



M E R G E N C E

Impact Report 2018

Our contribution to Infrastructure Development

Table of contents

	Page
Foreword	2
Total AUM growth	3
Making an impact since 2004	4
Growth in unlisted AUM	6
Team expansion	7
Responsible investor	8
Alternative / unlisted investments	9
Case study: Waste to energy	14
Case study: Fibre optic telecommunications	16
Listed investments	18
ESG case study: Safety in mining	19
Q&A with Thobela	20
Responsible employer	21
Corporate Social Investment	22
Graduate trainee programme	22
Sustainability programme	23

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Foreword

The State of the Nation Address by South African President Cyril Ramaphosa on 16 February 2018 embodied a spirit of renewal and hope. Urging citizens to come forward and contribute to a new society, he quoted the poignant lyrics by Hugh Masekela of Thuma Mina ("Send me").

This new energy speaks to what Mergence has been doing over the past decade in helping to build our society. Our vision is to grow a world-class diversified financial services group. We are well on our way. Looking back to our first impact report in 2015 I realise how far we have come in growing assets under management and diversifying our business.

We are one of the few managers in the country to specialise in both listed and unlisted investments.

We have pioneered in the impact investing space; we are pushing investment into infrastructure whose long-term, steady returns give pensions funds not only the opportunity to match their liabilities but help to create functioning communities into which pension fund members will retire.

We were the first asset manager to create a debt fund in the renewable energy sector.

We have expanded further into Southern Africa, with an office in Lesotho soon to be opened in addition to our existing office in Namibia. We focus on infrastructure investments in both countries. We have hired a fully focused Regional Investments Strategist for SADC, Semoli Mokhanoi. Semoli brings to Mergence a unique model called Implemented Private Equity. We have also hired a risk manager for our unlisted investments.

In May 2017 Mergence bought the largest independent agrifinance business in SA to bring much needed investment products into the agricultural sector.

And we have launched a private equity fund in the ICT sector with digital partners from South Africa and Sweden and the first close anticipated in the third quarter of 2018.

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A common thread runs through all the activity, across all asset classes whether listed or unlisted, and that is to make an impact on communities in order to create shared value.

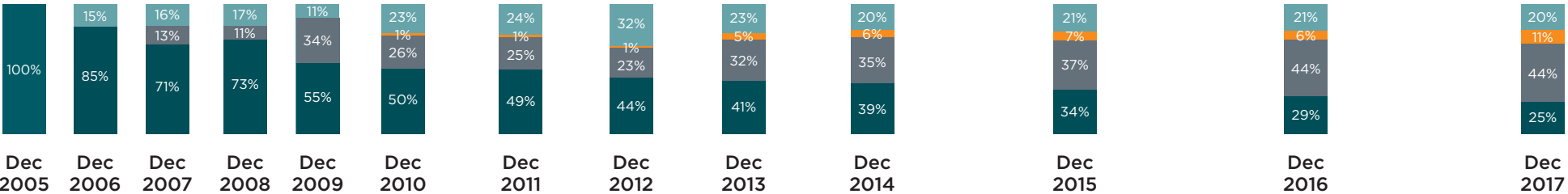
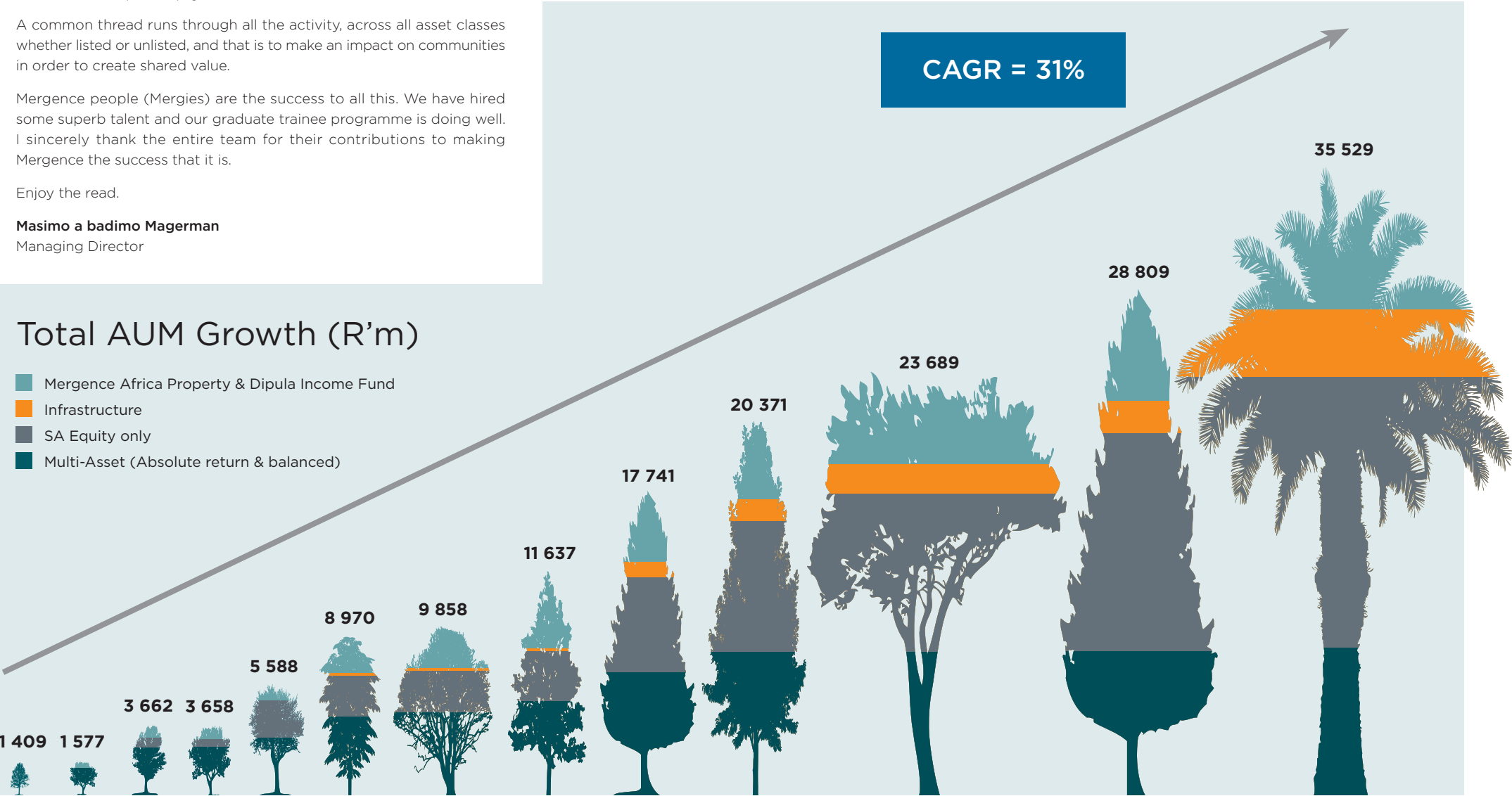
Mergence people (Mergies) are the success to all this. We have hired some superb talent and our graduate trainee programme is doing well. I sincerely thank the entire team for their contributions to making Mergence the success that it is.

