COGNIZANT

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ALIGNING YOUR MONEY WITH YOUR MEANING: THE DAWN OF THE IMPACT ERA | **HOW WE VIEW** THE WORLD | **DEBUNKING THE BIGGEST RESPONSIBLE** INVESTING MYTH | **THE LANDSCAPE FOR IMPACT INVESTING** IN SOUTHERN AFRICA

PRIVATE CLIENT SECURITIES

OLDMUTUAL WEALTH

TABLE OF CONTENTS

INTRODUCTION

CHRIS POTGIETER – HEAD OF PRIVATE CLIENT SECURITIES

We are faced with daily headlines dealing with the symptoms of inequality, unemployment, corruption, abuse of natural resources, climate change and so much more. Combined with unchecked consumerism, it seems one has a recipe for global disaster.

Declinism is the belief that a country, society or an institution is in a state of significant, possibly irreversible, decline. It is part of being human to focus on the threats and the negatives in the world. However, statistics show that in many important cases, the opposite of this commonly held belief is actually true. Think about average life expectancy increasing from 30 years in the mid-18th century to more than 70 years today, the threat of infectious disease having been greatly reduced, and the global average cost of living declining at a steady rate over the past 200 years. Trade and technology have had massively positive impacts on global productivity. The reality is that in absolute terms, the quality of life for most of the world's population has improved substantially.

However, these improvements are not evenly spread across the world. On a relative basis, our best efforts still leave much to be desired when one considers that nearly a billion people live in utter poverty and face famine every day. Growth has also come at a high cost to the environment and other natural resources. We face a collective future that will require more responsibility in our actions and a more deliberate effort in focusing our resources for maximum positive impact – not only for economic return, but for the wellbeing of society and the sustainability of the planet we call home. While our problems are not intractable, they require resolve and mindfulness of the legacy we wish to leave behind. To quote American cultural anthropologist Margaret Mead: "Never doubt that a small group of thoughtful, committed citizens can change the world; indeed, it's the only thing that ever has." For this edition of Cognizant we've taken this to heart and focus on responsible and impact investing.

"Your money is not separate from you. It is you. It is your intention at work in the world. And our clear intention with our capital is to contribute to solutions for the world's most pressing problems," says Frank van Beuningen. He and his wife Margaret are investors and founders of the 25-year-old European impact community called Pymwymic (Put Your Money Where Your Meaning Is Community). Get more insight into their work in our guest article "Aligning your Money with your Meaning".

Our Chief Investment Officer, Andrew Dittberner, then explains why is it important to have the correct notion about the current state of the world if we are to be motivated to do better. Jon Duncan, who heads the responsible investing efforts of Old Mutual Investment Group, follows by breaking down the biggest myth associated with responsible investing. He demonstrates how companies that focus on Environmental, Social and Governance (ESG) issues do not compromise on returns and the creation of long-term shareholder value. Then the landscape for impact investing in Southern Africa offers numerous opportunities across different sectors, which we unpack in the final article.

In closing, I must mention the fundamental shift occurring among consumers and especially among millennials. Ethical practices, sustainable living, trust and transparency are becoming mainstream. Businesses that want to survive – never mind thrive – will need to embrace these values as core to their being. As investors we look forward to an exciting period of new possibilities and renewed purpose for capital. ■

All the best,
Chris

ALIGNING YOUR MONEY WITH YOUR MEANING: THE DAWN OF THE IMPACT ERA

We are at the beginning of a core system change in financial markets, largely driven by ***impact and intentionality.***

Since the industrial revolution, the global economy has been barrelling forward like an old steam engine, with ''continual growth, continual growth, continual growth'' as the market mantra. But we are in a new era, where we are recognising resource limits, climate instability, endangered ecosystems and the need to provide opportunities for all. This is the impact era, where that market and entrepreneurial creativity is now targeting the world's greatest problems. And that brings a corresponding opportunity for family investors and wealth holders to rethink the meaning of legacy. Your legacy is not leaving a pot of money behind a closed door. Rather, legacy is becoming increasingly intertwined with your efforts to consciously contribute to global solutions.

For Frank and Margaret van Beuningen, investors and founders of the 25-year-old European impact community, Pymwymic (Put Your Money Where Your Meaning Is Community), their commitment to creating a life where money has meaning is a lighthouse in the darkness. "Your money is not separate from you. It is you. It is your intention at work in the world," says Frank. "And our clear intention with our capital is to contribute to solutions for the world's most pressing problems."

Together, the van Beuningens have been making an impact with their investments for decades, and they believe that private wealth holders have a crucial role to play. According to them, impact investing is about having an intention for your capital, and they believe that that intentionality is changing the investment landscape.

IGNITING A GLOBAL MOVEMENT

Pymwymic (pronounced Pim-wim-ic) is an acronym with a challenge: it's the "Put Your Money Where Your Meaning Is Community" of private impact investors, with members now in 14 countries (including South Africa). Over the years, Frank and Margaret have personally invested in more than 40 direct impact companies, led investment pools for another 20 companies, helped to launch eight first-time impact funds, and have – through the annual Pymwymic Impact Days – supported the creation of new capital models for the impact investing sector.

"Frank and Margaret's contribution through Pymwymic has been groundbreaking for helping build the impact investing landscape in Europe," says Uli Grabenwarter, Deputy Director – Equity Investments at the European Investment Fund. For the van Beuningens, it's simple: "The use of your capital today is the future you are creating for tomorrow."

