retail finance to the market through a network of 950 building material supplier and hardware merchants. Merchants identify clients who need finance and facilitate the submission of loan applications to Lendcor. Upon approval of the application, merchants receive direct payment for the materials sold to the client.

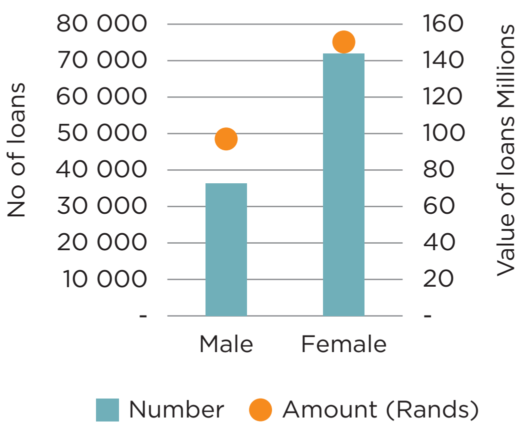
Lendcor has created links and partnerships with renowned building supply outlets like Build it, Hardware Warehouse, Essential Hardware Group, Boxer Build, Builders Trade Depot, Cashbuild, P&L Hardware, Trellidor, ZRW, Build Rite and Carim.

Lendcor finances first time buyers, domestic workers, pensioners and all customers who have good credit record with any retail institution. Loans start from R1 000 up to R50 000 with up to 36 months to pay.

Geographic Spread of Lendcor Loans



Male Lenders vs Female Lenders



"A house is more than a house, it is a home, a place where a family comes together, where people grow and develop, a place where a person's well-being is influenced and one's outlook on life is shaped"

– Williams, 2000.

JOB CREATION, ENTERPRISE DEVELOPMENT

While South Africa has one of the highest Gini coefficients in the world, many aid agencies consider South Africa to be a middle-income country and have begun to withdraw aid funding from many NGOs, thereby limiting their worthwhile and necessary initiatives. Interventions are required to assist these NGOs to ensure their sustainability beyond the requirement for donor funding; Mergence has therefore invested in Ditikeni since 2014.

Ditikeni is a 100% broad-based investment holding company founded in 1999 by a number of non-profit organisations seeking financial sustainability. They aimed to participate in Black Economic Empowerment in order to create a capital base to fund their community development and welfare work. “Ditikeni” is tshiVenda for “something to lean on”.

Ditikeni's aim is to build up an endowment from which distributions may be made to its beneficiaries. The beneficiaries are all not-for-profit organisations which work in South Africa's poorest communities, many of them in rural areas. They are engaged in a wide variety of community development and welfare activities in more than 100 localities in all nine provinces. More than two million of South Africa’s poorest citizens benefit from the work of these NGOs.

Ditikeni has made 23 investments in the past ten years and retains 17. Its aim to build up a capital base has succeeded to the point that Ditikeni now pays an annual distribution to shareholders. Over R4 million has been distributed to shareholders to date.

The NGOs which make up Ditikeni originally contributed R2.8 million from their own resources to fund Ditikeni’s working capital. This was repaid in 2007. A share costing R1 originally is now worth over R10 at tangible net asset value.

While no guarantees can be given to the NGOs, Ditikeni expects in normal circumstances to continue to pay the current distribution indefinitely into the future, giving them something they have never had: a reliable annual flow. While Ditikeni's distribution is still a small percentage of the NGOs' required income, it will grow as BEE assets mature and either pay dividends or are sold and the proceeds added to the endowment pool.

