3rd edition

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THE AFRICAN INVESTING IMPACT BAROMETER 2015

Flanders State of the Art

Bertha Centre for Social Innovation & Entrepreneurship
The African Investing for Impact (AIFI) Barometer is an annual publication by the Bertha Centre for Social Innovation and Entrepreneurship, a specialised unit at the UCT’s Graduate School of Business. It strives to objectively depict the spectrum of investments in Africa which seek to combine financial returns and positive impact on society and the environment.

The aim of the Barometer is to provide readers with a snapshot of the growing **investing for impact (IFI)** market and investing for impact strategies which are implemented on the African continent.

Besides the IFI asset size, for the first time the third edition of the AIFI Barometer provides a scoring system to measure the impact quality of IFI strategies.

Launched in 2013, the inaugural edition covered SA and in 2014 expanded to include Nigeria. We continue to increase our coverage by including Kenya in this edition.

The survey is compiled from publicly available information sourced from fund manager disclosures on their websites, reports and fund-fact sheets as at 31 December 2014. Additional information is sourced from regulators and industry associations, again where information is publicly available.

The fund managers surveyed, includes Asset Managers (AM) as well as Private Equity and Venture Capital firms (PE/VC) investing locally across the three countries. This includes fund managers who have headquarters outside of the countries, but have capital invested in the countries.

Excluded from this year’s Barometer are: Development Finance Institutions, Corporate Social Investment initiatives, and funds of funds portfolios.

**IMPORTANT TO NOTE WHAT WE LOOKED AT**

The study and the findings are based on publicly available information which is self-reported and disclosed by the fund managers. The data cannot be seen as the exact reflection of each country’s IFI market. Additionally, it is important to note that organisations surveyed can apply multiple IFI strategies in managing their assets.
WHAT WE LOOKED AT

ESG INTEGRATION
An investment strategy which involves the systematic integration of Environmental, Social and Governance (ESG) factors into investment analysis, valuation and decision-making based on appropriate research sources and metrics.

INVESTOR ENGAGEMENT
An investment strategy in which investors seek to influence company behaviour by active ownership through proxy voting, board participation and/or engagement with companies on ESG matters. This is a long-term process, seeking to influence behaviour or increase disclosure.

SCREENING
An investment strategy in which inclusion or exclusion of an investment is based on ESG or ethical screening. The screening may be positive, negative, norms-based or best-in-sector screening.

THEMATIC INVESTMENT
Investments are made along the themes of environmental sustainability as well as sustainable and inclusive socio-economic development. This strategy does not explicitly intend to achieve environmental or social (E or S) impact but can generate measurable positive E & S impact. Investments can be in clean technology, agriculture, health services or socio-economic transformation (e.g. BBBEE, affordable housing, inclusive finance and products).

IMPACT INVESTMENT
An investment strategy intended to generate positive E and S impact alongside a financial return. It can include investments in sustainable agriculture, SME development and job creation, socio-economic transformation, affordable housing, accessible healthcare, education, clean technology and renewable energy.

AND HOW WE MEASURED IMPACT

| Integration of ESG data into research and analysis | ✓ |
| Integration of ESG data into valuation and ratings | ✓ |
| Integration of ESG data into portfolio construction | ✓ |
| Integration of ESG into financial performance measurement | ✓ |
| Presence of ESG objectives into Staff KPIs | |
| Investor engagement process and/or policy publicly disclosed | ✓ |
| Votes and engagements on ESG issues reported or disclosed | ✓ |
| Evident engagement on corporate governance matters | ✓ |
| Evident engagement on environmental matters | ✓ |
| Evident engagement on social matters | ✓ |
| ESG impact/results of the engagement disclosed or reported | |
| Disclosure of ESG screening criteria/policy | ✓ |
| Disclosure of screening process and rationale | ✓ |
| Evidence of environmental screening in investment process | |
| Evidence of social screening in investment process | |
| Reporting | |
| Statement of sustainability themes along E & S issues | ✓ |
| Evidence of investments aligned to E & S themes | ✓ |
| Showcasing investment cases with measure of impact | ✓ |
| Explicitly identify themselves as impact investors | ✓ |
| Explicit articulation of E & S impact objectives | ✓ |
| Visibility of the impact projects | |
| Reporting on impact | ✓ |
The AM’s and PE/VC firms were measured against a set of indicators (see HOW WE MEASURE IMPACT) applicable to each IFI strategy. Each indicator carried a point and the accumulated points were added to determine whether the investment firm is cool, warm or hot similar to measurements on a barometer. Those rated as “cool” satisfy the least amount of indicators and those rated as “hot”, satisfy most if not all the indicators. Hot Leaders, as you’ll note later in the country findings, are those who lead in comparison to peers implementing the same strategy.