A GROWING IMPACT INVESTMENT MARKET & MINDSET

The global signs underline that impact investing has taken root, and all indicators are that growth will continue. The Global Impact Investing Network (GIIN) estimates a 2018 impact market of US$228 billion, up 50% since 2017. Estimates for growth through 2030 place impact somewhere between US$500 billion and US$1 trillion as this growth continues. "The millennials get this, they don't need to be convinced," says Margaret. "And they are stepping up, early." According to a recent study, 43% of affluent investors under 40 have already made an impact investment, compared to 9% for those aged 50-59.[1]

"We've been at this 25 years," Margaret points out. "For technology, that's a long timeframe, but for a family office, 25 years is a very short timeline. Just look at the change in attitude towards capital. When we began investing (pre-internet!) there were perhaps four tiny funds investing for 'People, Planet, Profit' and almost no pipeline. Today, there are nearly 450 funds[2] characterised as impact, of which at least four are billion-dollar impact funds. Globally, we have a shared impact framework in the UN Sustainable Development Goals. For almost all our challenges – access to education, energy, and finance; ecosystems restoration; community empowerment; and on and on – there are new entrepreneurial models. There are tens of thousands of social entrepreneurs working with incubators globally. DFIs, public-private partnerships, new impact models for national stranded assets, corporates launching impact initiatives…this movement is underway," she concludes.

Private wealth has played a huge part in shaping the impact movement, and will continue to do so, says Frank. "Private capital can move the needle. We can be nimble with decisions, and if you have the resources to take some educated risk, you can be patient and help these new models take root. This is our responsibility: we can begin things. One of our favourite current investments, AquaSpark, is a prime example of how private capital is critical to catalyse new ideas."

AQUASPARK

AquaSpark is the world's first clean aquaculture fund, launched by entrepreneurs Mike Velings and Amy Novogratz in 2014. The market for fish protein is expected to double by 2050, but overfishing and dirty fish farms are serious threats to the current industry. AquaSpark's mission is to move global aquaculture towards clean, sustainable and affordable production, while providing market or better financial returns to investors.

Four years ago, as first-time fund managers for a first-of-its-kind fund, private capital was critical to AquaSpark launching. 26 impact investors stepped into the first round close of €8,3 million. Now closing a seventh funding round, with 14 portfolio companies and several capital events anticipated for 2018, AquaSpark has created an investor community of 121 impact and corporate investors from 22 countries, for a current fund size of €65,4 million. Co-investors with AquaSpark now include Temasek (sovereign wealth fund of Singapore), Mitsui, Rabobank, Buhler, Cargill, Louis Dreyfus Company and many others.

[1] https://www.barclays.co.uk/content/dam/documents/wealth-management/investments/impact-investing-product/investor-motivations-for-impact.pdf
[2] https://www.impactbase.org

"We have seen over and over that impact investing can bring families together," continues Frank. "This type of investing provides a framework for a conversation about the meaning of money – across generations, with couples, even friends who decide to pool. It's about finding shared values and taking action. Of course, there must be a discussion of asset allocation, risk and expectations; but you have to set an intention to contribute to good, and that will drive the conversation. Especially when a family business has been sold or the family office is dispersed, creating a family impact strategy can create new bonding."

Both Frank and Margaret are entrepreneurs, they both come from family businesses, and both enjoy building companies. The difference, Margaret points out, is that while Frank's family foundation has roots in 19th century coal and oil, her family built wealth in one recent generation. "Often, one-generation wealth can be more flexible," she says.

But new times require new awareness. Now, in addition to Pymwymic, Frank is also one of the initiators of the Divest/Invest movement in Holland. "Leave the dinosaurs to the oil. Both environmental and economic realities attest that it's the era of renewables," he says.

SETTING THE SCENE FOR GREATER IMPACT & REACH

In a conscious founder-transition strategy, in 2017 the van Beuningens donated the great majority of their equity in Pymwymic to help fund the creation of a community Co-op, which now has 153 members. "It was clear to us that two people can't own what is really a movement," says Margaret.

In the new structure, the values-based DNA of Pymwymic is protected through two different foundations, for a system of impact checks and balances. "It's a new construct and we definitely had startup pains, and are still working through some of them," says Frank. "But this structure allows the community to self-activate and collectively invest with more focus and leverage." With the shareholder-members of the new Pymwymic Impact Co-op, the intention is to make investments that better the lives of one billion people.

Particular to South Africa's impact landscape, Frank and Margaret highlight the work Old Mutual has done with Responsible Investment, and the ecosystem that the Bertha Centre for Social Innovation has been solidly building over the last four years. Impact investing firm Goodwell Investments is also a longtime Pymwymic collaborator and the van Beuningens are interested to see their newly launched African Umunthu Fund. "It's important to get these efforts out of silos and collaborate," says Frank. "That's how the movement builds."

The van Beuningens believe that the GIIN[3] has effectively identified the three predicators for impact investing, namely: Intentionality, Investment with Return Expectations, and a Range of Return Expectations and Asset Classes. "We believe in appropriate profit in our investments and don't believe that impact is a trade-off. In addition to equity, we have made a gradual move to have our entire portfolio reflect our values across asset classes.

"Having said that, with a primary identity as investors, we are ironically aware that self-funding the Pymwymic platform for 21 years was really philanthropic field-building – and that likely will have the most lasting and far-reaching impact of all our investments," concludes Margaret. "It just proves that all kinds of capital are needed. All efforts are needed. And soon. So let's get started. Put your money where your meaning is." ■

FRANK AND MARGARET **VAN BEUNINGEN** | CO-FOUNDERS OF PYMWYMIC

[3] Global Impact Investing Network. www.thegiin.org

HOW WE VIEW THE WORLD: ARE OUR PERCEPTIONS REALITY?

ANDREW DITTBERNER – CIO OF OLD MUTUAL WEALTH PRIVATE CLIENT SECURITIES

Thinking about the state of the world often feels like a very depressing and stressful task. Things are bad and the general sense is that they are only getting worse. This includes violence, wars, a lack of healthcare, natural disasters, man-made disasters, corruption, global warming, population growth, the list goes on. The rich are getting richer while the poor are getting poorer, and the number of poor people continues to increase at an alarming rate. The net result is that the world will soon run out of resources unless we do something drastic. At least, that is the widely held perception.

Against this backdrop, responsible and sustainable investing has gained much-needed momentum in recent years, in an attempt to put a stop to our downward trajectory, and in the process leaving the world in a better shape for our children. Responsible investing can be thought of as investing in good corporate citizens. It is these corporate citizens that are able to derive their profits in a responsible and sustainable manner through focusing on the environment, society and good corporate governance. Ultimately, they are expected to be the winners in the long term. However, is responsible investing really necessary to stop this downward trajectory that we envisage ourselves on?