Enjoy the read.

Masimo a badimo Magerman
Managing Director

Total AUM Growth (R'm)

- Mergence Africa Property & Dipula Income Fund
- Infrastructure
- SA Equity only
- Multi-Asset (Absolute return & balanced)



Making an impact since 2004

2004

Mergence Africa Holdings incorporated on 2 August 2004

2005

2006

2007

2008

2009

Mergence Africa Property Fund launched

2010

Impact fund range launched as an alternative to our conventional product

Mergence SRI Fund

Mergence ESG Equity Fund

Mergence Infrastructure & Development | 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 I

2015

Launch Mergence Infrastructure & Development | Equity Fund

Awarded first Lesotho Private Equity mandate

Launch Mergence Unlisted Investment Managers (Namibia)

2016

Launch Mergence Renewable Debt Fund II

2017

Launch Mergence Infrastructure & Development | Bond Composite

Launch Mergence Technology Fund I

Acquisition of Riparian, leading to Mergence Commodity Finance

2018

Launch Mergence Investment Managers (Lesotho)

Launch Mergence Investment Managers (Swaziland)



SADC expansion

In line with our strategic wish to grow into the Southern African Development Community (SADC), Mergence Investment Managers has launched operations in Lesotho and Swaziland, and a strategic partnership in Botswana.

We believe there is strong alignment between our expertise in unlisted investments and development plans in Africa. Our in-depth understanding of strategic national development plans in neighbouring countries fuels our desire to participate in the development of those markets.

Next to government, pension funds are the key drivers of economic development. Our unique framework allows investors to give input into the underlying investment projects. In addition to investing local funds in SADC countries, we also welcome foreign investments into

these developing markets by means of our unique investment vehicle that accommodates foreign investors.

We understand that the success of our investment in developing markets is measured by looking at broader social responsibility over and above returns. Similar to our core values in South Africa, we apply a consistent approach that creates positive and sustainable social and economic impact.