**HOW THE SCORING WORKS**

- MORE ‘YES’ VERSUS NO = HOT
- SIMILAR ‘YES’ VERSUS NO = WARM
- FEWER ‘YES’ VERSUS NO = COOL

The Barometer focuses on the three largest economies in Southern, Western and Eastern Africa: Kenya, Nigeria and South Africa. South Africa holds the biggest slice of total assets with 94% (US$678bn) surveyed. Nigeria is second with 4% (US$30bn) followed by Kenya 2% (US$13bn).

**WHAT WE UNCOVERED**

- Of the US$721bn of investment assets surveyed across the three countries, 47% of all funds managed implement one or more investing for impact (IFI) strategy according to publicly available information, cross checked by investors.
- In terms of IFI asset size, **South Africa still leads the pack**, with 70% of funds managed in South Africa, implementing at least one IFI strategy. Kenya is second with 48% of overall assets deploying at least one IFI strategy and Nigeria features last with 23% of assets.
- See more inside.
US$6bn of the US$13bn surveyed is invested in at least one IFI strategy.

The local IFI industry is yet to grow as most of the active PE/VCs players implementing IFI strategies are headquartered outside of Kenya.
NIGERIA
WHAT WE SURVEYED

ORGANISATIONS SURVEYED | FUNDS MANAGED
--- | ---
AM | 45 | 82
PE/VC | 33 | 79
TOTAL | 78 | 161

US$30bn of the US$30bn surveyed is invested in at least one IFI strategy.

BAROMETER RESULTS

ESG INTEGRATION: US$ 3.8bn
- 56%
- 11%
- 33%

INVESTOR ENGAGEMENT: US$ 3.7bn
- 12%
- 37%
- 50%

SCREENING: US$ 3.2bn
- 28%
- 33%
- 40%

THEMATIC INVESTMENT: US$ 6.7bn
- 18%
- 45%
- 36%

IMPACT INVESTMENT: US$ 5.1bn
- 27%
- 45%
- 27%

NB: Organisations surveyed can implement more than one IFI strategy to the same pool of assets.

SOURCES OF NIGERIAN INDUSTRY DATA:
- Nigerian Securities Commission
- Pensions commission of Nigeria
- Nigerian insurance commission
- African Private Equity and Venture Capital Association
- UN-Supported PRI

*Please note all HOT LEADER organisation names have been hyperlinked to their websites.
### Barometer Results

#### ESG Integration: US$ 480bn

- AM Hot Leaders in Strategy: 10%
- PE/VC Hot Leaders in Strategy: 47%
- AM Hot Leaders in Strategy: 43%

#### Investor Engagement: US$ 465bn

- AM Hot Leaders in Strategy: 2%
- PE/VC Hot Leaders in Strategy: 41%
- AM Hot Leaders in Strategy: 57%

#### Screening: US$ 142bn

- AM Hot Leaders in Strategy: 31%
- PE/VC Hot Leaders in Strategy: 64%
- AM Hot Leaders in Strategy: 4%

#### Thematic Investment: US$ 18bn

- AM Hot Leaders in Strategy: 27%
- PE/VC Hot Leaders in Strategy: 40%
- AM Hot Leaders in Strategy: 33%

#### Impact Investment: US$ 6bn

- AM Hot Leaders in Strategy: 25%
- PE/VC Hot Leaders in Strategy: 60%
- AM Hot Leaders in Strategy: 15%

### Sources of SA Industry Data:

- Association for Savings and Investment South Africa
- South African Venture Capital and Private Equity Association
- Alexander Forbes Annual Retirement Fund Survey 2014
- UN-Supported PRI

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**Assets USD Billions**: US$678bn

**Exchange Rate**: 1 USD = 11.502 ZAR (31 December 2014)

IFI South African assets are held and managed by a few large AM’s who invest mainly in listed stocks. The PE/VC firms hold significantly less IFI assets than AM’s but are more prominent in Thematic and Impact investing.