In thinking about the future, one needs to know where we are in the present. And it is our views of the present that are often clouded by a number of mega preconceived ideas that are factually incorrect. Hans Rosling, a Swedish medical doctor turned statistician, realised that the general negative view of the world was not due to ignorance. Rather, people make use of knowledge that is outdated, often decades old. Typically, a worldview is formed on data that dates back to the time when people's teachers left school. Coupled with this, people also make use of a number of inherent instinctive biases that results in feelings being developed that may not be true. Hans Rosling decided to make it his life mission to teach a fact-based worldview through the use of appealing visual data that is freely and readily available and, most importantly, up to date, while employing tools to counter our biases.

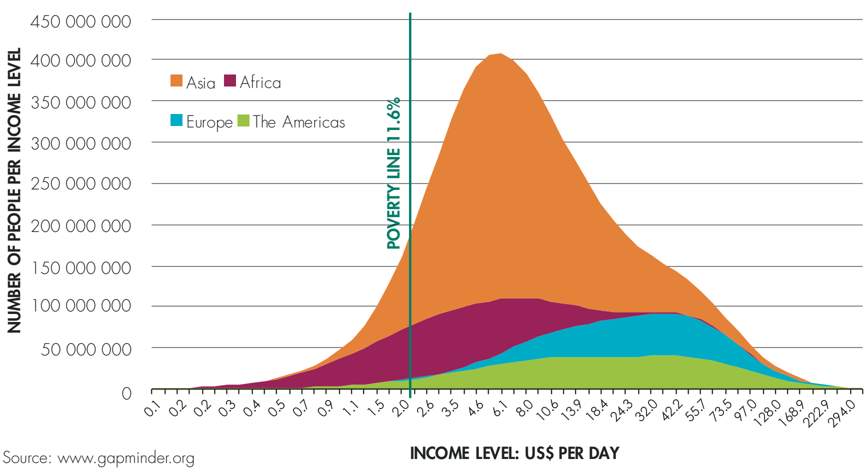
In his book *Factfulness: Ten Reasons We're Wrong About the World – and Why Things Are Better Than You Think* – (which Bill Gates described as one of the most important books he has ever read) Hans offers a new framework for how to think about the world. It begins by removing the notion of developed world economies versus developing world economies. Any categorisation that lumps China with Sudan is clearly far too broad to be useful. Instead, Hans divides the world into four income categories with almost all countries having people in each of those categories. This allows one to visualise a world where, over time, the majority of the world population has moved from level 1 (extreme poverty with people living on US$2 per day or less) to higher income levels. This is evidenced by the fact that the majority of the world's population today live at income levels 2 and 3 (between US$2 and US$32 per person per day). This is highlighted in the graph below. Alongside this, over the past 20 years, the proportion of the world's population living in extreme poverty has almost halved. That is an incredible statistic to think about, especially when trying to envisage the future. According to the latest data available, only 11.6% of the global population lives in extreme poverty. This statistic is likely to have already improved given that this data is from 2015.

So why is it important to have the correct notion about the current state of the world, you may ask? Well, it is far easier to accelerate progress if we already know how far we have come in a very short space of time. Reading news headlines about tragedies leaves one with a feeling of helplessness and the sense that nothing can be done, if you hold the view that the world is getting worse. However, if you know how much progress is possible based on what has happened in the recent past, bad situations will be met with a sense of how can we make this better. And it is from there where progress is born and accelerated.

Ten instincts are identified in Hans's book that distort our perspective of the world. These instincts include the negativity instinct (good news seldom makes the headlines), the fear instinct (things are scary) and the generalisation instinct (everything is the same), to name a few. Practical tips are provided on how to counter these inherent biases that we tend to fall back upon. Most important is the ability to distinguish between feeling and thinking. When people say the world is getting worse, the chances are they are feeling and not thinking. And this is understandable from the point of view that while the data shows that the world is improving, huge problems still persist.

So is responsible investing necessary to stop our downward trajectory? The answer is emphatically no. But not because responsible investing is failing to have an impact. Rather, the answer is no because we are on an upward trajectory and not a downward one. The fact remains that we do not live in a perfect world and problems do exist, and it is here where responsible investing has a role to play. In addressing these problems (which go far beyond the scope of this article), by having a better understanding of the present world from a historical progress standpoint, current progress will only gather momentum in the future. And responsible investing is providing a tailwind. ■

DISPERSION OF THE WORLD POPULATION BY INCOME (2015)



Source: www.gapminder.org

THE BIGGEST RESPONSIBLE INVESTING MYTH DEBUNKED

JON DUNCAN – HEAD OF RESPONSIBLE INVESTMENT AT OLD MUTUAL INVESTMENT GROUP

Contrary to popular belief, investors are not giving up upside performance when prioritising companies with a better environmental, social and governance record.

Responsible investing is rooted in an understanding that how we invest today determines the quality of our future. Simply put, if we continue to invest in unsustainable companies that erode public trust, pollute the environment, and drive inequality, we should accept bestowing a world onto our children that is worse off due to our inaction.

A core myth associated with responsible investment, however, is that companies that focus on Environmental, Social and Governance (ESG) issues reduce returns on capital and long-run shareholder value. The reality – as evidenced by both academic and industry research – is to the contrary.

In fact, companies committed to sound ESG practices show specific measurable characteristics, such as lower cost of capital, better resource efficiency, stronger innovation, lower staff turnover, stronger social licence to operate and better access to markets – all attributes that can, and do influence competitive advantage and long-term performance.

Because of the emergence of ESG data series that now span, in some cases, periods of as long as 10 years, it is now possible to test the impact of ESG on portfolio performance. As such, during 2017[1], we compared the returns of the MSCI Emerging Markets Index constituents, grouped according to their ESG ratings for the period 31 January 2013 to 31 May 2017. Companies were ranked and placed into five portfolios according to their ESG scores, with the highest scoring companies placed in Portfolio 1, and the lowest scoring companies placed in Portfolio 5.

