IMPACT REPORT

2023

CREATING SUSTAINABLE SHARED VALUE

MERGENCE

CONTENTS

MESSAGE FROM OUR MANAGING DIRECTOR

It has been my privilege to lead Mergence Investment Managers for a year now, and I am exceedingly pleased with what we have achieved as an investment house against the backdrop of a very difficult business environment and economy in South Africa.

The overarching SA macro-outlook remains one of deep concern. Very low confidence, a weak economy, continuing high unemployment and a dearth of necessary structural changes all play into the negative environment. Inflation is expected to soften and interest rates should be peaking. Government finances will be affected by the weak growth prospects which means that resources will be constrained in an environment that increasingly requires a huge amount to be done and fixed. The recently announced FNB/BER Consumer Confidence Index declined to -25 points during Q2 2023, the second lowest reading since the dawn of democracy.

It is easy perhaps under such circumstances to be gloomy but I am confident and positive about what Mergence is doing to pull its weight – and indeed punch above its weight in some areas.

One such area is infrastructure investment. This has clearly become a government priority, as evidenced by the emphasis on infrastructure in the State of the Nation address, the Budget Speech, and various major initiatives like the Development Bank of SA's Infrastructure Fund. Additionally, recent changes to Regulation 28 of the Pension Funds Act now permit pension funds to allocate up to 45% of their assets to infrastructure investments.

In many sectors, Mergence has led the way. In 2010 we launched our first impact investing fund; in 2013 we were the first to market with a renewable energy debt fund; subsequently we have been invested in other sectors, ranging from affordable housing, to transport and fibre roll-out and – not least – our investment in the only two private water concessions in SA.

The water situation nationally is dire, with the outbreak of cholera in Hammanskraal in Gauteng earlier this year is an all-too-real reminder of the consequences of ageing and malfunctioning infrastructure, as well as mismanagement of resources.

Sholto Dolamo
Managing Director

While some quick fixes are urgently required, there needs to be a long-term, big-picture solution and we have added our voice to the call by the Minister of Water and Sanitation, Mr Senzo Mchunu, at last September's Water Institute of South Africa 2022 Biennial Conference for all stakeholders to urgently consider the creation of a "Water IPPPP", that is private investment within a programme modelled on the highly successful Renewable Energy Independent Power Producers Procurement Programme (REIPPPP). We are engaging with some major players in this space and demonstrating what can be done to bring potable water at the highest possible, Blue Drop grade on an uninterrupted basis to communities.

Trustee workshops

There is scope for the trustees of retirement funds to understand more about infrastructure investment and the benefit of their steady-long term returns to the asset-liabilities ratio. We are therefore planning to hold a series of workshops for trustees to explain more about the asset class and to show that it is possible and desirable to increase allocations to infrastructure in line with the changes to Regulation 28.

Another way in which Mergence is helping to alleviate the pressures on consumers is through investment in affordable housing. Here, our investment into the innovative housing model, Live Easy, as showcased in last year's impact report, is bringing people closer to their place of work, reducing commuter costs and time and providing a safe living environment, in particular for women residents.