US$480bn of the US$678bn is invested in at least with one IFI strategy.

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COMPARING IFI STRATEGIES:

IFI SIZE VERSUS IFI IMPACT QUALITY

This graph demonstrates that while strategies such as ESG integration and Investor engagement are allocated a larger percentage of industry and IFI assets, the communicated impact quality scores lower as indicated by the percentage of firms in the hot category. The strategies with the lowest allocation of industry assets — Thematic, Impact and Screening — have higher percentages of hot leaders. The organisations implementing these strategies demonstrated in a stronger way their impact according to the Barometer scoring system.

**ESG INTEGRATION**

**Asset Size:**
- Cross country: Ranks first with US$490bn AUM.
- Country leader: South Africa with 98% of assets.
- AM versus PE/VC: In South Africa, AM's control 96% of assets. In Kenya and Nigeria, PE and VC are leading the way controlling 67% and 98% of assets respectively.

**Impact Quality:** The % of hot leaders across the three countries is 11%. Nigeria scored the highest % of hot leaders at 55% followed by 20% and 10% in Kenya and South Africa respectively.

**INVESTOR ENGAGEMENT**

**Asset Size:**
- Cross country: Ranks second with US$474bn.
- AM versus PE/VC: In South Africa, IE is at 97% within the hands of AM's. In Kenya and Nigeria, the PE and VC firms manage 79% and 88% of assets.

**Impact Quality:** The lowest score, 2% in terms of hot leaders across the three countries. Nigeria is ahead with 13%, while Kenya holds 9%. South Africa scores the least with less than 2% of hot leaders.

**SCREENING**

**Asset Size:**
- Cross country: Ranks third with US$148bn.
- AM versus PE/VC: In South Africa, screening is implemented at 92% via AM's assets. In Kenya and Nigeria, the PE and VC firms manage 94% and 98% of assets managed.

**Impact Quality:** Scores the highest % of hot leaders. The average % of hot leaders across countries is 31%. South Africa has the highest % of hot leaders, whilst Kenya and Nigeria display 27% and 22% respectively.

**THEMATIC INVESTMENT**

**Asset Size:**
- Cross country: Ranks fourth with US$31bn.
- Country leader: South Africa leads with US$18bn.
- AM versus PE/VC: In each country, PE and VC are the asset leaders.

**Impact Quality:** The average % of hot leaders across the three countries is 21%. South Africa ranks first with 27% of investors in the hot category, compared to Nigeria and Kenya with 18% and 5% respectively.
**SCREENING STRATEGIES CONNECTED TO RELIGIOUS VALUES**

Negative screening is the dominant form of screening across the three countries. The PE/VC firms are guided primarily by the IFC performance standards, particularly in screening out "sin" industries. Religious-based screening is a small but growing practice among AM's in Nigeria and South Africa where Islamic finance is developing. These countries have established shari'ah compliant indices on their stock exchanges. Investments in Shari'ah compliant portfolios were estimated at US$4 billion and US$28 million in South Africa and Nigeria respectively. Kenya is less developed in comparison with only two providers of shari'ah compliant investment portfolios. Positive and best-in-class screening strategies are less popular with African investors.

**WOMEN’S EMPOWERMENT: WHO ARE THE IFI PIONEERS?**

SA and Nigeria present some innovative initiatives. IDF is an investment holding company owned and managed by black women focusing on investments in South African women and youth entrepreneurs. Since its launch, IDF managers have allocated more than 65% of portfolio investments to black women entrepreneurs, created more than 600 direct jobs and many indirect jobs. Launched in 2008, the Women Investment fund is Nigeria’s first and only gender-specific mutual fund investing in listed and unlisted companies in which women have 10% or more of ownership. Kenyan fund managers lag behind SA and Nigeria in investing in women. Apart from one holding company, Women Investment Company, there are no commercial women-specific funds in Kenya.

