PLANET
CONSCIOUS LEADERSHIP
INFRASTRUCTURE
MERGENCE
IMPACT CLIMATE CHANGE
TRANSFORMATION
MEGATRENDS
SHAREHOLDER ACTIVISM
FOOD SECURITY
INNOVATION
GREEN ENERGY
ESG
BEE

Impact Report 2019

CONTENTS

MESSAGE FROM MASIMO

Welcome to the annual impact report of the Mergence Group.

Over the past 15 years we have built a robust track record. We are committed to ethics; we operate through conscious leadership and we believe in creating shared value in all that we do. We believe in the power of People, Planet and Prosperity, acknowledging that making profits can only be justified if people and the planet are respected and preserved in the process.

Mergence was one of the first signatories in South Africa to the United Nations' Principles for Responsible Investing (PRI), as well as South Africa's Code for Responsible Investing (CRISA).

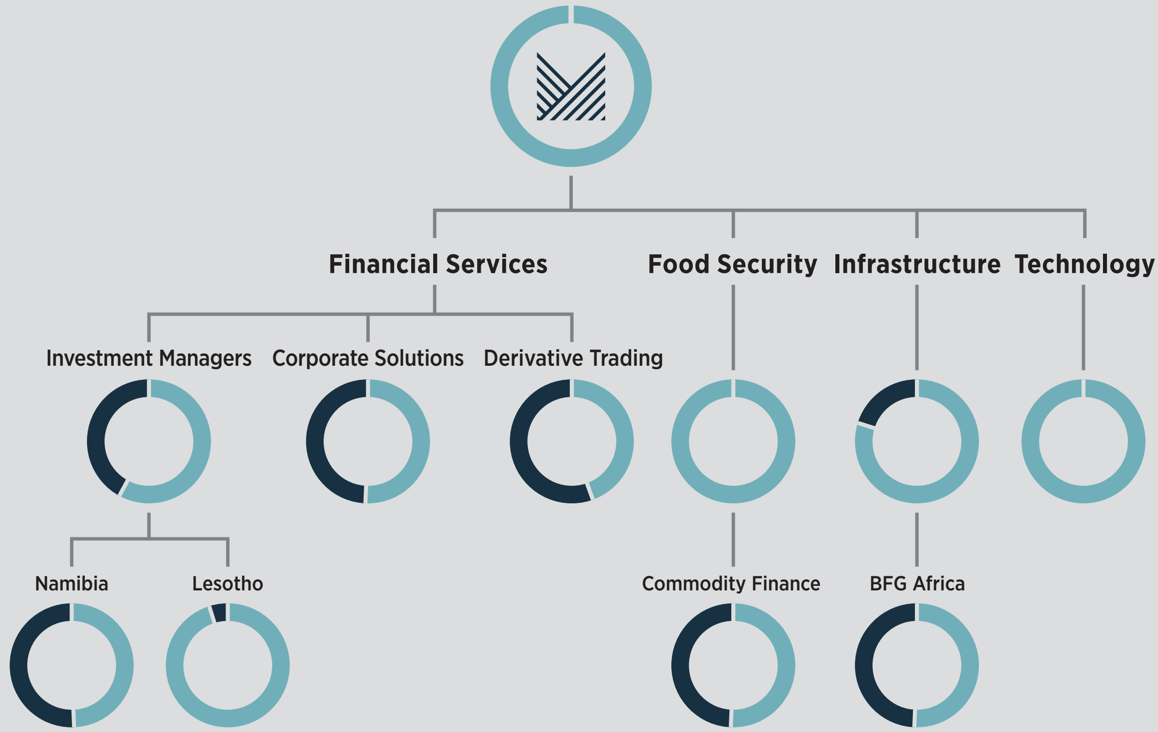
Looking beyond the PRI, we are also led and inspired by the United Nation's Sustainable Development Goals (SDGs), 17 global goals forming part of the 2030 Agenda for Sustainable Development. These goals, adopted by all UN member states in 2015, act as a universal call to action to end poverty, protect the planet and ensure that all people enjoy peace and prosperity.

What we are doing therefore in our own small way is examining and organising our business around mega-trends, be this infrastructure development, green energy, food security, smart technology or transformation.

This report describes our efforts, within these mega-trends, to make a positive impact and create a sustainable future. Space allows us only to give a snapshot of some of our many activities, but I hope that the report serves to remind readers of our dedication to impact, responsible investing, and transformation - and acts as an inspiration.

Continued on the following page.

Our investment themes addressing global megatrends



Diversification

2018 was a milestone year for us, marked by two significant developments that have led to further diversification and internationalisation of our business activities:

- **Infrastructure holding**

  We made an on-balance sheet acquisition of 51% of BFG International Composites (Africa), the pan-African subsidiary of one of the largest and oldest diversified composite manufacturers in the world, BFG International. The Bahrain-based group are global leaders and pioneers in composite design and manufacturing, supplying globally to various sectors including transport, infrastructure, mining and renewable energy. Read more about this development and the launch of the SA manufacturing facility on page 23.

- **Corporate finance**

  We acquired a controlling stake in Cadiz Corporate Solutions, with the team rebranded under the name Mergence Corporate Solutions and a presence in Johannesburg and Cape Town. Well-known deal-maker Robbie Gonsalves continues to lead the team of eight people, among them veteran mining analyst Peter Major. The Mergence Corporate Solutions team offers services in the areas of Mergers and Acquisitions, Corporate Restructuring, Capital Raising, Black Economic Empowerment, Business Valuations and Derivative Strategies. It has partnerships with leading M&A practices in China and India. There are strong synergies between Mergence Investment Managers and Mergence Corporate Solutions, which will enable us to establish some unique investment opportunities.

Looking to the future

We are upbeat about the Mergence Group's future plans, with several new developments yet to be announced. I would like to thank the diverse, vibrant "Mergies" team for their hard work and all our stakeholders for their ongoing support.

Finally, I believe it is important for us as Africans to "think continentally". The African continent has surely got to be the most exciting place on the planet right now!

Enjoy the read.

Sincerely

Masimo a Badimo

The BFG Africa team at the manufacturing facility in Germiston.