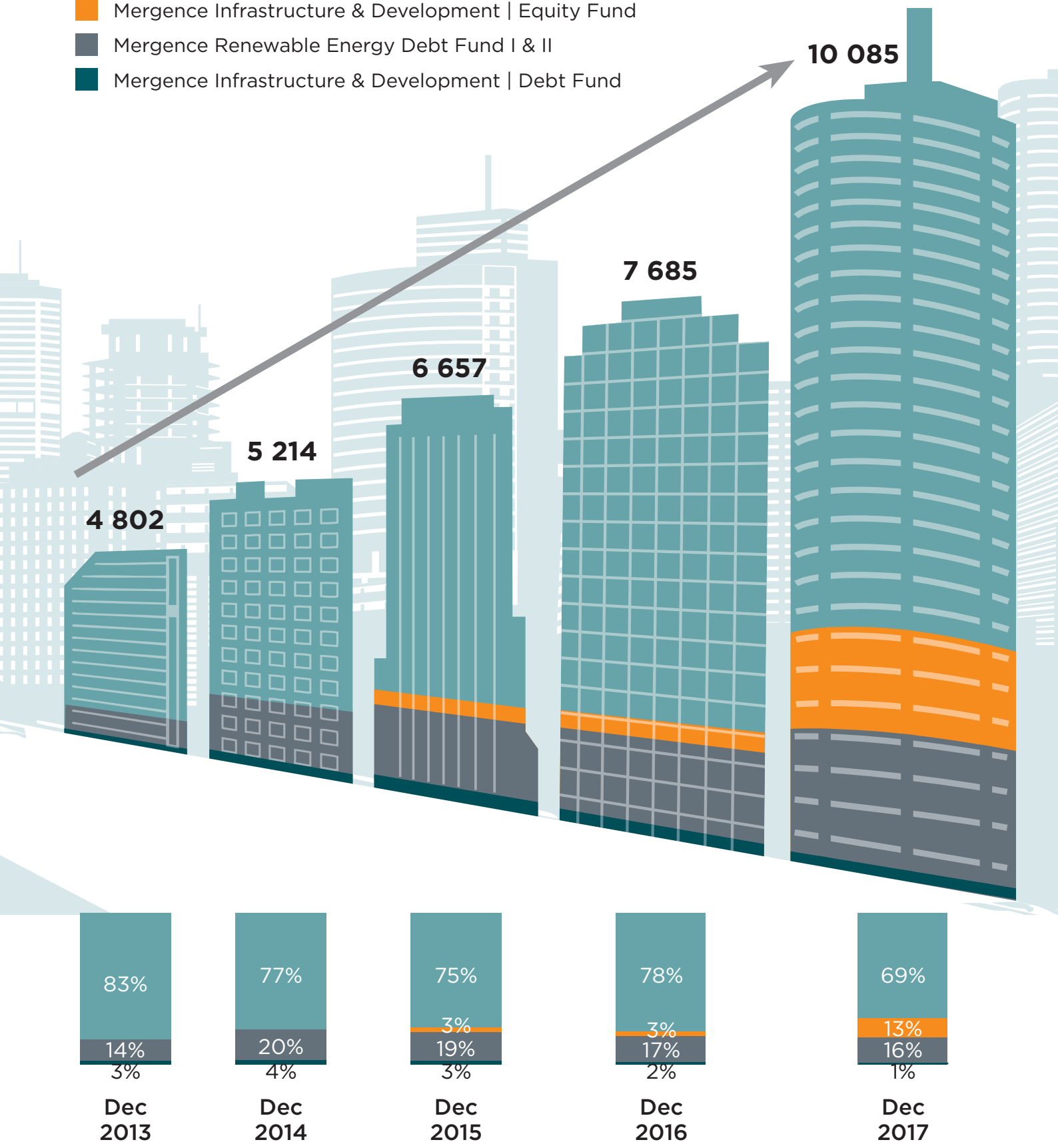
Our commitment to developing markets is reinforced through our skills transfer programme that we put in place for in-country candidates. Our aim is to capacitate local offices to a point where investments are taken and implemented in-country.



Growth in unlisted AUM

CAGR = 25%

- Mergence Africa Property & Dipula Income Fund
- Mergence Infrastructure & Development | Equity Fund
- Mergence Renewable Energy Debt Fund I & II
- Mergence Infrastructure & Development | Debt Fund



Expansion of the Mergence unlisted investment and client service teams

Manager Client relationship

Christopher Flanders

B Bus Sc (Finance), PGDA

Industry experience: 5 years

Start date: 1 February 2017



Regional Investments Strategist

Semoli Mokhanoi

*Fin Planning (Hons),
B Com (Accounting)*

Industry experience: 16 years

Start date: 10 February 2017



Financial Accountant

Blanche Mnywabe

B Com, CA (SA)

Industry experience: 14 years

Start date: 22 March 2017



Portfolio Manager (Namibia)

Hileni Nghinaunye

BSC (Polytechnic - Namibia)

Industry experience: 4 years

Start date: 1 May 2017



Client Relationship Manager

Felicity Lekhoaba

*B Com (Fin Acc),
B Com Hons (Mgmt Acc),
Advanced Dip (Mgmt Acc)*

Industry experience: 2 years

Start date: 1 June 2017



Risk Manager (Unlisted investments)

Nandipha Kenqa

B Com (Fin Acc) PGDA, CA(SA)

Industry experience: 2 years

Start date: 1 June 2017



Business Analyst

Lindsay Daniel

B Com (Hons), CA (SA)

Industry experience: 8 years

Start date: 9 October 2017



Business Development

Ntsiki Ndzima

SAICA Articles, Bcompt (in progress)

Industry experience: 4 years

Start date: 1 August 2017



Manager Client relationship

Babalwa Dlanjwa

B Com (Financial Accounting)