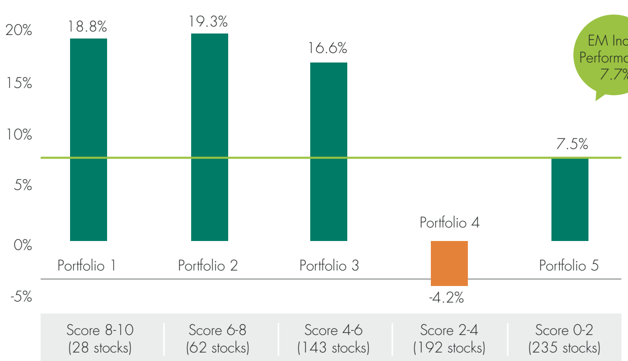
These portfolios were also equally weighted at the start of the analysis, without rebalancing, to allow for price movement in order to see how each portfolio would perform if we held on to the same basket of companies for the duration of the investment period. The results are depicted below: Portfolio 1, with – with the highest ESG scores- 18.8% and Portfolio 2- the second highest ESG score- with 19,3% outperformed the infotech sector by 23% and 23,5% respectively.

These quantitative research findings provide compelling support for the general ESG outperformance hypothesis. We were, however, concerned that it might have been a "good time" signal that would only add value in bull markets. To test whether ESG factors provide alpha in both bull and bear market conditions, we decided to test two extreme sectoral performances over the same period.

During the period under assessment, the information technology (infotech) sector showed significant outperformance, whereas the energy sector underperformed. The same methodology was applied to both sectors for the same period, and even though the infotech sector as a whole performed well at 53.6%, the companies in Portfolio 1 significantly outperformed their lower ESG scoring peers in Portfolios 2 to 5. Portfolio 1, with 84.5%, outperformed the infotech sector by 30.9%.

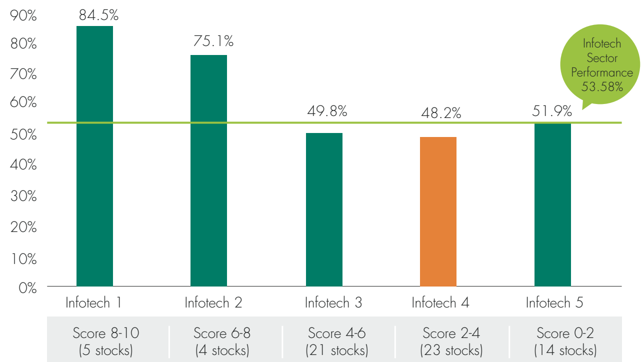
The energy sector, as mentioned above, experienced a negative return of 19.1% during the assessment period. However, we can see from Graph 3 below that even in bear market conditions, the better-rated ESG companies continued to show positive performance. Portfolio 2 significantly outperformed Portfolios 3 to 5, as well as the energy sector as a whole by 32.2%.

GRAPH 1: ENERGY IVA PORTFOLIOS: 31 JANUARY 2013 - 31 MAY 2017 (CUMULATIVE RETURNS, US$)



Sources: Old Mutual Investment Group; MSCI

GRAPH 2: EM INDEX: INFOTECH IVA PORTFOLIO 31 JANUARY 2013 - 31 MAY 2017 (CUMULATIVE RETURNS, US$)



Sources: Old Mutual Investment Group; MSCI

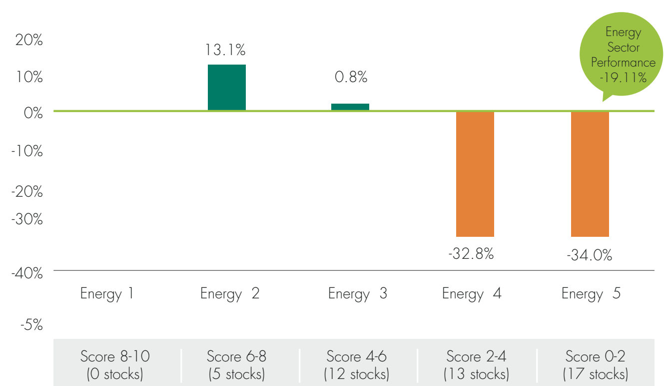
[1] First published in Spet 2017 - http://ww2.oldmutual.co.za/old-mutual-investment-group/insights/magazines/tomorrow-2017/does-esg-drive-alpha-in-emerging-markets

The findings of our research corroborate a study titled "Can ESG add Alpha"[2], which was published in the 2016 Journal of Investing. This particular piece of research showed how ESG data could be leveraged using two different strategies, either by tilting portfolios towards high performing ESG companies or companies with good ESG momentum over time.

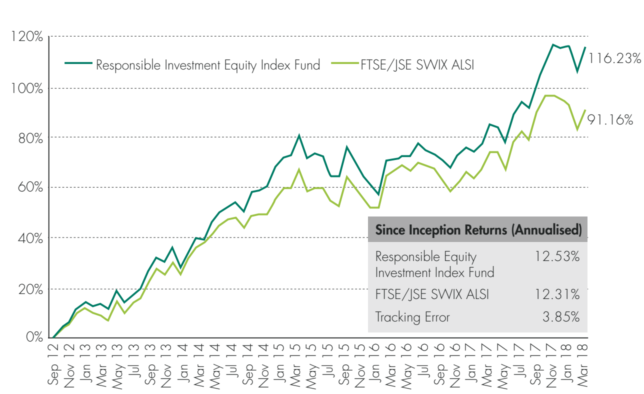
We have further leveraged MSCI ESG data in our development of an ESG best-in-class index for the local markets. The chart below illustrates the performance of this index in relation to the JSE Shareholde Weighted Index. Though we cannot guarantee future outperformance, the trend supports the fact that the ESG-led index has paid off relative to the market index.

