RISCURA

Why Impact

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1 Why Impact

In 2008, the global financial crisis was a pivotal turning point in thinking around investment and economic development. Now, the Covid-19 pandemic, which is perhaps the most defining global event of 2020, has given us a harsh reminder of the acute issues around health, while also shining the light on education, poverty, human rights, the environment and racial, gender and income inequality. The Covid-19 pandemic has easily outstripped the previous global economic crises in its impact on the global economy, and on the livelihoods of millions of people worldwide.

There has been a significant shift over the last decade in the way investors are starting to think about the utility of their investments. Conventionally, investors have solely focused on risk and return with little concern for the sustainability of their investments and their impact on people and the planet. Increasingly, investors are becoming concerned with the effects their investment have on people and the planet. “Knowing what you own” has become a motto of impact investors.

Impact investing has transformed from a mere concept a decade ago, to a formalised investment strategy and mandate throughout the investment industry and according to the Global Impact Investing Network (GIIN), has a current estimated market size of USD 715 billion.

The IFC defines impact investing as investments with the intention to generate positive, measurable, social and environmental impact alongside financial return. All assets have an impact – both positive and negative. Impact means deeper accountability for all the negative and positive impacts of our assets and the intentional use of those assets to make a positive difference for society and the planet. We believe an impact investing mindsight has the potential to ignite the South African economy.

The Covid-19 pandemic is having a profound and lasting impact on the South African economy. Add to that the reality that we entered Covid-19 already in a recession. The World Bank forecasts that South Africa’s growth rate will contract by an alarming 7.1% in 2020. South Africa’s unemployment rate hit a new high of 30.1% in the first three months of 2020, even before the COVID-19 related job-losses were accounted for.

The emergency budget made it clear that the government faces some tough decisions as the country teeters on a fiscal cliff. Gross national debt will reach an estimated ZAR 4 trillion by the end of this fiscal year, and the government’s debt servicing cost will spiral upward to 5.4% of GDP. Debt servicing is likely to amount to nearly 21% of government expenditure, the single largest component and far weightier than allocations to health, education and social assistance.

On top of all this, South African investors have been experiencing a persistent low-return environment for the past five years. There is unquestionably a need to revive economic growth in South Africa and invigorate returns for investors to make sure we can leave a legacy for tomorrow.

A paradigm shift in the way we save and invest is needed if we are going to build a sustainable and inclusive economy. It’s time to think out of the box and consider alternative investment strategies. Investing for developmental impact is one such strategy that we believe can drive sustainable returns and can help tackle the imbalances that characterise South Africa and threaten to destabilise our country. If we don’t, the current crises we find ourselves in might be a snapshot of our future and the environment we retire in.

For long-term investors, of which pension funds are the quintessential example, sustainability is an important concern. An unhealthy, unstable and unsustainable economy does not serve investors who have a multi-decade investment horizon and are concerned about the livelihoods of the next generation and beyond. There is no point in retiring with a decent pension if the society and environment the retiree lives in are unhealthy and unsustainable. Secondly, without a thriving, sustainable and inclusive economy, investors and asset owners will be hard-pressed in achieving their required returns over the long-term.

From a public policy perspective, many stakeholders believe that impact investing can provide a public good, particularly in areas where the government lacks the resources. For pension fund trustees, the argument may be why should pension fund capital be used to finance projects that should have been funded by government expenditure. The answer is quite simple. In South Africa, we have reached a point that if we don’t act now and make sustainable investments with positive social and environmental impacts, we are unlikely to generate stable, long-term returns. Investing for impact is investing in the areas of our economy that desperately need capital to enable economic growth and drive sustainable investor returns.

Historically, pension funds had done exceptionally well just by investing in traditional asset classes, so there was no compelling reason to look further afield at alternative asset classes. In the last five years, however, these asset classes are no longer yielding attractive real (above inflation) returns, and may be preventing us from meeting our fiduciary obligations. The Covid-19 pandemic has brought this into harsh reality more than ever. More importantly, investing for impact does not mean forfeiting attractive returns. This is a myth that has been dispelled and confirmed by research.

An impact investing strategy offers a potentially powerful lever for retirement funds to diversify, spread their risk, and enhance returns all in a way that positively contributes to our struggling South African economy. Importantly, we can take advantage of the full mandate of Regulation 28, which allows up to 15% of assets under management to be allocated to unlisted "alternative" vehicles.

Not only will mobilising just a small portion of institutional capital in South Africa have a ground-breaking effect on driving the Sustainable Development Goals ("SDGs") and the National Development Plan ("NDP"), it will catalyse the impact investment industry in South Africa. Mobilising South Africa's pension funds can be the spark that launches South Africa into a leading global player in the impact space. Just as in the past when South Africa was leading the way in implementing substantial enabling policies like the Code for Responsible Investing in South Africa ("CRISA") and amendments to Regulation 28 to facilitate greater consideration of ESG factors, South African can become a global impact industry leader.