The Mergence Corporate Solutions team, Johannesburg team in frames below.

FINANCIAL SERVICES

Investment management | South Africa

Our asset management subsidiary, Mergence Investment Managers, continues to be the cornerstone of the Mergence Group. We were one of the first asset managers in South Africa to develop a joint capability in listed and unlisted investments, reflected in our suite of 20 fund products across specialist equity, multi-asset class, private equity and unlisted credit.

Number of clients

33

AUM

R33bn

CAGR

25%

LISTED

Shareholder activism

Numerous corporate disasters in SA over the past few years have raised the question as to what can and should asset owners and their managers do to hold company management teams to account and guard against shareholders carrying the losses of the next corporate catastrophe? At Mergence we have over the years engaged numerous boards on behalf of asset owners by actively participating in AGMs and voting against poor environmental, social, governance and other policies that destroy value over time.

While this is a good place to start, we believe those engagements are not enough to see the impact or value required by shareholders. In some of the cases where current share prices show significant value, shareholders need to actively engage boards of companies to improve management and governance.

We have sought out increasing opportunities to actively engage the boards and management of companies in our investment universe over the past 18 months. We detail some of these engagements below.

Resilient

In March 2018 we released a report highlighting a number of concerns regarding the companies Resilient, Fortress, Greenbay and Nepi Rockcastle. Our report focused on the company's treatment of their broad-based BEE trusts, suspicious share trading in the shares of these companies and unanswered allegations of related party transactions that led to a police investigation into the companies.

Over the past decade a number of these companies have been the subject of numerous market rumours and anonymous reports and we took the view that only a credible independent investigation could bring finality to these allegations. We drove a collaboration with several shareholders, representing some of the largest fund managers in South Africa, calling for an independent investigation into the allegations against the companies, a move that the country's leading business daily said "...could mark a turning point for corporate governance in SA".

We have subsequently engaged in detailed discussions with the boards of Resilient, Fortress and Nepi Rockcastle, providing detailed questions and concerns that we requested the companies investigate. Commendably Fortress instituted an independent forensic investigation of these claims and has made a number of changes across the organisation to address some of the criticisms levelled at them.

While this type of engagement is by no means easy or comfortable for any of the parties involved we believe that it is our duty as steward of our clients' retirement savings to ask the hard questions and hold public companies to the highest possible level of scrutiny.

Datatec

Datatec is a global IT distribution and services business listed in South Africa. In 2017 Datatec sold the North and South American operations of its distribution subsidiary Westcon-Comstor to US player Synnex. This transaction was concluded at a very attractive price for Datatec and yet we did not feel that the market fully appreciated the value that had been unlocked by the transaction. At this point Datatec consisted of a global IT services business Logicalis, the remaining underperforming assets of Westcon-Comstor, a large amount of cash and a share price trading at a material discount to tangible NAV. While we saw significant value in Datatec, the market price was clearly reflecting an extreme lack of confidence that this value would ever be realised. With a strong founder CEO who is a material shareholder in the company and a board with a number of long serving directors, we pushed for a board refresh and a remuneration policy to better align executive compensation with returns earned by shareholders. Furthermore, we urged the company to aggressively take advantage of the rare opportunity to buy back the company's shares at a significant discount to intrinsic value.

Since starting to engage with the board of Datatec we have seen a number of changes to the board, a revised remuneration policy, an accelerated share buyback, progress on the turnaround of Westcon International and a share price that is up over 60% in one year.

Ascendis Health

Ascendis Health is a pharmaceutical and consumer brands business that has been built through an aggressive acquisition drive led by its largest (25%) shareholder, the private equity fund Coast2Coast. Over 2018, Ascendis shares declined materially as concerns increased regarding the company's gearing and Coast2Coast was forced to sell shares to fund margin calls. We began building a position for our clients in December 2018 as the share price moved towards R3 a share. We built this position with the intention of engaging with the company to drive change that may unlock shareholder value and return the business to a sustainable share path. Our assessment of Ascendis is that it has built a business with some attractive assets but has not delivered on integrating these businesses and delivering organic growth and that the company had taken on too much debt. In addition, both Coast2Coast and the board and management team of Ascendis had lost the trust of capital markets. Ascendis needs to install leadership that has strong operational and turnaround experience, restore the market's confidence in the leadership of the company and repair the balance sheet.

We have engaged extensively with the board of Ascendis Health in an effort to improve corporate governance and strengthen the board with the objective of improving operational performance of the business. We submitted a number of demands to the board and our subsequent negotiations culminated in ourselves and another shareholder calling for a meeting of shareholders to vote on changes to the board. This meeting was avoided when the board acceded to our demands by removing one non-executive director and the Chairman of the board and appointing our nominees to the board in the form of Mr Phil Roux, the ex-CEO of Pioneer Foods, as a non-executive board member and Mr Andrew Marshall, the ex-CEO of Nampak and Oceana as the Chairman of the board.

Both Andrew and Phil are highly experienced executives with extensive experience and strong track records of delivering operational results. We believe they will add value to Ascendis and their appointment is an important first step in the turnaround of the business. We continue to engage the company to support the turnaround and value realisation for shareholders.

In conclusion, true shareholder activism requires integrity and the independence to be able to challenge company boards without fear of ostracisation. It also requires a dedication to growing and protecting asset owners' hard-earned savings and the discipline to follow a process and course of action. At Mergence we take shareholder activism very seriously and you can expect to see more from us that proves we see it as more than a box-ticking exercise.

Straight talking in the US

The publicly confrontational attitude to activism employed by many US investors was pioneered by Dan Loeb, founder of Third Point LLC, who became famous for his scathing public letters to underperforming CEOs laden with personal insults such as "A review of your record reveals years of value destruction and strategic blunders which have led us to dub you one of the most dangerous and incompetent executives in America". And "I must wonder how in this day and age the Company's Board of Directors has not ... shown you both the door long ago - accompanied by a well-worn boot planted in the backside."

UNLISTED

South Africa’s water crisis

Clean, accessible water for all is an essential part of the world we want to live in and there is sufficient fresh water on the planet to achieve this. However, due to bad economics or poor infrastructure, millions of people including children die every year from diseases associated with inadequate water supply, sanitation and hygiene.