Old Mutual has made a public commitment to integrate responsible investing practices across all of its investment strategies, while at the same time innovating ESG index products. Both the "ethical" and "maximising risk-adjusted returns" dimensions of responsible investing continue to resonate with the investing community. In line with global trends, there is a growing number of local retail investors, as well as financial advisers, who are realising that the outperformance of companies with higher ESG scores speaks for itself. ■

GRAPH 3: EM INDEX: ENERGY SECTOR PORTFOLIOS



GRAPH 4: RESPONSIBLE INVESTMENT EQUITY INDEX FUND'S PERFORMANCE



Sources: Old Mutual Investment Group; MSCI

[2] Can ESG Add Alpha? An Analysis of ESG Tilt and Momentum Strategies Zoltán Nagy, Altaf Kassam and Linda-Eling Lee The Journal of Investing Summer 2016, 25 (2) 113-124; DOI: https://doi.org/10.3905/joi.2016.25.2.113

THE LANDSCAPE FOR IMPACT INVESTING IN SOUTHERN AFRICA

The impact investing industry has grown in prominence over the last decade, and impact investors globally have developed substantial and particular interest in sub-Saharan Africa. The 2015 impact investor survey from J.P. Morgan and the Global Impact Investing Network (GIIN) studied impact investing activity across Southern Africa, examining the supply of global impact investment capital as well as the demand for investment resources from small and medium-sized enterprises (SMEs), social enterprises, and others who aim to drive development through the private sector. Here is an overview of the report's key findings across the region.

IMPORTANT NOTES

- As defined by the GIIN, impact investments are "investments made into companies, organisations, and funds with the intention to generate social and environmental impact alongside a financial return". A commitment to measuring social or environmental performance is also considered a hallmark of impact investing. Investors who did not meet this definition were not included in the report's analysis.
- For the purposes of the report, Southern Africa includes 12 countries: Angola, Botswana, Lesotho, Madagascar, Malawi, Mauritius, Mozambique, Namibia, South Africa, Swaziland, Zambia and Zimbabwe. For each country, the report examined impact investing capital disbursed to date (by sector, size and instrument). The report also analysed key trends in the impact investing industry, as well as the challenges and opportunities available for both social enterprises and impact investors in each country. Further, the report offers analysis of political and economic factors that may inform and influence investment decisions on a country-by-country basis. These circumstances may have changed since initial data collection in mid-2015. The full report can be found at https://thegiin.org/assets/documents/pub/Southern%20Africa/GIIN_SouthernAfrica.pdf
- Development finance institutions (DFIs) are important players in the impact investing landscape, providing large amounts of capital both through direct impact investments and through indirect investments into other impact capital vehicles. Because of their large size and unique nature, the report analysed DFI activity separately from the activity of other types of impact investors. International and regional DFIs were considered in the report's analysis, with special attention paid to DFIs local to South Africa, which play a notable role in the impact investing landscape. For the purposes of this report, bilateral and multilateral assistance provided directly to governments were excluded from the definition of impact investing.

DEFINITIONS

Development Finance Institution (DFI): A government-backed financial institution that provides finance to the private sector for investments that promote development.

Non-DFI Impact Investor: Organisations or individuals actively making impact investments directly or through funds. This includes family offices, foundations, fund managers, pension funds, and banks, but excludes development finance institutions.

OVERVIEW

Impact investors are defined as those who invest with the intention to generate positive social or environmental impact alongside financial returns. They include a wide range of investor types: development finance institutions (DFIs), foundations, banks, pension funds, and fund managers who raise capital from these various investor types and then channel it to enterprises.

Within the region, South Africa is the largest market for impact investing, with a particularly active set of domestic South African DFIs that fund South African enterprises. These South African DFIs have disbursed more than US$14.4 billion across 6 800 transactions to South African companies (comprising 85% of domestic South African DFIs' disbursements and 91% of domestic South African DFIs' transactions), some of which operate across the region. Broad-based Black Economic Empowerment (BBBEE) initiatives are closely linked to domestic DFI activity within South Africa, and these create interesting market dynamics and opportunities.

The majority of impact capital in the region has come from international DFIs and a range of non-DFI impact investors. In total, non-DFI investors have closed more than 500 deals and disbursed US$5.7 billion throughout Southern Africa. It should be noted that the 10 largest transactions in this group account for just over US$3 billion of capital disbursed. International DFIs have closed more than 650 deals and disbursed US$16.5 billion. Larger than either of these categories of players alone, domestic South African DFIs have closed more than 7 500 deals and disbursed US$17.1 billion throughout the region.

Even excluding this strong domestic activity, South Africa is the centre of Southern African impact investing. Three-fifths of non-DFI impact deals in the region have been in South Africa, representing US$4.9 billion of the total US$5.6 billion non-DFI impact capital disbursed in the region. Notably, just under half of this US$4.9 billion was disbursed in just the three largest deals in South Africa.

SUPPLY OF IMPACT CAPITAL

In total, 107 impact organisations are placing capital in Southern Africa. Of these, 23 are international DFIs, three are domestic South African DFIs, and 72 are non-DFI investors. The remaining nine include a mix of banks, pension funds and foundations. Together, these impact organisations manage a combined 118 vehicles active in the region. More than 85% of non-DFI investors are impact fund managers, while the other 15% include a mix of foundations, pension funds and banks.

IMPACT CAPITAL DISBURSED

The vast majority of impact capital in the region has been disbursed in South Africa, primarily on account of an active set of domestic South African DFIs. Combined, these domestic DFIs have disbursed close to US$25 billion across 7 500 deals to South African companies regionally.

INVESTMENTS OVER TIME

Throughout the region, there have been substantial investments over time. Non-DFI investment activity in the region has notably increased since 2006, with more transactions occurring each year on average. The large disbursement volumes in 2007 and 2008 include large leveraged buyouts by impact investors in South Africa. Data for 2015 were collected mid-year and should not be interpreted as a reduction in activity.

DFI investors have committed substantial resources to the region, with increasing average deal sizes since 2011. The notably large average deal size in 2010 is skewed by a single large deal in which the African Development Bank (AfDB) supported South Africa's Medupi Power, a publicly known investment of nearly US$2.5 billion in Limpopo province. See graphs 4 and 5 for more details.