Industry experience: 4 years

Start date: 1 December 2017



Compliance Administrator

Charmaine Febana

Matric

Industry experience: 23 years

Start date: 1 November 2017



Responsible investor



Alternative / unlisted investments

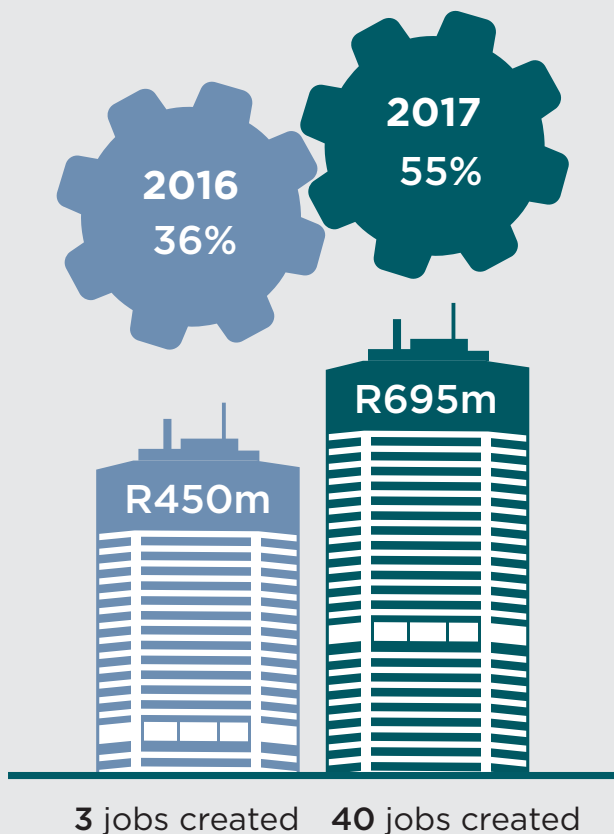
We engaged Gray Hofmeyer, an Associate from Green-Edge Communications, who worked closely with the Bertha Institute of the UCT Graduate School of Business to co-develop the first iteration of an internal impact metric scorecard.

It has unveiled a great deal of information on the broad range of positive impacts resulting from our current

investments, highlights of which are given here. Notable investees that are delivering social and environmental returns above par on their investments include Dipula, and Transaction Capital (Rand Trust).

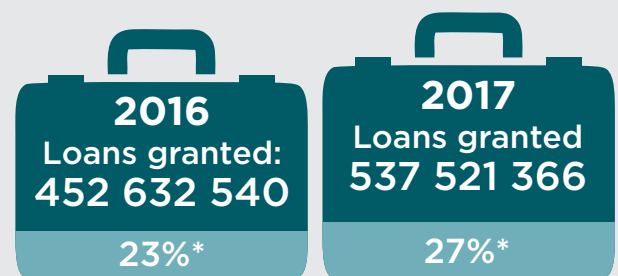
We also include two short case studies based on recent investments into the waste-to-energy and fibre sectors.

SECTOR: Township infrastructure development



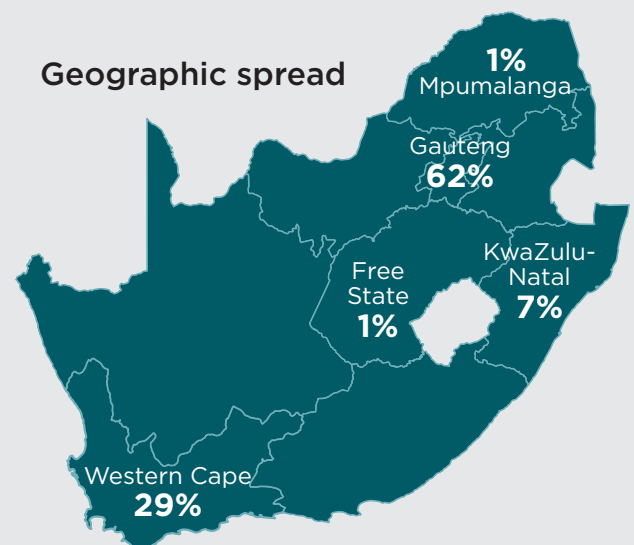
 **dipula**
INCOME FUND

SECTOR: Enterprise Development



*Mergence contribution

Geographic spread



 **Rand Trust**
business, on your terms

SPECIAL MENTION is required for the Trust for Urban Housing Finance and SA Taxi Finance who are going above and beyond in their efforts to leverage positive change through their businesses.

SECTOR:
Affordable housing
June 2016 - 2017



Individual housing units built



10 jobs created



**SECTOR:
Transport**












	2015	2016	2017
Number of individual taxi owners:	21 274	21 765	23 487
Average number of vehicles per owner:	1.18	1.21	1.22
Number of employees:	627	840	965



Below are highlights from some of our renewable energy investments whose vision is to uplift, improve and drive real and sustainable change in surrounding communities

through the economic development projects and activities of the various facilities:

Klipheuwel-Dassiesfontein	Rubicept	Solar Capital
Wind	Wind	Solar
 Rural development  Education  Health  Woman empowerment	 Rural development  Education  Health  Skills development and training	 Rural development
<p>SED¹ spend 1 January to 31 June 2017:</p> <ul style="list-style-type: none"> Actual spend: R 997,193 Budgeted: R 951,796 	<p>Actual contributions from 1 January to 30 September 2017:</p> <ul style="list-style-type: none"> SED = R 401,417,50 ED² = R 199,542 	<p>Actual contributions from 1 January to 30 August 2017:</p> <ul style="list-style-type: none"> SED = R 3,142,911 ED = R 1,730,928

1: Socio-economic development 2: Economic development



Klipheuwel: Principals Academy



Rubicept: Teach SA's Physical Science Ambassador



Solar Capital: Free community wifi



CASE STUDY: Waste to energy

Mergence has invested an initial R15 million and committed an additional R85 million into five innovative waste to energy facilities that use anaerobic digestion to convert organic waste into methane gas. The investment is housed in the **Mergence Infrastructure & Development | Equity Fund**.