Water appears to be in abundance, yet it is rather limited and becoming scarcer. It is one of our most precious resources, frequently taken for granted and unfortunately only given the much-required attention when it is almost too late.

Water risk featured ominously in the South Africa risk landscape analysis in the Institute of Risk Management SA (IRMSA) report of 2017. This was corroborated with the World Economic Forum also listing water risk as the third biggest risks of doing business in SA. Despite being among the 30th water-scarce countries in the world, SA average consumption of 235 litres per day is higher than the global average.

SA’s water supply system consists of a complex interlinked system of dams, pipelines and distribution networks that supplies water to catchment management areas, cities, municipalities, businesses and agricultural users. These systems have multiple feedback loops and require balance to avert long term negative consequences and provide resilience to this critical social-ecological system. Modelling tools that can generate and explore alternative outcomes based on different sets of social and ecological conditions and their interaction within the system could also lead to a better understanding of ecosystem resilience and help guide decision making in the face of climate change and potential water scarcity.

The challenges

The following strategic challenges were identified by the Water department of the City of Cape Town but are relevant at a national level:

- The spread of alien vegetation (reducing run-off into the dams);
- Poor planning and delays in providing additional surface water supplies due to a lack of co-ordination and capital;
- A complex economic model of water utilities with water prices not being cost reflective;
- Reduced water availability (lower dam levels) as a result of inadequate maintenance of the infrastructure (pump stations, canal cleaning etc.);
- Climate change that could lead to longer and more frequent droughts; and
- Increasing population growth in areas with limited water resources.

Possible solutions

We have observed the following key opportunities for reducing the impact of the abovementioned challenges facing the SA water sector:

Increased collaboration

Several of SA's challenges can only be addressed through regional and local collaboration. While SA is a water-scarce country, several neighbouring countries have abundant water supply. There are other areas in which complementary national endowments offer opportunities for mutually beneficial cooperation. We believe SA should invest in and help explore the wide range of opportunities for harvesting water resources cost effectively.

An alternative incentive model for water utilities

We believe that water service providers should be incentivised for water conservation initiatives which have the potential to reduce the revenue of the service providers. An incentive program could assist in replenishing lost revenues, and achieve a reduction in water consumption levels.

Cost-reflective tariffs

The financial components of the water conversation cannot take place without a profound discussion of political components as well. While the simultaneous needs for balanced budgets and water conservation are reasonably well accepted, political considerations alter the playing field.

For politicians, raising tariffs are unfortunately not favourable. We believe that water costs should be adjusted to be cost reflective.

Proactive reduction of NRW

A non-water revenue (NRW) figure of 40% compounded by a higher than average water consumption rate is detrimental to any proposed intervention. We believe that the somewhat lacklustre enforcement of regulations and absence of benchmarking of consumption is fanning the pending crisis. To avert the taps from running dry, we call for the establishment of an independent sector regulator with the necessary regulations and enforcement capability. This would go a long way to "plugging the leaks",

GROWING OUR SHARED VALUE

HOUSING

Loan applications approved (2018)	29,212
% Loans towards home improvements	89%

CLIENT PROFILE

% of book to pensioners	7%
% of female borrowers	62%

RENEWABLE ENERGY

WIND SOLAR STEAM BIOMASS

Capacity	586MW
WIND	35%
SOLAR	47%
STEAM	17%
BIOMASS	1%

Socio-economic development spend

Wind	R9.7m
Solar	R23.3m

TRANSPORTATION

BENEFICIARIES

Female beneficiaries	5,399
Youth beneficiaries	3,994

ICT / COMMUNICATION

HEALTH

WATER

JOBS: 17,374

TOTAL INVESTED: R3.7bn

Trust for Urban Housing | Housing

The Mergence Infrastructure & Development | Debt Fund, launched in 2010, was established as our first impact fund. Since its inception, our portfolio management team has liked the impact which the Trust for Urban Housing creates through their access to finance to people for purchasing, converting or refurbishing buildings in the inner cities of South Africa.

One building has a noticeable impact, imagine 100!

Just a stone's throw away from the Nelson Mandela Bay Stadium and the Transnet Port in Port Elizabeth's North End suburb sits Trafalgar Square, a newly renovated 2-storey apartment block highlighted by cheerful colours, green and yellow.

This has not always been the case however; previously the block was poorly taken care of and housed a high level of unemployed individuals who loitered about the unsecured building at all hours of the day and night. Across the road formed an informal dumping site where building contractors and anyone with something to dump could relieve their goods. A mixture of broken furniture, old mattresses and building rubble was a permanent unpleasant sight on the opposite corner to Trafalgar Square.

Today Trafalgar Square stands proud. Sixteen units spread over the ground and first floor have been renovated. The units are a spacious 54m^2 each and have been converted from one-bedroom units to two-bedroom units that are rented out for between R4 000 and R4 100 per month. The original wooden flooring has been restored to its former glory and high ceilings with open plan kitchen and living areas complemented by natural light provide for comfortable living. The last of the construction work is being wrapped up and tenants, mostly young professionals, have already started moving in.

The project has taken a total of 12 months to complete - six months was taken to work with the existing tenants to move out, some which had to follow the legal course of action. The remaining six months was taken to sub-divide the units, renovate the neglected sections and install quality access and security measures such as burglar bars on the porches and balconies as well as create secure clustered entrances to the units. Throughout the project various teams of contractors and sub-contractors worked on site, including builders, painters and plasterers.

The unofficial dumping site is still frequented from time to time, but it keeps being cleared out by the new owners. At the same time, members of the community are saying they have noticed a reduction in crime since Trafalgar Square has been renovated.

There is a steady stream of queries for this new accommodation and the owners often don't even have to advertise as existing tenants recruit their friends and colleagues to move into this well-run building. If one building can make such a big different to an area, imagine what 100 could do!

