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QUESTIONS FOR MARK VAN WYK

Mergence High Impact Debt Fund
manager

Impact investment is a new concept. What does it seek to achieve?

With impact investment the aim is to make a positive, measurable impact on society and at the same time provide investors with a good return. Government has called on the private sector to help finance social upliftment projects. Our fund provides an avenue for pension funds and other long-term investors to respond to this call.

In what way does impact investing differ from socially responsible investment?

Socially responsible investment (SRI) is based on negative screening aimed at avoiding investments in companies that are perceived to be harmful to society in some way. I see impact investing as a step up from SRI and an approach that lends itself well to SA's growth and developmental needs.

How do you manage credit risk and how do loans made by the fund measure up to rating agency criteria?

When we structure loans we ensure there is adequate security to cover our exposure in the event of a default. Security can take the form of property or the cession of a loan portfolio to us, for example.

We do an internal qualitative and quantitative assessment of risk using the same processes as rating agencies to arrive at a risk ranking. Some debt we hold is below investment grade but overall the fund's portfolio has an average investment grade rating of about BBB+. Interest charged is variable and linked to movements in the prime [overdraft] rate.

What type of investments do you consider for inclusion in the high impact debt fund?

As guidelines we use findings of the Human Sciences Research Council's social attitudes surveys and areas of focus set out by the national planning commission. From these guidelines we have identified areas such as employment, housing, health and education where impact investing can



Henry Zantman

make a meaningful contribution.

What type of investments has the fund made so far?

We have made six investments so far. A typical investment is a loan made to the Trust for Urban Housing Finance which grants mortgage bonds to small entrepreneurial businesses to buy and renovate inner-city residential rental buildings. Other typical debt finance investments made by the fund are to Eduloan, which provides loans to students studying at tertiary level, and to SA Taxi Finance Solutions.

Are you considering other sectors?

Yes. We are in the final stage of granting a loan to an endowment fund for nonprofit organisations. It will use the funds received to finance anticrime programmes. We are also looking at investment opportunities in the agriculture and health sectors.

How do you assess the impact your investments are making?

Since launching the fund three years ago we have been aligned with the GIIRS [Global Impact Investing Rating System],

which uses Deloitte to undertake independent impact assessments. Our fund has been classified by the GIIRS as one of 53 pioneer impact investment funds worldwide. Sanlam's Agri-Vie is the only other SA fund to have received this classification from GIIRS.

What motivated Mergence to launch an impact investment fund?

Mergence's founders, Masimo Magerman and Izak Petersen, wanted to create a fund through which retirement savings could be managed in a way that would make a positive impact on society. Mergence also manages a renewable energy debt fund which enables pension funds to invest in projects that have a positive impact on rural societies and on the environment.

What level of investor interest are you seeing in Mergence's impact fund?

It takes time to build a track record and for investors to realise what can be done. But the fund is growing well. We have assets under management of R90m and a strong pipeline of investment opportunities.

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