Daniel Boshoff Photography

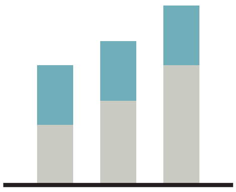
Ditikeni was established in 1999

18

SHAREHOLDERS

which are all non-profit organisations doing important social development work

By making **BEE investments**, Ditikeni has been creating a capital base for its shareholders



3 INVESTMENTS

have been realised since Ditikeni's inception:

2011......................	AVIS
2007.............	STANLIB
2006..................	FAJA

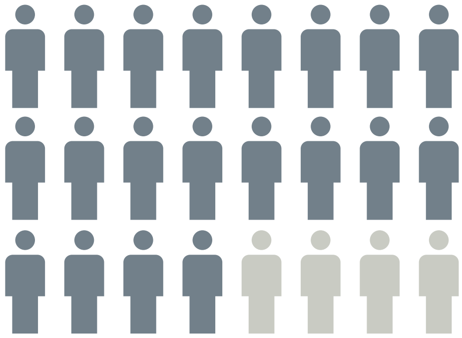
R9.3 Million

in total annual distributions made to shareholders since 2007

The shareholders run programmes supporting a number of social development areas, including:

• Children & Youth • Crime Prevention & Reintegration • Community Development • Education & Training • Environment • Health • HIV/ AIDS • Human Rights • Land & Agriculture Rights • Local Economic Development • People with disabilities • Poverty Alleviation • Research & Support • Women (Gender)

Our NGO beneficiaries are **outstandingly representative**



425

staff work at Ditikeni's NGOs

86%

are black

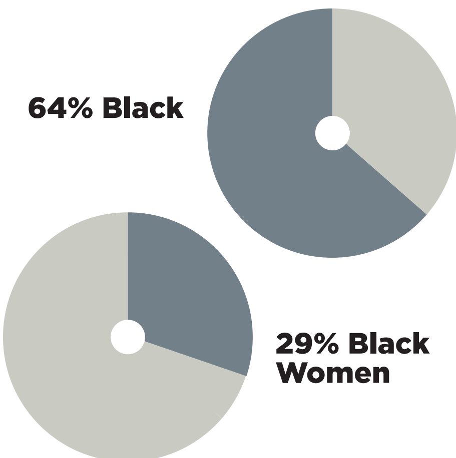
66%

285 employees are black women

70

Volunteers support Ditikeni's NGOs without pay

Every NGO has a governing board, with a total of **179 board members**



15 out of 18

NGOs have a black Chairperson

44% Rural focus

44% of the total budget of our NGOs is committed to the rural areas

Massive beneficiary base

Each of our NGOs serves at least one community or defined group of needy people - in many cases more than one, such as:

- **AFRA**
  5 Rural communities
- **CDT Foundation**
  70 Faith-based organisations
- **LABOUR RESEARCH SERVICE**
  15 National Trade Unions with over **2 Million** members
- **SA COUNCIL OF CHURCHES**
  150 000 People served through **25** member churches and **15** Associates
- **SCAT**
  39 Rural communities in 4 provinces
- **TCOE**
  Operates in **4** towns in the Eastern Cape

Ditikeni's NGOs have a collective annual operating budget of about

R159 Million

of which more than 85% goes toward projects and grants

95% BNE

95% of the shareholders are **Black New Entrants** in terms of the Codes of Good Practice on Black Economic Empowerment

1/2 Ditikeni's **net asset value equals half** the balance sheets of its beneficiaries' combined

Source: Ditikeni Annual Report 2014

JOB CREATION, ENTERPRISE DEVELOPMENT

Rand Trust, part of the Transaction Capital group of companies, is a provider of working capital to small and medium enterprises (SMEs) through invoice discounting and commercial debtors' management. Rand Trust has been assisting SMEs improve cash flow by lending against assets since 1958; deals are tailor made to each client's specific requirements. Mergence has invested in Rand Trust since 2014.

With SMEs representing approximately 50 percent of South Africa's GDP and roughly 60 percent of the workforce, it's become a strategic imperative that these businesses are aware of the funding alternatives available to them.

Cash flow is one of the greatest challenges facing SMEs in South Africa and indicators are that this trend will continue for the foreseeable future. It's of fundamental importance that business owners manage their cash flow cycles in an effective and efficient manner. The business cash flow cycle can be expressed as the number of days it takes R1.00 of cash in the business to convert back to cash after having being invested in stock, work in progress and debtors.