Investment management | SADC

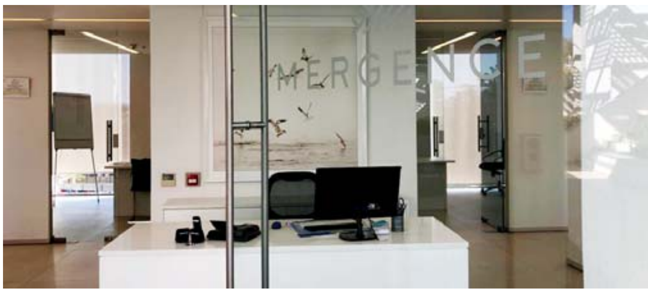
Our operations in Lesotho and Namibia continue to gain traction with some robust and fascinating projects under way in both countries, as well as a healthy deals pipeline.

Our Lesotho office was officially opened by the Finance Minister, the Honourable Dr Moeketsi Majoro on 23 August 2018. Our eSwatini (formerly Swaziland) office is in progress.

In our SADC approach we are ever mindful of the need to empower local citizens, both through direct employment and through the impact that our investments make. 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 sophisticated investment vehicle that accommodates foreign investors.

Maseru



Windhoek

NAMIBIA

Ejuva One & Ejuva Two | Renewable Energy

Mergence Unlisted Investment Managers (Namibia) provided equity and debt financing for the two solar power plants, Ejuva One and Ejuva Two, which were officially opened on 23 August 2018 with a total build cost of N$250 million (USD21m).

Combined, the plant will feed an estimated 25.8GWh (Gigawatt hours) per annum into Namibia's national grid. It is among the 14 renewable energy projects commissioned under the interim Renewable Energy Feed-in Tariff programme (REFIT programme).

The local co-development partners, OKA Capital (Pty) Ltd and BPI Energy Solutions (Pty) Ltd, played a key role in successfully bringing the projects to commissioning. The local partners own 34% of the equity, while developer CIGenCo SA owns 49% and asset manager Mergence Unlisted Investment Managers (Namibia) owns 17% on behalf of its clients.

The Mergence investment rationale was in line with our ethos of creating shared value. In addition to a 17% equity stake in Ejuva, we advanced loans to finance the equity position of the local shareholders in Ejuva. By financing previously disadvantaged Namibians participation on competitive terms, the local shareholders were able to participate more independently and strongly - unlike some projects where funding structures are too dependent on the lead investor.

The impact

- Diversification of Namibia's energy mix and contribution to increase generation capacity in Namibia.
- Reduction of carbon emissions by producing green, emission-free electricity.
- Promotion of employment and skills development during construction and operation. The project sustained 20 jobs during construction and will support 5 ongoing Namibian jobs during operation.
- Positive demonstration effects for solar development in Namibia and neighbouring countries.
- Local ownership of the asset, with long-term predictable cash-flows ideal for pension funds.


Ejuva One and Ejuva Two

LESOTHO

In the Kingdom of Lesotho, local investments managed by Mergence currently sustain more than 300 local jobs.

Medigrow | Medicinal cannabis

Mergence has acquired 7% of Medigrow Lesotho (Pty) Limited on behalf of a domestic fund in Lesotho and has further capitalised the business with a debt instrument. Medigrow was one of the first medicinal cannabis licence holders in Lesotho and established its production site in Marakabei, Lesotho about two hours outside the capital of Maseru.

Lesotho was the first legal cannabis market in Africa and is committed to meeting the highest international standards for quality. Medigrow's vision for local economic development and sustainable growth is in line with the Mergence ethos of creating shared value.

The Medigrow project has to date has created more than 250 permanent jobs, including 17 locally trained growers. At full production, the direct employee headcount will exceed 3,000 people. In Lesotho's rural economy, one employed member of the family supports as many as 10 people in the extended household.

Entrepreneurship and poverty alleviation

Supporting a large staffing complement in a remote, undeveloped part of the country offers up numerous business opportunities for entrepreneurs and service providers. These include supplying vegetables and agricultural products, the provision of meals (Medigrow has committed to serving at least one meal per employee per day), housing, transport, maintenance, education and training.

Medigrow commissioned a survey of the closest villages, to develop a baseline dataset for poverty alleviation strategies. Current and future initiatives include:

- recruiting three English teachers to give language lessons to the villagers to enable more residents to take up employment with Medigrow.
- initiating a housing project to find accommodation for employees outside the immediate area. A master village development plan will be prepared, followed by facilitating existing residents to build good quality accommodation units on their premises.
- securing land leases and building good quality accommodation units means that the land owners are likely, for the first time, to experience economic emancipation.
- recruiting a nurse to provide community health services in the village, as well as a doctor to provide services to Medigrow employees and other community members. With this in mind, the company is sponsoring a student who is studying medicine with the University of Zimbabwe.
- capacitating the local police station to improve safety and security.
- expanding telecommunications infrastructure to meet the community's needs and provide free internet services to the two local schools.

Lesana | Housing loans

Mergence Investment Managers (Lesotho) has invested in Lesana Lesotho's Unlisted Medium Term Note Programme on behalf of its clients. Lesana Lesotho is a licensed non-deposit taking microfinance institution with offices around Lesotho.

Lesana has a suite of innovative finance products, with a focus on housing and incremental housing. The company disburses loans to salaried employees, mainly in the government, and debts are repaid through payroll deduction at source. The incremental housing loan product makes up about 60% of Lesana's loan book and allows clients to build their houses incrementally and in line with their affordability. The product is cost-effective compared to a mortgage loan.

How it works

Lesana extends multiple and successive micro loans to clients who are building or renovating properties; each loan is based on what the client can afford and a further loan is granted as the preceding one is paid. Here is a case study provided by Lesana:

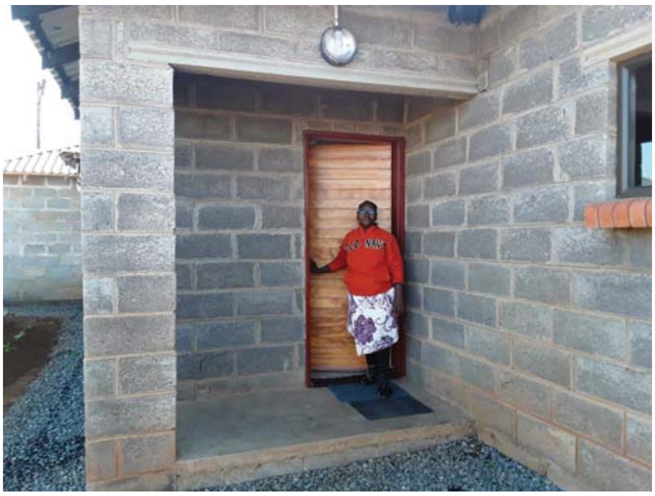
Mrs Mapulungoana Ramoubane is a Mosotho woman employed by the Department of Agriculture at their headquarters in Maseru. She and her husband always dreamed of building their own home. In May 2014, Mrs Ramoubane took a loan from Lesana for M46,000 which she elected to repay over 36 months, and started building their three-bedroom dream house in Musuoe 2, near Maseru on a plot that her husband had bought a few years earlier.