SECTOR

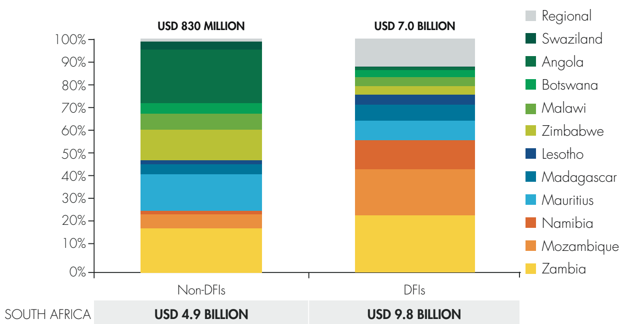
The distribution of investments by sector broadly reflects areas of investor interest. For non-DFI investors, agriculture and financial services have seen the largest number of deals. A handful of large deals in financial services have driven the larger average deal size in that sector. Housing, energy, and information & communications technologies (ICT) are also popular sectors.

For DFIs, financial services and manufacturing are the most popular sectors in terms of number of transactions, though energy has seen the largest amount of capital disbursed, as transactions in this sector are very capital intensive. This figure includes the Medupi Power deal in South Africa.

TYPICAL STRUCTURES, SECTORS & INVESTORS BY DEAL SIZE

DEAL SIZE (US$)	TYPICAL FINANCIAL PRODUCTS	TYPICAL SECTORS	EXAMPLE PROVIDERS IN SOUTHERN AFRICA
<500K	Debt, small equity stakes	ICT, Agriculture, Health, Energy	Small VC and debt finance funds targeting early stage businesses, domestic DFIs
500K – 1M	Equity, debt, quasi-equity, convertibles	Agriculture, Financial Services, Health, Energy	Private equity funds, VC funds, and foundations targeting social businesses with some track record
1M – 5M	Equity, debt, quasi-equity, convertibles	Agriculture, Financial Services, Health, Energy	Larger impact funds and foundations
5M – 10M	Equity, debt, quasi-equity, guarantees	Financial Services, Energy	Smaller national DFIs and large impact funds
10M – 50M	Equity, debt, quasi-equity, guarantees	Financial Services, Infrastructure, Manufacturing	Regional and national DFIs
>50M	Debt, guarantees	Financial Services, Infrastructure, Energy	Large regional and national DFIs

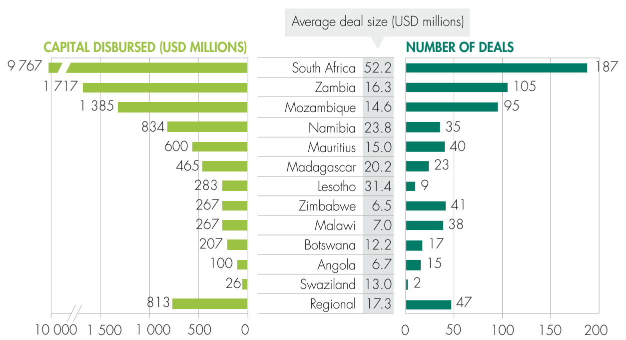
GRAPH 1: IMPACT CAPITAL DISBURSED BY COUNTRY



Note: Figure excludes domestic South African DFI activity. Also excludes South Africa, which comprises >90% of total non-DFI impact capital and >30% of total DFI capital, to avoid skewing the chart.

Source: Open Capital Research

GRAPH 2: TOTAL DFI DIRECT INVESTMENTS BY COUNTRY



Note: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000. Excludes domestic DFI activity.

Source: Open Capital Research

DEAL SIZE

The majority of transactions completed by non-DFIs have been small, with nearly half being less than US$1 million. Perhaps surprisingly, around 20% of non-DFI deals have been above US$10 million – comprising more than 90% of non-DFI capital disbursed. These large deals are primarily in infrastructure, energy and financial services.

Meanwhile, only about half of DFI transactions have been smaller than US$10 million.

DEVELOPMENT CONTEXT

Within Southern Africa, countries vary substantially in their level of development, as illustrated by their scores on the United Nation's Human Development Index (HDI). Mauritius exceeds the global average HDI score, while Botswana and South Africa are near the global average of 0.69. At the same time, Malawi and Mozambique have HDI scores that are barely above half the global average, driven by poor performance on a variety of indicators related to poverty, health and education.

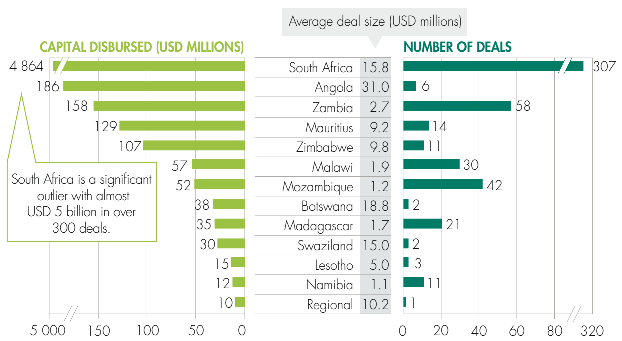
Regarding poverty statistics, there is great variation across the region. With the exception of South Africa, in each country in the region, the proportion of the population living on less than US$1.25 per day is higher than the global average. See graph 10 for more details.