Waste to energy is the process of generating energy in the form of electricity and/or heat from the primary treatment of organic waste. Waste to energy is therefore a form of energy recovery.

New landfill legislation has forced industry to seek alternative waste management solutions. In particular, the Western Cape needs to focus on providing waste solutions for agricultural residues, as this area is generally not provided with adequate waste disposal infrastructure.

Cheese factory and piggery in Cape Town

The piggery has over 6,000 pigs producing up to 40 tons of waste water a day. Using a 500-cubic meter anaerobic digester, the plant can produce 40 cubic meters of methane an hour. The gas is used to fuel a combined heat and power engine which has a peak potential of 125Kw for electricity and 105Kw for heat. The heat is used in a separate cheese production process.

The impact

Of the 40 tons/day in waste, 20 tons/day are converted into biomethane and digestate, which incidentally can be used as compost. Approximately 234,000 cubic meters of methane are diverted from the atmosphere to the combined heat and power engine.

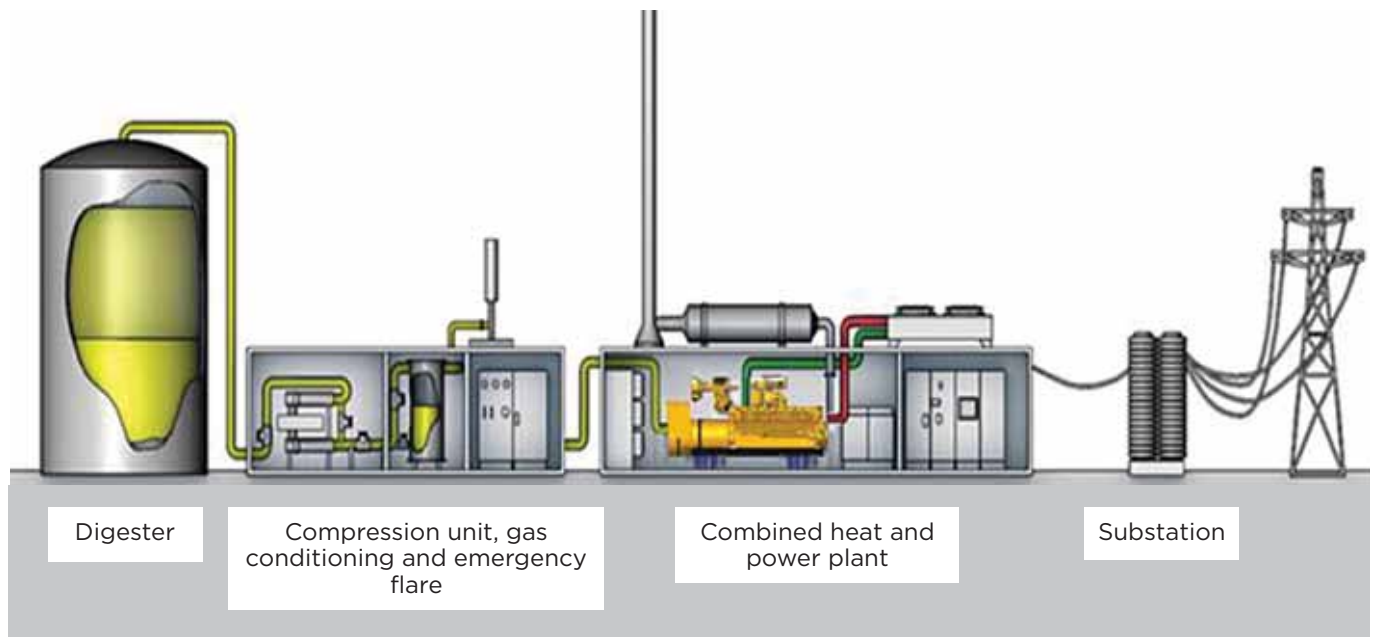
Waste to energy - how it works

Using a combined heat and power engine, the gas is turned into electricity with heat as a by-product. Alternatively, the gas can be scrubbed, compressed and packaged for use as an alternative to power vehicles, or as cooking gas in the restaurant industry or for other industrial applications such as the replacement of heavy fuel oil in industrial boilers.

The model produces a dual benefit:

- The amount of waste going to landfill is reduced significantly
- Energy costs are reduced for the client

Mergence is excited about the future of waste to energy in South Africa. There is potential to use the model on a larger scale if covering a larger radius, for example to generate enough energy to run a fleet of trucks.