They used locally manufactured cement bricks and local labour to keep the building costs as low as possible. A few months later, she settled her loan with Lesana, and in January 2015 she took out another loan of M20,000 to be repaid over 36 months for the roofing of the house. In August 2015 they moved into their home, although it was not fully complete. In August 2016 Lesana management visited Mrs Ramoubane and her husband at their home.

"As you can see, we are busy painting the roof and will take another loan from Lesana soon to do the plastering on the outside of the house," Mrs Ramoubane explained. *"If it wasn't for Lesana we would most probably still be staying in our old rented two-roomed house"* she added.

Mergence considered Lesana as an investment on the basis of various criteria:

- financial inclusion of the underbanked market.
- expert mobile paperless technological platform.
- experienced and committed management.
- provision of technical construction assistance through a partnership with Habitat for Humanity.
- Lesana makes a significant contribution to the development of Lesotho's capital markets.



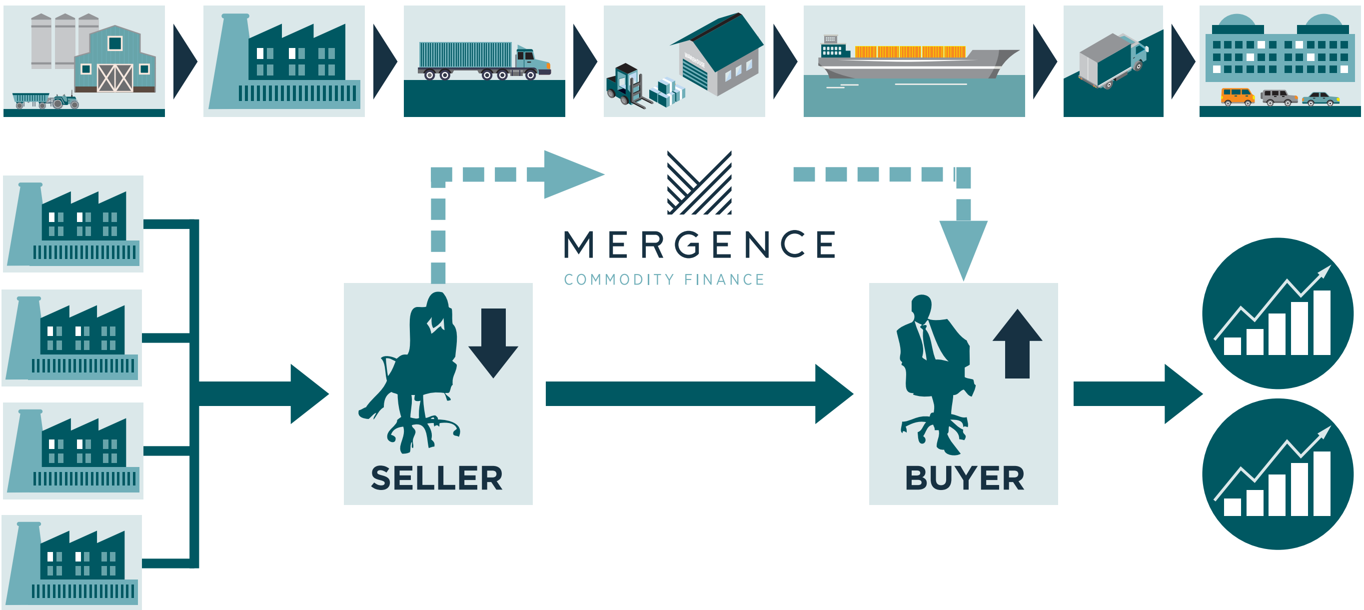
FOOD SECURITY

Mergence Commodity Finance

The Mergence Commodity Finance team of four people have built a strong track record since 2010. We are the largest independent player in the industry, with peers generally forming part of large investment banking institutions. Through Mergence Commodity Finance, the Mergence group supports a vital part of the agricultural chain and hence contributes to national food security.

Trade and commodity finance is a specialist field where the intention is essentially to be repaid by the liquidation of a flow of commodities.

What we do



Mergence Commodity Finance makes working capital available to traders and millers (aggregators) in the phase post-harvest.

Our focus to date has been grain and oil seed finance traded on the South African Futures Exchange (SAFEX).

Commodities financed are:

- White maize
- Yellow maize
- Wheat
- Sunflower seeds
- Soya beans
- Sorghum

We finance stock in:

- Traditional co-op silo's (SAFEX and non-SAFEX)
- Silo bags (collateral management compulsory)
- Farm silo's (collateral management compulsory)
- Warehouses (collateral management compulsory)

Primary agriculture is seasonal and this is reflected in our book, which fluctuates between R1 and R2,5 billion. South Africa is our current focus, but we are looking with interest at African markets further afield.

Our products currently comprise:

- "Haircut" repurchase agreements (70% finance)
- SAFEX short hedge repurchase agreements (100% finance)
- A debtors receivables facility

> “We are excited about the potential of our debtor receivables facility whereby we provide invoice discounting for our trading and milling clients. This innovative commodities facility/loan product is available for investment to the wider Mergence client base, offering a benchmark return of prime less 1% and 90-day liquidity”
>
> ***Dean Scoble,***
> *Founding Director of Mergence Commodity Finance*

Clear impact on UN sustainable development goals

1. We provide working capital loans to aggregators committed to responsible business practices and climate smart agriculture.