Similar disparities can be seen in health metrics. For example, Angola has one of the highest under-five mortality rates in the world, while Mauritius, South Africa and Namibia perform better than global averages. Children in Madagascar,

UN HDI SCORE AND RANK BY COUNTRY, 2014

COUNTRY	HDI SCORE	HDI RANK
Mauritius	0.771	63
South Africa	0.683	109
Botswana	0.658	118
Namibia	0.624	127
Swaziland	0.561	141
Zambia	0.530	148
Mozambique	0.526	149
Lesotho	0.498	155
Madagascar	0.492	156
Malawi	0.486	162
Angola	0.414	174
Zimbabwe	0.393	178

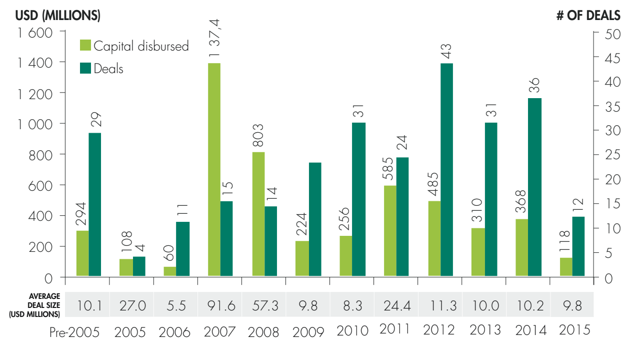
GRAPH 3: TOTAL NON-DFI DIRECT INVESTMENTS BY COUNTRY



Note: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Open Capital Research

GRAPH 4: TOTAL NON-DFI DIRECT INVESTMENTS BY YEAR



Note: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000. Excludes USD 710 million in capital where year of investment is unknown.

Source: Open Capital Research

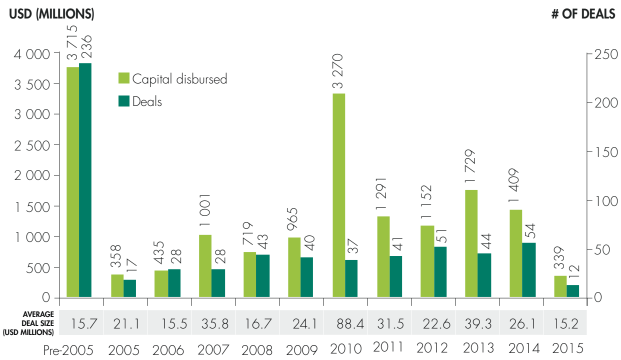
Malawi, Mozambique, Zambia and Lesotho suffer from malnourishment, as evidenced by their high stunting rates; stunting can prevent later cognitive development, as well as leading to a host of other challenges.

SECTOR OPPORTUNITIES ACROSS SOUTHERN AFRICA

All Southern African countries share a demand for impact capital, with sizable populations well below global averages for human development despite recent economic growth. As such, investors will find many opportunities to support entrepreneurs who will generate both financial and social/environmental returns. The following sectors present particularly notable opportunities in Southern Africa.

- **AGRO-PROCESSING:** Throughout Southern Africa, agriculture employs most of the population. Investment in this sector is important to increase incomes and improve food security. Given the predominance of smallholder farming, there are opportunities to aggregate production and create consistent, high-quality supply appropriate for processing. In addition, there are opportunities across a range of crops and agricultural sub-sectors, such as horticulture, livestock and dairy, to connect directly with export markets.
- **ENERGY AND ELECTRICITY:** All countries in Southern Africa are looking to expand their power generation capacity in the coming decades, backed by strong government support. This opens the door to large-scale projects and creates the potential for improved power-purchase agreements and cross-border trade. At the same time, large segments of the population lack reliable access to grid power, especially outside of South Africa, which presents opportunities for micro-grid and off-grid solutions.
- **SUPPLY CHAIN INTEGRATION:** Southern Africa has a number of large industrial value chains primarily destined for export, particularly in the extractives sector. The multinational companies operating these sites create demand for infrastructure, goods and ancillary support services, which in turn creates new offtake opportunities for local, small businesses across sectors. In particular, interviewees highlighted opportunities in certain key areas: workforce education, housing, healthcare and transportation.
- **TOURISM:** Given the variety of attractions available in Southern Africa, from beautiful coasts to vibrant safari parks, there is great potential for tourism outside traditional destinations in South Africa. Governments across the region have started to encourage foreign investors and the returning diaspora to invest in the tourism sector, with some promising results. There are particularly opportunities in sustainable or eco-tourism, sectors which often directly support underserved populations and benefit the environment in Southern Africa.
- **EDUCATION:** Across the region, the demand for private provision of education has increased. A number of private schools have emerged to serve the region that offer high-quality but expensive education, especially in South Africa. Interviewees expect that the market for these high-end educational opportunities will remain open, but they also pointed out that there are opportunities to establish mid-level and low-income private educational alternatives as well.
- **CONSUMER GOODS:** The middle class is growing throughout the region, creating opportunities to produce consumer goods locally to target

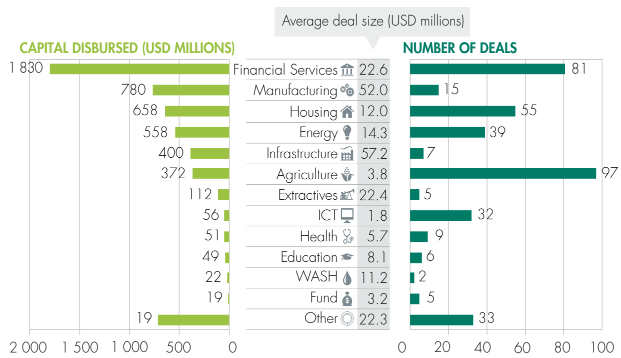
GRAPH 5: DFI IMPACT INVESTMENTS BY YEAR



Note: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000. Excludes USD 384 million in capital where year of investment is unknown.

Source: Open Capital Research

GRAPH 6: NON-DFI DIRECT INVESTMENTS BY SECTOR



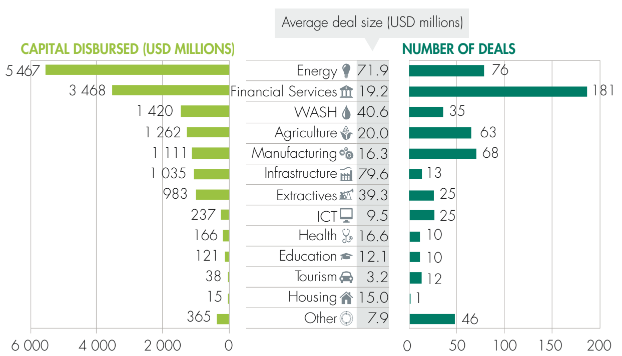
Note: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000. Excludes USD 54 million in capital where sector is unknown.