A global trend has emerged that more companies are making use of invoice financing to accelerate their cash flow position. Invoice financing is a financial transaction whereby a business sells its accounts receivable (i.e. invoices) to a third party (called a funder) at a discount, the funder provides financing to the seller of the accounts in the form of a cash advance often 70-80% of the purchase price of the accounts, with the balance of the purchase price being paid, net of the funders discount fee, upon collection from the client.

Fresh statistics indicate that the total worldwide volume for invoice financing increased sharply over the past 24 months with South Africa showing a spectacular 41% growth.

The benefits of invoice financing are:

- Uncapped consistent cash flow – As your term sales grow so does your access to additional funds, unlike commercial banks where your access to finance is capped unless you are able to provide an enormous amount of security.
- Improved cash flow enables you to provide greater credit terms to your clients.
- Upfront capital enables you to secure early settlement discounts from suppliers to offset costs and boost profits, which enables business growth.
- By outsourcing your debtor collections, you free up resources that can be deployed in other areas of your business to enhance overall efficiency.
- Business or personal assets are not always required as additional security if your accounts receivable and payable are in good standing. The company produces acceptable margins and a valid proof of delivery process exists.
- Invoice financing allows for flexible borrowing because you decide which invoices to convert into instant cash as and when the need arises.

Rand Trust has helped numerous businesses reach their full potential:

- **Transport sector**
  In 2010, an SME in the transport industry had a debtors' book with an approximate value of R750 000. By gaining access to "cash on tap" the company was able to take advantage of several strategic opportunities. Today it's a large, successful business with a total exposure to Rand Trust of R41 million, comprising of both invoice discounting and trade finance.

- **Retail**
  In 2009, an SME importer had a debtors' book with an approximate value of R4.8 million and gained access to uncapped funding lines, since then it has grown into a household name with a debtors' book value in the region of R34 million.

- **Industrial sector**
  An SME in the steel industry joined Rand Trust just over a year ago with a debtors' book of approximately R3 million. Having access to improved cash flow enabled it to purchase a second foundry, today the book value is in the region of R6 million.

- **Labour brokers**
  An SME in the labour broking industry joined Rand Trust just over 8 months ago with a debtors' book value of approximately R1.6 million. By realizing its growth aspirations and expanding its geographical footprint, the company's debtors' book has grown to R2.8 million.

PROPERTY IN RURAL AREAS

The Dipula Income Fund Limited (Dipula) is a Real Estate Investment Trust (REIT) carrying on business as a long-term investor in real estate in South Africa for the benefit of its unitholders. Dipula is housed within Mergence Africa Properties (Pty) Ltd with Izak Petersen as CEO. Please see Appendix III for Mergence Group structure.

Dipula has been in operation since 2005. In 2011 Dipula Property Fund merged with Mergence Africa Property Fund which was also formed around the same time. Dipula was listed on the JSE in 2011 and began trading as a REIT on 1 September 2013. It has one of the highest BEE ratings in the sector. Dipula's asset base comprises a growing portfolio of 176 commercial properties spanning some 550 656sqm of gross lettable area.

Dipula's strategic investment focus is on retail assets in underserviced areas. Its portfolio is geographically diverse across all of South Africa's provinces. It is weighted towards retail property at 60% by rental income of its portfolio composition, which also includes office and industrial property assets.

Recent news

In August 2014, Dipula announced the acquisition of six rental income producing retail properties from Redefine Properties for R425 million. The portfolio includes Soweto shopping centres Meadowpoint Shopping Centre, Proteapoint Shopping Centre, Dobsonpoint Shopping Centre and Pimville Square, as well as Kadube Hammanskraal Centre and Kapanong Centre which are both situated in Hammanskraal in the North West Province.