CASE STUDY: Fibre optic telecommunications

Mergence has made an equity investment of R25 million into a fibre optic network and has committed R160 million for further opportunities expected to materialise in the coming months. The investment is housed in the **Mergence Infrastructure & Development | Equity Fund**.

Broadband services in South Africa are poised for growth. Current installation covers only 6-10% of potential end users. It has been estimated that 1 million kilometers of fibre needs to be installed in South Africa over the next five years. If prices drop to the R400-500 range for a 100mbps uncapped line, up to 2 million consumers can be connected.

Mergence has invested in both passive infrastructure, which relates to actual fibre in the ground, and active infrastructure which is the infrastructure that lights up the dark fibre, albeit the active infrastructure investment is a tiny portion of the total earmarked investment.

The impact

The Mergence investment will bring fibre capability to homes in urban areas of the Western Cape within a year.

Civil works comprise 60% or so of passive infrastructure costs. The civil works usually create many low-skilled jobs if the digging is done manually. The useful life of the asset is well over 25 years. The predictability in cash flows of our investment in fibre infrastructure is well aligned with the fund mandate.

Generally, fibre access has the potential to transform local economies, businesses, households, and public services. It helps improve the performance of existing firms, enables new businesses to emerge, and encourages flexible working patterns. It is key to opening global markets to regions previously denied access, providing new job opportunities, and boosting productivity.

Investment in fibre broadband also has the potential to deliver social goods, for example by improving public service levels in areas such as health, education, e-government, and democratic participation at a lower cost than would be available offline.



Listed investments

Mergence believes that “everything counts” and therefore considers the impact of our investment activities on society and client mandates. We believe that environmental, social and governance (ESG) issues are important factors to consider in managing investments and their attendant risks. We continuously seek to invest our clients’ funds in a responsible manner, consciously making an effort to be cognisant of these issues and actually contributing to the realisation of ESG objectives.

Mergence’s ESG framework integrates environmental, social and governance issues into the investment analysis and decision process with the view of mitigating overall portfolio risk and making a constructive impact where warranted. The purpose of integrating ESG factors is to enhance the analysis of all investments by explicitly taking ESG issues into account, promote improving standards of practice, and assist the investment process to mitigate any ESG risks to potential or existing loans or investments.

ESG factors are considered and assessed on the basis of both:

- Economic grounds (e.g. well governed companies tend to be less risky; companies with sustainable environmental or labour policies will be less risky),
- Social grounds (e.g. tobacco is damaging to the health and welfare of the nation; road transport is beneficial for national development).



CASE STUDY: Safety in Mining

Mergence Investment Analyst, Thobela Bixa, conducted research into mining safety over a few years, compiling two reports which are available on our website, under "Reports". He analysed a sample of 17 JSE listed companies across Gold, platinum group metals (PGMs) and Diversified* operations.

Some highlights follow below from Thobela's second report.

- The South African mining industry has drastically improved safety. Since 1993, fatalities, reported injuries and fatality causes all reduced by 88%, 60% and 80% respectively.
- While the number of fatalities has declined by close to 90%, the number of employees has only reduced by 30% since 1993. This implies that the SA mining sector has not only reduced fatalities in absolute numbers but has also become far safer than it was 24 years ago.
- Between 2007 and 2016 companies analysed by us improved their safety as shown in the reduction of lost

time injury rates (LTIR), fatalities and fatality rates which were down by 57%, 42% and 67% respectively.

- It would appear companies that spend below the average training expenditure annually per employee (R9 055) over the period of consideration (2007-2016) saw higher LTIR compared to those that spend above this average.
- Overall, across all the matrices in our report, the Diversified industry outperformed peers followed by PGM, with the Gold industry ranking last. Kumba Iron Ore and Exxaro both consistently outperformed peers where higher investment spend on employee training was coupled with low fatalities, low fatality rates and low LTIR. On the other hand, Harmony Gold was a standout underperformer where lower investment spend on employee training was coupled with high fatalities, high fatality rates and high LTIR.

**Diversified refers to diamonds, coal, iron ore, chrome and all other commodities except Gold and PGMs.*





Thobela Bixa
Investment Analyst

Why does Mergence have an investment analyst dedicated to ESG issues?

This is a new dedicated role which reflects the importance we attribute to incorporating ESG factors into our investment process.

What motivated your mining research?

In 2015/2016 there was a huge outcry from mining companies about the use of section 54s (safety stoppages) by the Department of Minerals and Resources in halting unsafe mining operations. We therefore sought to find empirical data on potential causes of stoppages and what companies are doing to avoid incidents.

Are there any other sector focus areas for ESG?

Potentially yes, but what limits us is finding continuous and reliable data. We have done some research on the banks as well as some less extensive work on retailers.

Where do you think SA is ESG?

We definitely lag the developed world. However, we are among the leaders in emerging markets. Anecdotaly, SA investors are incorporating ESG issues as a risk management tool.

What does the ESG role involve?