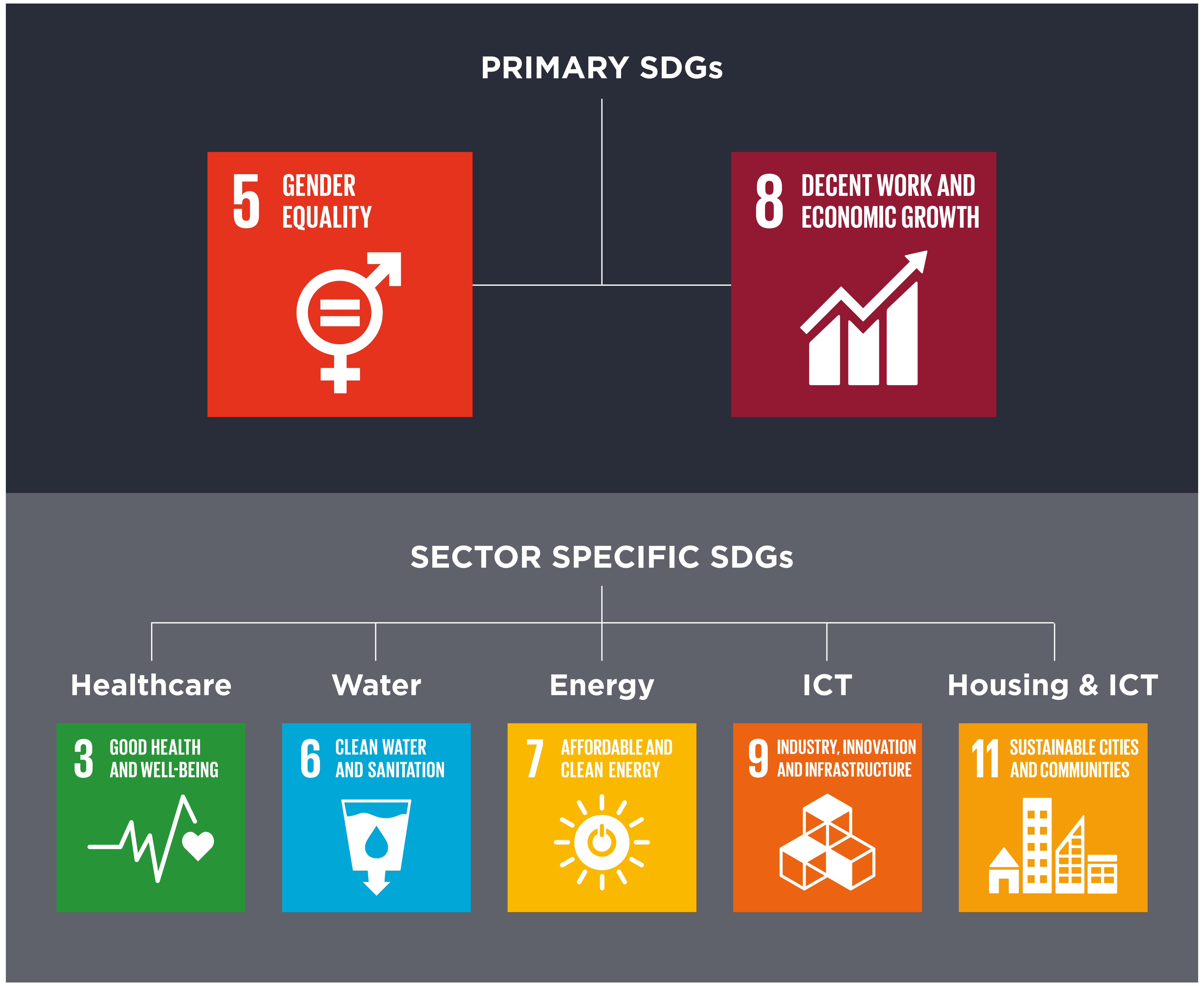
Illustrating our "time in the market", we have reached final close on several of our funds and are at near close on some Fund IIs. You can read about these under the private markets commentary.

The Southern African Development Community (SADC)

Our SADC infrastructure and impact investments are performing well and making a significant impact on those economies, both at the community and individual levels. Currently, we have in-country offices in Namibia and Lesotho. Having an in-country presence is a key differentiator for Mergence, allowing us to tailor our offerings to each specific country's investment needs. Our approach not only focuses on creating jobs and making an impact but also strives for over 70% of in-country investments.

SDGs and ESG

Over the past year we have refined our alignment with specific Sustainable Development Goals (SDGs) and refined the process for Environmental, Social and Governance (ESG) investing within the investment process in both our private and public markets teams. You can read about this in the relevant sections further on in this Impact Report.



Public markets

While we continue to make great strides in infrastructure development, public markets comprise the bulk of Mergence's assets under management. This team has made some excellent hires and 60% are now black female. There is strong cohesion in the team, with some staff returning to Mergence having left for a few years, which vindicates the robust, friendly and attractive company culture within Mergence.

Also, within the public markets team, the ESG process has been further refined; details of our engagement with the management of listed companies and proxy voting are detailed on page 9 to 11.

Our multi-asset offering was strengthened with the senior hire of Mohamed Ismail. Mohamed has 14 years of experience and joined Mergence as Head of Fixed Income. He is responsible for our stand-alone fixed income offering, as well as integrating a fixed income investment process into the overall multi-asset strategy. Mandates in the fixed income area are taking traction with our first money market mandate awarded in 2022.

Retail investments

Mergence currently has three unit trusts and a specific project team has been tasked with an intention to carefully grow this offering, largely through collaboration with Discretionary Fund Managers (DFMs).

An African strategy

The African continent is the fastest-urbanising continent in the world, with more than 500 million people likely to leave rural areas and migrate to cities by 2040, according to a June 2023 report by McKinsey titled Reimaging economic growth in Africa. This urbanisation will lead to rising productivity and incomes and hence also increase the need for better infrastructure. The opportunities are vast, with some African countries averaging GDP growth of more than 4% per annum and a tech-savvy younger population. At Mergence we have for some years now been developing a strategy to expanding further into the Africa continent. This strategy is well under way, whereby we will partner with stakeholders to expand our presence, predominantly in East Africa.

The forward look for Mergence Investment Managers

Our strategy is clear, and that is to retain and grow our client base. This intention needs to be seen against significant headwinds, including the stagnant economy and poor savings rate. Generally, within the asset management industry there may be scope for a degree of consolidation, something we bear in mind.

In all, I am pleased with the resilience of each area of the business. Mergence has highly skilled teams, people who reflect the country's demographics and a strong, caring culture.