"SA is dependent on the success of BEE and the provision of meaningful participation and opportunities to all the youth of SA and black people in general. Our facilitation of funding for the Orange Farm community to acquire a 10% stake in the Eyethu Orange Farm Mall further demonstrates our commitment to contributing towards this ideal. Having this kind of community participation will create a sense of ownership in this great asset by the people who shop there and in future contribute towards meaningful and broad based community initiatives. We believe that our investments in these communities should be impactful and empowering.

Giving further meaning to this value, Dipula recently sponsored the release of a research report commissioned by The Property Sector Charter Council and compiled by the Investment Property Databank (IPD). The report is titled The Impact of the South African Property Sector on the National Economy. Dipula is proud to sponsor research that enhances the knowledge base of the sector, contributes to its growth and benefits all participants."

Source: Dipula Pulse newsletter August 2014.

Izak Petersen, Mergence co-founder and Dipula CEO

"We believe that our investments in these communities should be impactful and empowering."

Dipula office and retail properties


PHARMACY
IKHEMISI
PHARMACY
IKHEMISI


KFC
Cashbuild

TRANSPORT

SA Taxi Finance Holdings (Pty) Limited is a small independently owned participant in vehicle financing in South Africa and a member of the Transaction Capital group of companies. Mergence identified SA Taxi Finance as a leader in taxi finance in South Africa and made its first investment in April 2012.

SA Taxi regards its primary role as an enabler of affordable, safe public transport to the estimated 19 million commuters who travel the roads of South Africa in taxis daily. Its secondary role is as a contributor to the financial empowerment of historically financially underserved and unbanked taxi owners who in turn are providers of employment to an estimated 400 000 drivers and rank managers and other ancillary employees.

Case study

Mergence caught up with Mr Lungephi Nogqala, a taxi owner whose two vehicles drive on the Khayelitsha-Wynberg/Claremont route in Cape Town.

Mergence: When did you first hear about SA Taxi Finance?

Mr Nogqala: In 2008 when I got my first loan from them. But let me tell you my story. I was brought up in the Eastern Cape, looking after the cattle. I then went to work on the mines for four years but wanted to move on. I moved to Cape Town and worked as a builder but then I bought a small car and started lifting people for money. I knew that was my calling! In 1991 I bought an old Hi Ace and drove it and serviced it myself. It had plank seats! I saved up to buy another Hi Ace but a bus drove into me in Khayelitsha and it was a write off. I had no insurance.

I knew then I had to do things differently. I wanted to upgrade to a Toyota Quantum 15-seater but I could not get any bank to lend me money. Then I heard about SA Taxi Finance.

Mergence: How long did it take to pay off the vehicle?

Mr Nogqala: Five years. And in 2011 I got another loan to buy a second Quantum. I have now fully paid off both vehicles. SA Taxi Finance is a very good company. Some people say they are too expensive but I think they don't understand how it works.

Mergence: What do you mean?

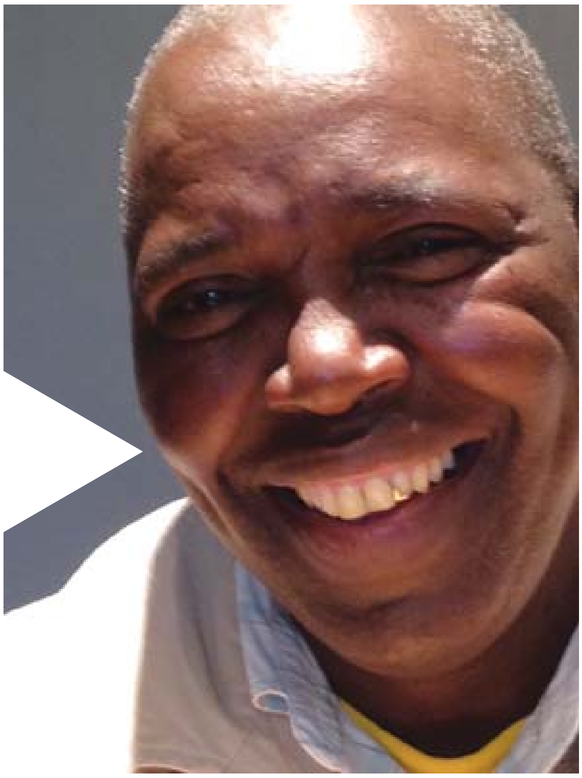
Mr Nogqala: You need to be disciplined. What I do is I pay my drivers first, then I make sure I pay myself a fixed salary and then pay the balance to SA Taxi Finance. This covers the installment plus extra so that I have money for when the van needs repair or servicing.