**A NEED FOR ADVANCED DISCLOSURE**

ESG Integration and Engagement are the most prevalent strategies in South Africa (SA) and Kenya. Corporate governance appears to be the most integrated of the ESG factors. The PE & VC firms manage relatively less assets than AM's but appear to be more advanced in ESG integration, particularly integrating beyond research and analysis. South African AM’s seem to be more advanced and transparent about ESG integration and Engagement relative to Kenya and Nigeria’s AM. This can be explained by the fact that SA’s largest AM's and PE/VC firms are signatories of PRI and/or endorse CRISA which require public disclosure of IFI strategies. The seven PRI signatories operating in Kenya are all foreign AM's and PE's. In Nigeria only three of the eight PRI signatories are local firms. Perhaps Kenya’s new Stewardship Code and Nigeria’s Corporate Governance code will influence better disclosure in future.

**THEMATIC vs IMPACT INVESTING: COMPLEMENTARY STRATEGIES IN AFRICA**

Impact and Thematic investors are focusing on agriculture, socio-economic infrastructure, inclusive finance, SME development and renewable energy. Investments in agriculture-focused SME’s are popular in Kenya and Nigeria. Investments in South African SME’s are mainly by PE/VC firms, across various sectors with a focus on BBBEE transactions. Investments in renewable energy, specifically solar, hydro and thermal energy are gaining momentum as Thematic and Impact investments. Impact investment across the three countries is implemented mostly by PE/VC funds. South Africa and Kenya have the lowest proportion of industry assets allocated to impact investing relative to Nigeria. In Kenya, international impact investors outnumber local ones.
GLOSSARY OF TERMS

ASSET MANAGERS (AM): Investment managers who invest primarily in listed instruments such as listed equity, listed debt and money-market instruments. These investment may also hold small amounts of unlisted instruments

B-BBEE: Broad-based black economic empowerment as per the Broad-Based Black Economic Empowerment Amendment Act, 2013 (Act No. 46 of 2013).

CRISA: Code for Responsible Investment in South Africa.

ENGAGEMENT: Communication between an investor and a company regarding issues of management including environmental, social and governance (ESG) performance of the company.

GIIN: Global Impact Investing Network

IFC: International Finance Corporation

INCLUSIVE FINANCE: Solutions to provide affordable and accessible financial products and services to poor and financially marginalised members of society.

INSTITUTIONAL ASSETS: Assets belonging to or invested by institutional clients such as banks, insurance companies and pension funds.

KPI: Key performance indicators

NEGATIVE SCREENING: Negative screening is an investment approach where the exclusion or avoidance of investments in companies, sectors or countries which do not meet ESG or ethical criteria set by the investor.

PASSIVE INVESTMENT: Investment strategy involving the replication of a market index or allocation to index tracker in order to achieve similar returns to the market/index

POSITIVE SCREENING: Positive screening is an investment approach in which the inclusion or targeting of investments in companies, sectors or countries is based on meeting ESG or ethical criteria set by the investor.

PRI: United Nations- Supported Principles for Responsible Investment

PRIVATE EQUITY AND VENTURE CAPITAL (PE/VC) MANAGERS:
Investment managers who invest primarily in unlisted companies using private equity, mezzanine debt, and venture capital.

PROXY VOTING: Process of voting on corporate and management matters by virtue of being an owner of a security with voting rights in the portfolio company.

RENEWABLE ENERGY: Energy from sources that are replenishable and not-finite such as solar, wind, rain, tides, waves and geothermal heat energy.

RETAIL ASSETS: Assets belonging to or invested by retail clients such as individuals and HNW investors

SAIIN: South African Impact Investing Network

SHARI’AH COMPLIANT INVESTMENTS: Investments that are permissible under Islamic law of Shari’ah and Shari’ah compliant

SUSTAINABLE AND RESPONSIBLE INVESTING: Sustainable Investment approach that considers environmental, social and governance (ESG) factors in the management of assets

THEMATIC INVESTMENT: Investments covering a wide range of themes including climate change, renewable energy, women, forests and water education, health, SME

UNGOC: United Nations Global Compact

ASISA: Association for Savings and Investment South Africa

PIC: Public Investment Corporation

AGM: Annual general meeting

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