We want to show that impact investment in South Africa can support outcomes that are good for the South African people, good for the planet and necessary for stable long-term returns. We believe that:

- Positive change is crucial to creating a sustainable and more inclusive economy and long-term shared prosperity;
- Positive change drives long-term financial return;
- Positive change connects to the real economy; and
- Positive change is a shared responsibility and prospers through long-lasting relationships.

2 Our impact/developmental approach

The overall objective of the Impact and Development Fund of Fund (the "Fund") is to offer institutional investors access to a diversified portfolio of impact and developmental investments. We define impact investments as investments made with the intention to generate positive, measurable social and environmental impact alongside financial return. Similarly, developmental investments are those investments that provide investors with both commercial returns and facilitate social, environmental and economic development in South Africa.

Core to the objective of the Fund is to deliver measurable positive impact and market-related returns by gaining exposure to a range of impact and/or development investment strategies, and themes that are most critical to South Africa's development priorities as outlined in the NDP.

We have taken into consideration the objectives of the NDP and the 17 SDGs in establishing our core impact goals, outcomes and strategies. In particular, our approach is aligned with the SDGs, where the achievement of many of the SDGs will support the objectives of the NDP. These include:

- Promoting economic growth and jobs;
- Supporting industry, innovation, and infrastructure;
- Developing affordable reliable and sustainable energy;
- Improving access to health and education;
- Reducing inequality and supporting B-BBEE; and
- Strengthening partnerships for achieving sustainable development, given that working towards a better South Africa is a shared responsibility.

Through this approach, we aim to do the following:

- Bring scale to impact by deploying greater amounts of capital to impact investments, unlocking a scalable channel for institutional investors to access impact;
- Facilitate social, environmental and economic development in South Africa;
- Support the ecosystem through key learnings that can catalyse more impact products being brought to the market, thereby achieving an impact multiplier effect.

Impact and development goals

Based on the key priorities outlined in the NDP, RisCura has selected eight primary strategic goals that are aligned with the SDGs.

SDGs	Impact themes	Strategic impact goals	Guidance
SDG 1, SDG 5, SDG 8, SDG 10	Financial Inclusion Quality Jobs	Fostering economic development and supporting decent jobs (particularly for disadvantaged and excluded groups, including women).	Investments in line with this Strategic Goal aim to contribute to income generation and support of more and better jobs through increasing financial inclusion of micro-, small, and medium enterprises (MSMEs), particularly those owned by women and other previously excluded and disadvantaged groups.
SDG 1, SDG 5, SDG 8, SDG 10	Quality Jobs	Improving earnings, wealth and training through employment and entrepreneurship (particularly for disadvantaged and excluded groups, including women).	Investments aligned with this Strategic Goal aim to improve income earned from work, specifically for disadvantaged, excluded, and low-income populations. These investments help to ensure that every person can earn at least a living wage that permits them and their dependents not only to meet their needs but also to build longer-term wealth and prosperity.
SDG 1, SDG 5 SDG 8, SDG 10	Financial inclusion	Improving access to and use of responsible financial services for historically underserved populations, improving their financial health.	Investments in line with this Strategic Goal aim to improve the provision and usage of responsible financial services by underserved populations so that they are better able to advance their economic situation.
SDG 9, SDG 11	Infrastructure	Support infrastructure development and inclusive, sustainable industrialisation.	Investment in line with this Strategic goal aim to develop quality, reliable, sustainable and resilient infrastructure.
SDG 2, SDG 15	Sustainable agriculture	Promote sustainable and resilient agricultural practices and increase access to finance for rural producers.	Investments in line with this Strategic Goal aim to improve food security by increasing crop productivity and profitability, increasing diversity and resilience of food produced, improving storage options, increasing access to food in general, improving water usage practices and increasing farmers access to financial products.

SDG 7, SDG 9, SDG 13	Clean Energy Energy Access	Promote the development of the renewable energy sector and improve energy access for businesses and individuals.	Investments in line with this Strategic Goal aim to improve the use clean energy alternatives, which can contribute to increased production and produce, fewer harmful emissions to limit negative environmental impacts from status quo fuels, reduce health risks from burning biomass and fossil fuels, and decrease related economic burdens.
SDG 4, SDG 10	Access to quality education	Support inclusive and equitable quality education and training.	Investments aligned with this Strategic Goal aim to ensure that all children and youth have equitable access to quality education by eliminating gender disparities in educational outcomes, supporting the needs of children with disabilities and disadvantaged populations and improving.
SDG 3, SDG 10	Access to quality healthcare	Promote access to affordable and quality healthcare.	Investments in line with this Strategic Goal aim to improve access to quality health care services, affordable medicines and vaccines by inventing new products for emerging market contexts to better suit low-income populations or address challenging health systems contexts by strengthening existing health system infrastructure and supply chains to better deliver existing products. Improving access can be by either enhancing existing tools and devices or inventing new ones that are better tailored to the context.
SDG 9, SDG 10, SDG 11	Access to affordable housing	Promote the development and construction of affordable housing.	Investment in line with this strategic goal aim to improve access to quality affordable housing by developing and constructing affordable housing units for underserved and disadvantaged communities.