Mergence: What is your dream?

Mr Nogqala: I would like to have a total of six taxis. This is the maximum that my taxi body, CODETA, allows. I have built a good reputation. Customers like to wait for my vans because they know they are well serviced and safe.

Mergence: What advice to you have for others?

Mr Nogqala: Go slowly and build your knowledge as you go. Do it properly. This is what I did and I have kept my family very well. My oldest daughter has just graduated from UWC.



"Go slowly and build your knowledge as you go. ***Do it properly".***

Mr Lungephi Nogqala

Did you know?

- There are more than 200 000 taxis on our roads, transporting more than 4.5 million people per day
- The taxi industry has created sustainable jobs for more than 400 000 people, and has an estimated turnover of more than R16.5 billion per year. (Source: www.sataxi.co.za)

Appendices

I Summary of Impact holdings as at 31 August 2014

IMPACT AREA		VALUE (R's)
EDUCATION		10 000 000
ENERGY	Solar	517 000 000
	Wind	350 000 000
HOUSING		27 000 000
ENTERPRISE DEVELOPMENT		30 000 000
TRANSPORT		27 000 000
ROADS		11 000 000
PROPERTY IN RURAL AREAS*	Office	50 000 000
	Retail	1 920 000 000

*The properties listed in this appendix excludes all properties and/or developments which are not located in rural areas.

II Risk management

When investing in unlisted entities, Mergence has adopted an enterprise-wide approach to risk management. The main aim of the risk management policy is to balance risk and reward and to protect the fund against risk that could threaten the achievement of its strategic objectives.

Risk management process includes in-depth initial due diligence, The result of the due diligence is used to populate the portfolio risk register where specific risks for each asset are logged and monitored and appropriate risk mitigations implemented. Mergence also manages the overall risk of the fund portfolio by enforcing strict exposure limits across sectors and investment concentration limits. Portfolio diversification is considered to be a key risk mitigation measure.

The fund management team monitors the portfolio risk by conducting quarterly re-assessments of the major risks associated with each asset and attending regular physical site visits. These assessments include a review of both internal factors within the investee company and key developments within the investee's external operating environment and market. Based on the risk review performed, the fund manager prepares a quarterly report for distribution to the Mergence Risk Committee, summarising the key risks per investee and for the overall portfolio. The Risk Committee then provides an objective review of both the individual investee risk and the overall portfolio risk and determines any necessary course of action. The risk review is instrumental in the regular fund valuation process.

Dipula property, Wind project site inspection (Andy Howard & Mark van Wyk), Solar project



III Mergence group structure

Masimo Magerman

MD, Mergence Africa Holdings;
MD, Mergence Investment Managers

Mergence Africa Holdings (Pty) Ltd
2004/021264/07

Izak Petersen

Exec. Dir., Mergence Africa Holdings;
CEO, Dipula Income Fund;
MD, Mergence Africa Capital

Mergence Investment Managers (Pty) Ltd
2004/021426/07

49% owned

Mergence Unlisted Investment Managers Namibia (Pty) Ltd
2014/0487

Asset Management

Mergence Africa Capital (Pty) Ltd
2004/021400/07

Derivatives Structuring & Trading

Mergence Africa Properties (Pty) Ltd
2005/005391/07

Dipula Income Fund
(JSE listed)