Source: Open Capital Research

this growing market segment, which currently relies on imports from South Africa. Local production generates employment and broadens the range of products and services available to consumers, which may meet the impact theses of some impact investors.

- **AQUACULTURE:** Several coastal countries in the region have abundant access to reef and water resources, creating an opportunity to cultivate ornamental fish destined for export. Opportunities in this sector also include fishing for local and international consumption. In countries like Malawi, interviewees mentioned fishing as one of the most attractive targets for impact investment, though potential away from major bodies of water is limited.

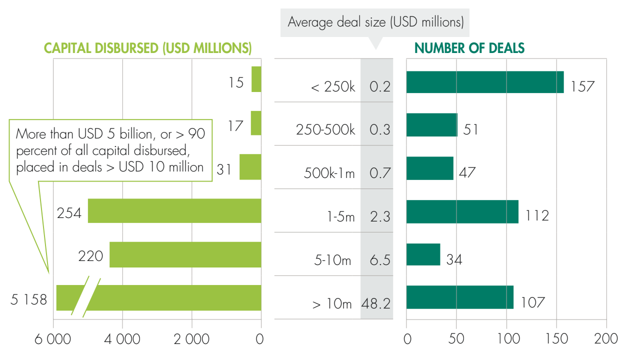
GRAPH 7: DFI DIRECT INVESTMENTS BY SECTOR



Note: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000. Excludes US$83 million in capital where sector is unknown. Excludes domestic South African DFIs due to limited data.

Source: Open Capital Research

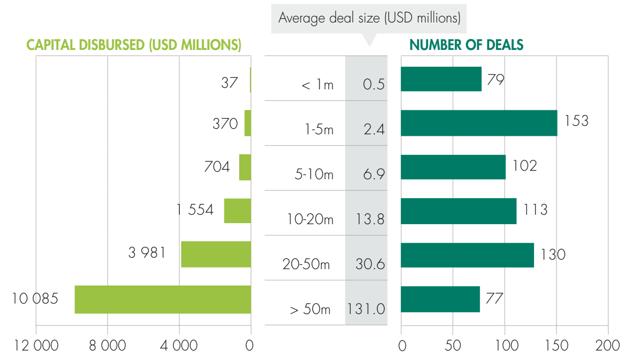
GRAPH 8: NON-DFI IMPACT INVESTMENTS BY DEAL SIZE



Note: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000.

Source: Open Capital Research

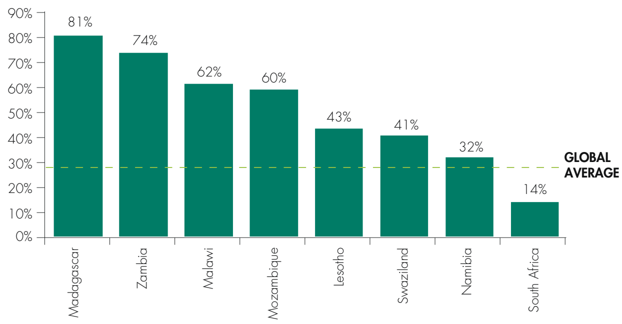
GRAPH 9: DFI IMPACT INVESTMENTS BY DEAL SIZE



Note: Average deal sizes may not equal displayed capital disbursed divided by deal sizes. Capital disbursed rounded to nearest million, except where less than 1 million (rounded to nearest 100,000). Average deal sizes rounded to nearest 100,000. Excludes domestic South African DFI activity due to limited data.

Source: Open Capital Research

GRAPH 10: POPULATION BELOW US$1.25 PER DAY BY COUNTRY



Source: UN Human Development Report 2014

SECTOR OPPORTUNITIES BY COUNTRY

	South Africa	Zambia	Mozambique	Malawi	Madagascar	Zimbabwe
Agro-processing	Strong	Strong	Strong	Strong	Strong	Strong
Energy	Strong	Strong	Strong	Limited	Strong	Strong
Supply chain integration	Strong	Strong	Strong	Medium	Strong	Strong
Tourism	Medium	Medium	Medium	Strong	Strong	Limited
Education	Strong	Limited	Limited	Medium	Limited	Strong
Consumer goods	Limited	Strong	Limited	Medium	Limited	Strong
Aquaculture	Limited	Limited	Limited	Strong	Medium	Limited

Limited Opportunity
Medium Opportunity
Strong Opportunity

Source: Open Capital Research, interviews

> NEVER DOUBT THAT A SMALL GROUP OF THOUGHTFUL, COMMITTED CITIZENS CAN CHANGE THE WORLD; INDEED, IT'S THE ONLY THING THAT EVER HAS.
>
> – Margaret Mead

Old Mutual Wealth Private Client Securities recently hosted a networking lunch at Old Mutual House where key influencers discussed the global perspective and opportunities available for private clients to invest with impact. Frank and Margaret van Beuningen, founders of Pymwymic, were guest speakers and the event was attended by some high-profile people and companies operating in the sustainable investing sphere.

Left to right: Britta **Rendlen (Independent Adviser on Sustainable Finance)**; Chris **Potgieter (PCS)**; Frank **van Beuningen**; Margaret **van Beuningen**; Frank **Raimondo (Private Impact Investor)**; Danai **Musandu (Goodwell Investments)**; Paul **Miller (CCP 12J Fund)**; Trevor **Pascoe (Old Mutual Wealth)**

Ann **Crotty (Financial Mail)** and John **Raimondo (Private Impact Investor)**

John **Wallace (The Sun Exchange)** and Louise **Lackenby (Cape Consulting)**

Jon **Duncan (Old Mutual Investment Group)**

Mike **Clare (Independent Distribution Specialist)**; Sarette **van den Heever (Empress Capital)** and **Pat Pillai (LifeCo UnLtd Group)**

Frank **van Beuningen** and William **Frater (Independent Consultant)**

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