2. Aggregators are thus able to provide greater pre-harvest support (eg credit, inputs and training) and transact more with farmers and smallholding farmers.

3. Farmers and smallholding farmers benefit from:

- Increased pre-harvest and full season support from relevant business partners
- Improved incomes through strengthened responsible demand from aggregators
- Higher transparency and regular monitoring and reporting on impact factors.

Aggregators

Farmers & Smallholding farmers


B F G
AFRICA
Moulding ideas
into Shape

INDUSTRIAL & INFRASTRUCTURE

BFG Africa

In June 2018, the Mergence group acquired 51% of BFG International Composites (Africa), the pan-African subsidiary of one of the largest and oldest diversified composites manufacturers in the world, BFG International.

The Bahrain-based group are global leaders and pioneers in composite design and manufacturing, supplying globally to various sectors including transport, infrastructure and renewable energy. Customers include Bombardier, Alstom, Siemens and Gamesa. BFG works alongside leading architects and developers of the world executing landmark projects.

For over 40 years, BFG has been a global leader and pioneer in composite design, engineering and manufacturing with over 2,000 people and 15 production facilities worldwide.

BFG Africa will be aggressively expanding its infrastructure, mining, automotive, transport and architectural footprint on the African continent. The company is well positioned to benefit from the roll-out of transport infrastructure and rolling-stock (interiors and claddings) renewable energy projects (composite-based parts for wind turbines), and automotive projects (the automotive industry in South Africa aims to localise the manufacture of automotive components over the coming five years and there are plans to develop a Sub-Saharan automotive pact to coordinate production and market opportunities for the major automotive economies within the sub-continent).

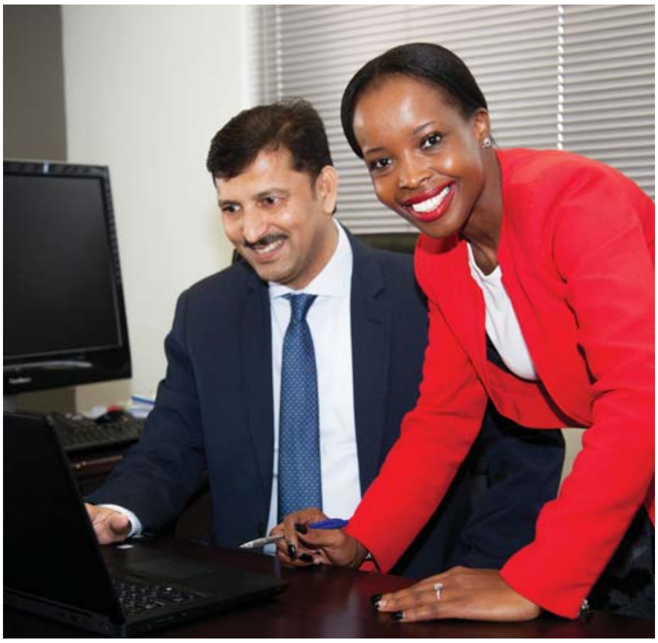
Investment rationale

- Provide BFG International with a local BEE partner that can assist with unlocking further opportunities in the composites space
- Job creation and skills development
- Taking forward the black industrialist theme

The BFG manufacturing facility

BFG Africa created 27 new jobs since the start of their operations, 18 of whom underwent extensive training for four months in Bahrain whilst a factory with specialised machinery was being assembled in Germiston.

This facility, established in 2018 and officially opened on 18 July 2019, covers a floor area of 9 500m^2 and is considered the best of its kind in the world. It can enable a wide range of fibre-reinforced plastic (FRP) processes, including open contact moulding, resin transfer moulding, press moulding, vacuum infusion and more. As an initial contract, entered into with the Gibela Rail Transport Consortium, BFG Africa will clad the interiors of a fleet of 600 commuter trains that will be supplied to the Passenger Rail Agency of SA (Prasa) over a 10-year period.



Did you know composites are green?

- Composite manufacturing consumes very little energy and thus has a low carbon footprint.
- Composite manufacturing does not generate any greenhouse gases or fluorocarbons.
- Composites use glass, made from silica which is an abundant natural material, as a key component
- Properties that make composites the preferred material amongst architects, designers and developers include a higher degree of flexibility, lighter weight, higher durability and lower life cycle cost than traditional materials used.

CORPORATE IMPACT

The preceding part of this report has dealt with the impact generated through Mergence's investment activities. This section of the report deals with the impact we make through our own operations.

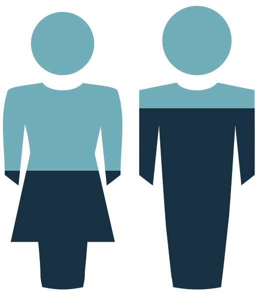
PEOPLE

As a majority black-owned entity, we are committed to empowerment and transformation. Maintaining a level 2 B-BBEE rating under the amended codes of the Financial Sector Charter is a consciousness - not just a box-ticking exercise.

78.75%
Black ownership

Board members
100% black
(**25%** black female)

Exec & senior management
67% black
(**29%** Black female)

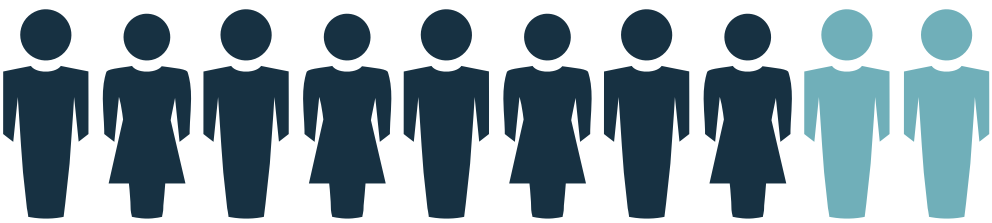


Investment professionals
76% black
(**38%** Black female)

Ongoing education and development of our staff is a key feature of our business strategy. A percentage of the annual payroll is allocated to skills training initiatives, both in-house and externally.

We currently have several staff members at various levels enrolled on learnership programmes. In addition, we have nine unemployed black males and females, two of whom are disabled, on fixed term contracts and learnership programmes.