Real Estate Investment & Asset Management

Mergence Health (Pty) Ltd
2011/100442/07

Strategic Investment & Private Equity

Solar site inspection (Mark van Wyk & Peta Chennells)

IV Team biographies:

Executive Management Team & Directors

Izak Peterson
Executive Director: Mergence Africa Holdings, CEO: Dipula Income Fund,
MD: Mergence Africa Capital
BCom, CA(SA)
19 years industry experience; 10 years with Mergence

Currently the CEO of the JSE listed Dipula Income Fund. He originally co-founded the Mergence group of companies a decade ago. Mergence was co-principal in the formation and listing of Dipula Income Fund through the merger of Mergence Africa Property Fund and Dipula Property Fund. Izak directed and structured the listing of Dipula. He has been heading up Mergence Africa Properties from the acquisition of its first asset, to its listing of Dipula and has spearheaded the growth of Dipula's asset base to R5bn in just under 8 years. Dipula under Izak's leadership doubled assets in just less than two years since its listing.

Izak continues to serve as an executive and shareholder of the Mergence Group. He is also the MD of Mergence Africa Capital. Prior to this he worked for PSG Investment Bank, and was at Deloitte before that. Izak holds directorships in a number of Mergence group companies and represents Dipula on the SA REIT Association and has served on numerous industry bodies over the years. Izak currently serves as a board member of SAPOA.

Masimo Magerman
Managing Director
B MSc (Fin), MBA (Fin)
19 years industry experience; 10 years with Mergence

At the age of 20, Masimo received a scholarship to attend Kean University in New Jersey USA and following his graduation, enrolled for an MBA (Finance) at Rutgers University. After graduating in 1995, he started his career as a financial data analyst on Wall Street for Thompson Financial Group New York and thereafter joined Merrill Lynch in London on the convertible bonds desk. Masimo returned to South Africa in 2000 to run an equity derivatives book at Gensec Bank. Masimo is one of the founders and MD of Mergence Africa Holdings and Mergence Investment Managers. Both companies were established in 2004. The group ethos, which resonates around the various companies, is to "Create Shared Value", making a profit whilst addressing social needs.

Fabian De Beer
Chief Investment Officer, Director
B Com, H.Dip.Ed
27 years industry experience; 8 years with Mergence

Fabian has over 27 years investment experience, having obtained his B Com at UWC majoring in Accounting and Economics, followed by a post graduate H.Dip.Ed. He has held a number of senior and executive management positions namely: Head of the Group ALM function at Standard Bank/SCMB (Treasury); senior manager of ALM / risk assessment at Eskom Treasury; senior positions at the Eskom Pension Fund of which most of his time was spent heading Investment Multi-Management and playing a major role in investment and portfolio strategy as well as asset allocation. He then joined Brait SA as Executive Director and lead investment manager for its Fund of Hedge Funds. In 2006, Fabian joined Mergence Investment Managers as Investment Strategist, a role he still fulfils.

Bongani Jack
Head: Institutional Sales, Director
BTech (Marketing), AFP, COP (Retirement Funding)
19 years industry experience; 5 years with Mergence

Bongani has over 19 years experience in the financial services environment of which 14 of those were spent working for Sanlam. He fulfilled various roles in the consultants & actuaries division, institutional sales executive for an Employee Benefits Division, and manager of corporate social investment department and transformation. He completed a BTech Marketing Degree, AFP and COP. He is currently busy with an MTech in Marketing, and has already completed his course work. Bongani joined Mergence Investment Managers as head of institutional sales in 2009.

Andy Howard
Chief Operating Officer
CA (SA), CFA
22 years industry experience; 2 years with Mergence

Andy has over 22 years' experience in financial services operations commencing his career in the administration of offshore hedge funds in the Caribbean. He returned to South Africa in late 1995, joining Coronation Fund Managers in early 1996. In mid-1998 he was one of the founders of FinSource (now Maitland) with Coronation as the lead client. During 2004/5 Andy was COO at African Harvest Fund Managers and thereafter left the industry for 4 years to pursue several private entrepreneurial ventures. In 2010, he returned to the financial services industry in various consulting roles. Andy joined Mergence in 2012 as COO and brings an in-depth technical knowledge and a wealth of hands-on experience in managing the operational and administration divisions of leading asset management and administration companies.