As a signatory to the UN Principles for Responsible Investment (PRI) and our endorsement of the Code for Responsible Investment in South Africa (CRISA), Mergence is committed to integrating ESG issues into our investment analysis and decision process. This is done with the view of mitigating overall portfolio risk and/or making a constructive impact where warranted. This integration further enhances the analysis of all investments by explicitly taking ESG issues into account, promoting improved standards of practice, and assisting the investment process to mitigate any ESG risks to potential or existing loans or investments. My role is really fourfold:

1

Formulate and refine our Proxy Voting Policy and **ESG framework**.

This framework includes a focus on ESG issues at specific companies or thematic research which enables us to screen investments using ESG factors and evaluate these risks.

2

Create databases, monitor ESG activities of companies and capture into the databases for use by the broader team. Information is gathered internally, by meeting with sell-side analysts and attending conferences. The increase in ESG related disclosure over the past 5 to 7 years has produced a rich and growing dataset on JSE listed companies.

3

Through fundamental ESG research, monitor whether companies improve over time and use this information to **engage company management** on behalf of our clients to influence the activity or behaviour of these companies.

4

Report to stakeholders on ESG matters in our investments in a transparent and accountable manner.



Responsible employer



Corporate Social Investment

We are committed to the ongoing development of the communities in which we operate, who we reach through our structured corporate social Investment (CSI) programme. We provide financial and non-financial support to community upliftment projects focused on

sport, education and the arts. Some of the programmes we support includes African Grassroot Hoops, Maxim's Kids, 43 Trelawney, Mineworkers Charitable Fund Trust, Lady in Red Opera, Newkidz and JMi Soccer Academy.



Graduate trainee programme

In 2015 we launched a skills development programme, recruiting five graduates from universities throughout South Africa. The programme equips interns with the required skills and practical knowledge so necessary in the demanding field of investment management, while

also mentoring and coaching them in the softer skills needed to be effective and productive within a team and an organisation. We have seen these young aspirant investment professionals grow and in 2017 we had an additional intake of three more graduates.



Gomma Bangani

Role: Investment Risk Analyst
Qualifications: BSc (Mathematics & Statistics), BSc Hons (Mathematics), BSc Hons (Applied Statistics)
Hailing from: Mthatha



Yanga Mxima

Role: Trainee Analyst (Unlisted)
Qualifications: B.Com (Accounting)
Hailing from: Amalinda, East London



Siyabulela Makaula

Role: Trainee - Equity Analyst
Qualifications: B. Com (Accounting and Economics), B. Com Hons (Economics)
Hailing from: Queenstown

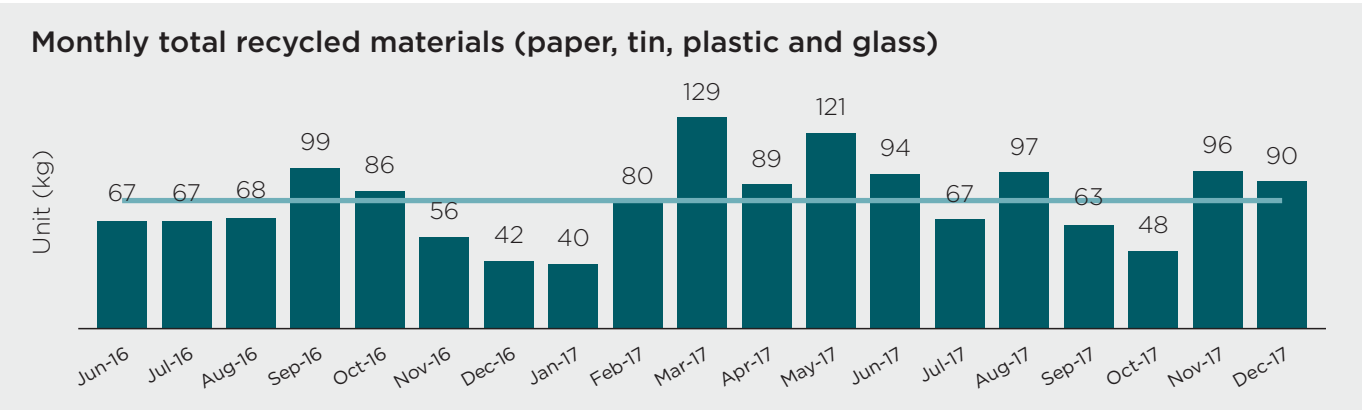
Sustainability programme

We recognise environmental management and conservation as an important area of corporate performance which supports our commitment to ESG principles and supports sustainable development.

Our operational business activities may not have a substantial impact on our environment, but the effective implementation of our Sustainability Policy nevertheless requires the co-operation and involvement of staff at all levels and in all areas.

Waste recycling

We started recycling (paper, general plastic, tin and glass) in June 2016 and we are pleased to report that on average we have manage to recycle 79kg per month (as indicated by the light blue line) during 2017 as illustrated in the graph below:



It took us the first three months to get staff on board and the months where we were below average are the months when most of the staff were on leave.