We also established a structured corporate mentoring programme for graduates in the Financial, Commercial, Mathematical and Engineering faculties who have a keen interest to pursue a career in the investment management field. Our programme introduces and orients previously disadvantaged (black) graduates into the investment industry through a structured and measurable mentor-based programme focusing on training, developing and equipping such graduates professionally - and personally - with the requisite skills and experience.



Total staff
81% black
(**44%** Black female)

COMMUNITY

Preferential Procurement

We support black SMEs and conduct screening of all suppliers to ensure their compliance with BEE criteria. Emphasis is placed on supporting smaller companies and we believe in helping these businesses to achieve growth and success over time. Our procurement policy has proven effective as we scored well in this section. It is our intention to remain focused and true to our policy in order to support black SMEs. In addition, we have an internal target of at least 40% to support black stock-brokers and intermediaries.

Supplier Development

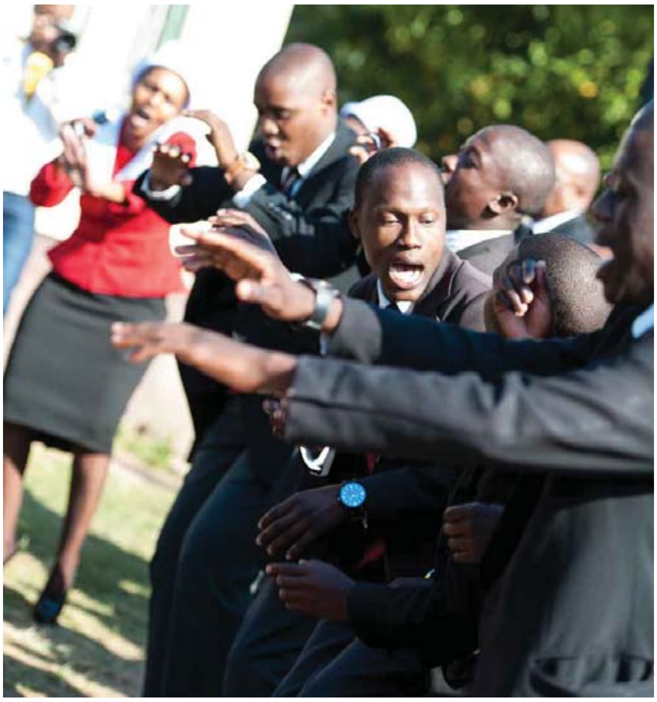
With a view to assisting the development, sustainability and ultimate financial and operational independence of a smaller enterprise, we have entered into a supplier development agreement with Pundutso Empowerment (Pty) Ltd. This black intermediary assists us with valuable investment research reports on areas not being covered by the larger/traditional stockbroking firms. In addition, our senior executives are available for mentorship, training and skills development.

Enterprise Development

In line with our view to develop smaller businesses, we have entered into a enterprise development agreement with Tshiamo Impact Partners (Pty) Ltd, an unlisted investment firm. Support services provided by senior Mergence staff to the beneficiary enterprise include, but are not limited to, drafting and setting up of agreements, assistance with submission of requests for proposals and ongoing mentoring and guidance. In addition, two of our senior executives provided mentorship and dedicated time to the development of Muvin Logistics (Pty) Ltd.

Socio-Economic Development

We are committed to the principles of social upliftment in South Africa and focus on projects which promote the upliftment of local communities through education, the arts and sports. Projects and institutions which have benefitted from our financial support include No 43 Trelawney Park and the Mineworkers Charitable Trust Fund for Widows and Orphans. As budgeted, we spent 2% of our net profit after tax on socially responsible projects during the 2018 financial year.

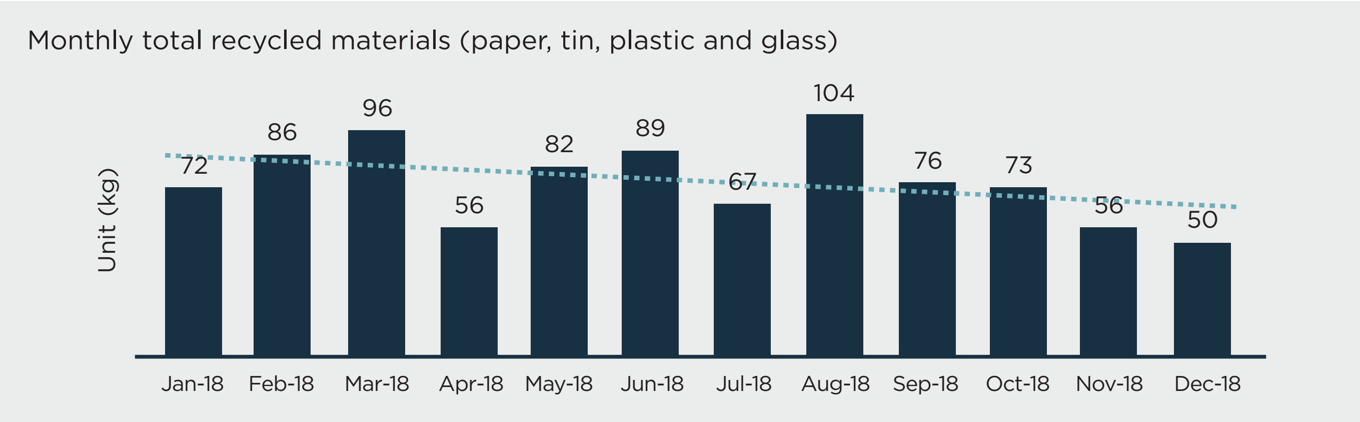


PLANET

In line with the Mergence Sustainability Policy, the Sustainability task team continued to inform their colleagues in order to raise awareness around our key areas of waste recycling, minimising water - and electricity usage. To this end, we have managed to maintain our targets as follows:

Waste recycling

Since starting recycling (paper, general plastic, tin and glass) in June 2016, we managed to maintain an average of recycling 76kg per month (with a downward trend indicated by the dotted blue line) during 2018 as illustrated in the graph below:



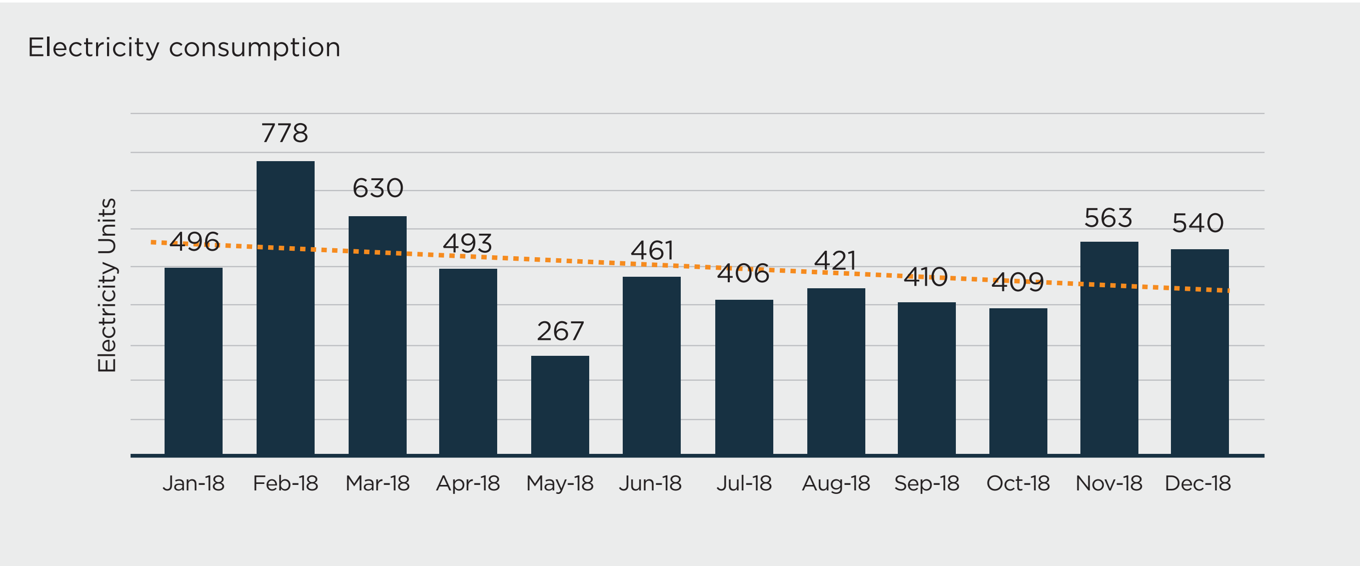
The months where we were below average are typically the months with several public holidays or when most of the staff were on leave.

Electricity usage

During 2018, we aimed to maintain our reduced electricity consumption as recorded in 2017 and as such, we managed to maintain an average of 490 units per month. We continue to remind Mergies to be mindful to turn off all equipment, including computers, lights, air-conditioning, and televisions when not in use. The graph below illustrates our electricity usage during the past calendar year.

Water usage

Subsequent to the Western Cape water scare of 2017/18 and in an effort to limit water usage to under 50 litres per person per day, we continued to use biodegradable cups and plates, kept the toilet flush mechanism adjusted for a shorter flush and maintained the aerator nozzles in our taps.



Carbon neutrality

With our carbon neutrality programme, we aimed to establish the overall carbon emissions resulting from the operations of Mergence Investment Managers for the period 1 May 2016 to 30 April 2018.

The footprint methodology used is based on the international Greenhouse Gas (GHG) Protocol which defines three different 'scopes' of emissions as follows:

- **Scope 1:** All direct GHG emissions (i.e. own generation of energy)
- **Scope 2:** Indirect GHG emissions from own consumption or use of electricity, heat or steam purchased from an energy generator.
- **Scope 3:** Other indirect emissions, such as the extraction and production of materials and fuels purchased, transport-related activities in vehicles not owned or controlled by the reporting entity, outsourced activities, waste disposal, etc.

At present, there is no evidence to suggest that we have any Scope 1 emissions. Our key emissions sources thus are Scope 2: Electricity usage, and Scope 3: Flights, employee commuting (divided into personal car, public transport and car rental).

The process for establishing business-related GHG emissions is defined by the GHG protocol as follows: Emission factors for each mode of transport (e.g. aircraft, rail, metro, bus, taxi) expressed in units of greenhouse gas (CO_2 , CH_4 , N_2O, HFC, or CO_2e) emitted per kilometer or per passenger-kilometer travelled. In order to calculate our GHG emissions, our outsourced consultants (Green Edge), used a 'per passenger kilometer travelled' approach.

Carbon footprints include more atmospheric gases than carbon dioxide, but for simplicity's sake greenhouse gases are made comparable to carbon dioxide by measuring their thermal retention properties and then approximating to that of carbon dioxide thus delivering a CO_2 equivalent (CO_2e) figure.

For the previous footprinting period it was calculated that the footprint stood at 227 253 kg CO_2e which Mergence undertook to offset through a range of energy efficiency initiatives at staff residences and at the office premises. These interventions can be expected to yield an estimated energy saving of some 261 840 kWh over the warranty period of the interventions identified, some 41 206 kWh more than the original target.

The emissions factor per kWh for the period was listed in Eskom's integrated annual report as being 1,03kg CO_2e/kWh meaning that Mergence has an offset surplus of some 42,442 kg CO_2e remaining from the previous period which will be factored in to this current calculation.

Carbon Emissions Summary *(1 May 2016 to 30 April 2018):*

Scope and Type	Amount of Emissions
Scope 2: Office electricity usage	114 146 kg CO_2e
Scope 3: Flights	369 722 kg CO_2e
Scope 3: Personnel commuting	109 852 kg CO_2e
Less: Offsets carried over from previous year	-42,442 kg CO_2e
Total carbon emissions footprint to be offset	**551 278 kg CO_2e**

Mergence elected to continue with a blended approach between offsetting activities in staff homes as well as through Voluntary Emissions Reductions (VER's) in offset projects that align with our values. At the time of drafting this report, offset activities for five employees were completed, which amounted to an offset of 186 669 kg CO2e. Further retrofits are in the process and having completed this the balance will be offset through VER's to ensure the remainder of 364 609 kg CO2e will be offset before the end of 2019.

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