Bradley Preston
Portfolio Manager
BSc Hons, MSc (Financial Mathematics)
9 years industry experience; 9 years with Mergence

Brad received his MSc in financial mathematics from UCT with distinction for his thesis focusing on derivative pricing. He joined Mergence Investment Managers in 2005 as part of the absolute return team where he is currently a Portfolio Manager. Brad is also Portfolio Manager of the Mergence ESG Equity Fund and heads quantitative analysis within the team.

Impact / infrastructure investment team

The Mergence impact and infrastructure investment team is supported by the larger, 16 member, Mergence Investment Managers investment team. The impact investment committee is chaired by Fabian de Beer and is made up of Masimo Magerman, Mark van Wyk, Peta Chennells, Shaheeda Solomon, Dirk Steyn, Izak Peterson and Izak van Niekerk.

Mark van Wyk
Portfolio Manager   Impact Funds
B Com (Hons), (CA) SA
14 years industry experience; 3 years with Mergence

Mark has over 12 years of investment experience and his career includes development finance, structured finance, external auditing and property management experience. Prior to joining Mergence Investment Managers in 2011, Mark was responsible for establishing new wholesale debt funding relationships, performing due diligences, drafting business plans, financial modelling, liaison with funding partners and oversight of proprietary private equity investments at Mettle, a company within the financial services sector. At Mergence, Mark is currently head of impact investments and heads up the first South African Impact Investment Pioneer Fund using the USAID funded Global Impact Investing Rating System [GIIRS]. He has significant experience of incorporating impact measurement systems based on the Impact Reporting & Investment Standards [IRIS] into the investment process and is one of the leaders in providing institutional investment offerings in high impact investments in South Africa.

Dirk Steyn
Portfolio Manager
BSc, BEng and MSc (Financial Mathematics)
9 years industry experience; 7 years with Mergence

Dirk joined Mergence Investment Managers in 2007 in the role of Quantitative Analyst whilst completing a Masters in Financial Mathematics at University of Cape Town. Since then he has fulfilled various roles in the investment process including risk manager and fixed income analyst. In the last three years, Dirk has focused his attention on championing fixed income and cash management at Mergence.

Peta Chennells
Credit Analyst
BBusSc (Finance Honours), CA (SA), MCom (Financial Management)
9 years industry experience; 1 year with Mergence

Peta is a CA (SA) and completed her articles at Deloitte where she was placed first with distinction in the CA (SA) Board II in 2007. Since returning from a short stint traveling overseas, Peta has been involved in private equity and developmental finance for Metropolitan Capital and Mayibuye Group. She has also completed her Masters in Financial Management through UCT. Peta joined Mergence in September 2013 as a credit analyst in Mergence's suite of impact funds, which seek to make a measurable and sustainable impact in South Africa while generated sound risk adjusted returns for investors.

Shaheeda Solomon
Credit Analyst
BCom Hons, CA(SA)
3 years industry experience; recently joined Mergence

Shaheeda graduated from the University of Cape Town in 2008 and then completed her Post Graduate Diploma in Accounting in 2010. She joined Deloitte in 2011 where she completed her articles in the financial services industry. Prior to joining the impact investment team at Mergence Investment Managers in 2014, Shaheeda was seconded to the Deloitte London Office where she gained experience in investment management and private equity.

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Foundation for wind turbine

Acknowledgements and sources

www.eduloan.co.za
www.tuhf.co.za
www.sataxi.co.za
www.ditikeni.co.za
www.randtrust.co.za
www.lendcor.co.za

“Investment intended to create positive social / environmental impact beyond financial return”

The Rockefeller Foundation, JP Morgan.