Water usage

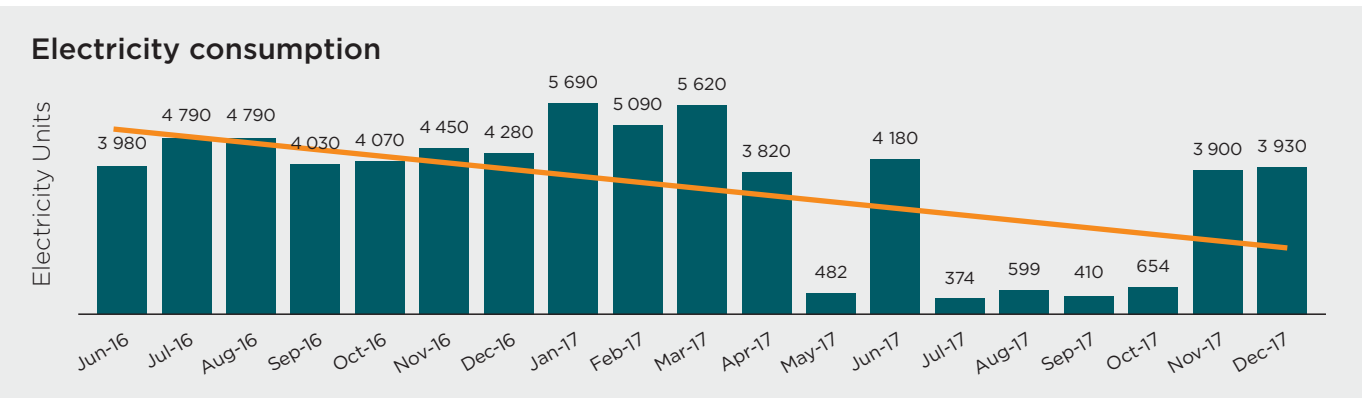
We set out wanting to reduce our water consumption by 10% in June 2016, without fully realising what lay ahead in terms of dam levels in the Western Cape as we know it today. We began by installing waterless urinals, having a water audit done and subsequently having a water meter installed to measure bathroom and kitchen water volumes. Reminders have been placed in the bathroom and kitchen

area to remind us of ways to save water. Subsequent to the announcement of Day Zero, we resorted to use biodegradable cups and plates, adjusted the toilet flush mechanism for a shorter flush, installed hand sanitizers, installed aerator nozzles in our taps and banned the use of showers. As a result, our water usage dramatically dropped by more than 90%.

Electricity usage

We aimed to reduce our electricity consumption by 10% in June 2016. An electricity audit was done to assist us in determining where we can reduce our energy footprint and we informed staff via newsletters and placed notes throughout the office to remind Mergies to turn off all

equipment, including computers, lights, air-conditioning, and televisions (as indicated by the orange line) when not in use. In comparison to the previous year, we managed to reduce our power consumption by 67% from June 2016 to December 2017.



Going carbon neutral

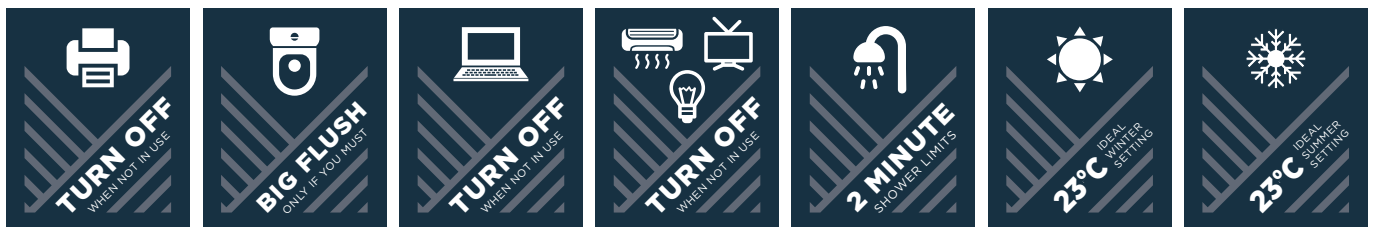
When a company becomes carbon neutral, the CO₂ emitted in its operations is “offset” or compensated for by actions that reduce the same amount of carbon (or equivalent greenhouse gases - CO₂e) that would have been emitted, had there been no action taken.

As the first step in the process of Mergence becoming carbon neutral, we gathered all the emissions data from the company relating to electricity use, air and land transport and other sources. This was then converted into kilograms of CO₂e using a variety of conversion formulae related to how the emissions are generated. Office electricity use for example is generated by Eskom and the conversion rate is 1.03 kg CO₂e per kWh.

The Mergence Sustainability Team collected the data in order for our external sustainability experts, GreenEdge, to calculate a total figure for the year to August 2016. The

relevant factors were collated and converted to establish a carbon emission footprint estimated at 227 253 kg CO₂e per annum. These Voluntary Emission Reduction (VER) Units were translated in Rand value and we opted to offset our emissions by using the VER units to buy energy-reduction devices for our office premises and staff homes as this would translate into return benefits back to the company and its staff.

Over a year down the sustainability road now, we are meeting our internal sustainability reduction targets with some carbon credits available from the 2016 carbon emission footprint calculation. We have initiated this calculation process again for the year to August 2017 and we will continue with this process in order to ultimately meet the science-required targets as set at the Paris Agreement on climate change.





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