I take this opportunity to thank clients, staff and all other stakeholders. In particular, I thank Masimo Magerman, Non-Executive Chairman of Mergence Investment Managers (and Executive Chairman of Mergence Group), for his confidence in entrusting me in the role of Managing Director in this fast-growing, innovative investment house.

I hope you enjoy reading this Impact Report. If there is any aspect you wish to discuss in further depth, please do not hesitate to contact me personally.

Sholto Dolamo
Managing Director

"Identifying and discerning the context for investments and ensuring a robust risk - return framework throughout, are of utmost importance to us."

Fabian de Beer
Chief Risk Officer

PUBLIC MARKETS

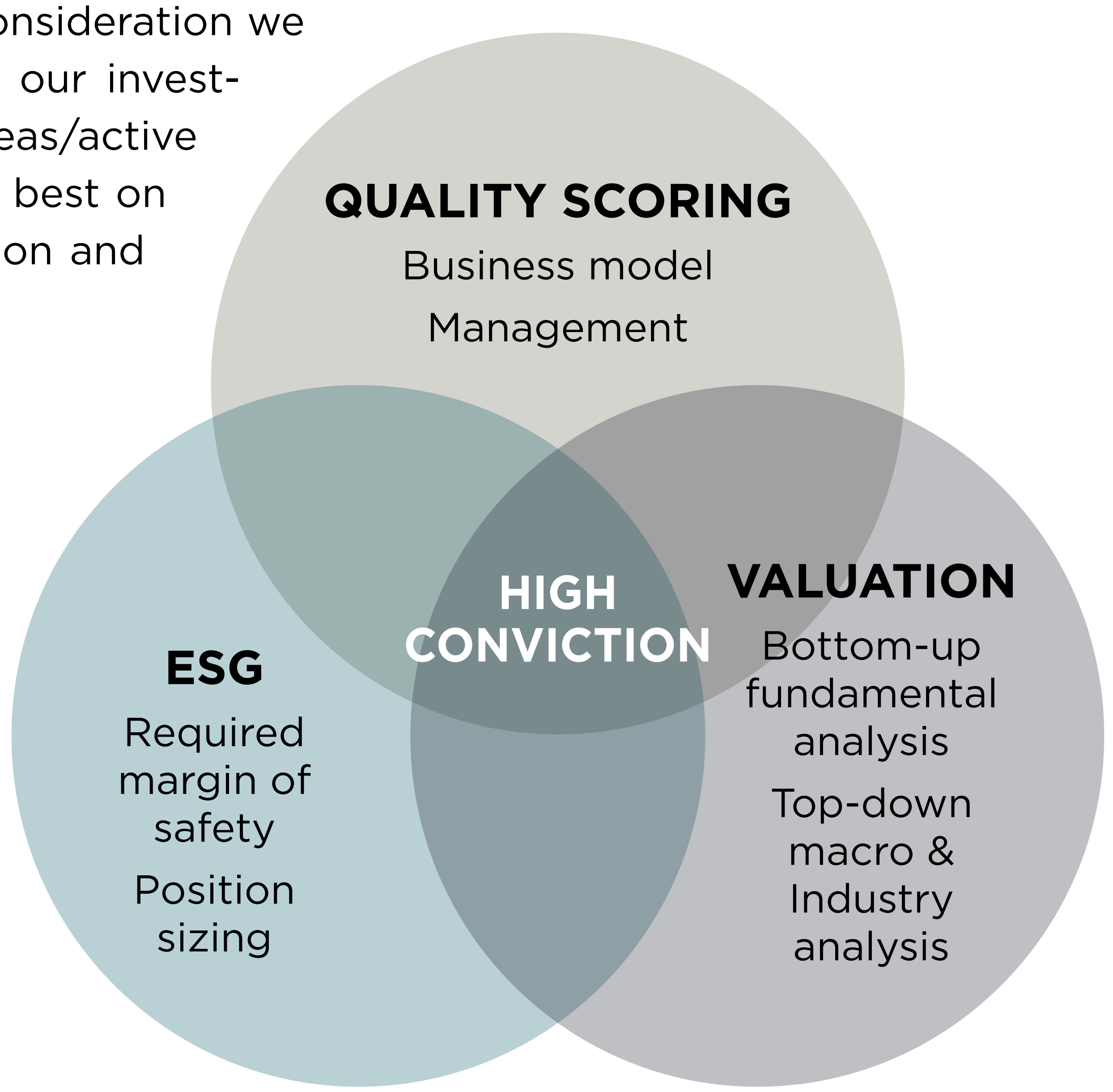
Given our team's experience at the time, absolute return mandates were the first investment capability that Mergence Investment Managers developed when the company was founded nearly 20 years ago, in 2004. With the equity component making up between 40-60% of our multi-asset mandates, and the growth of our equity-only mandates over the years, this section will focus on our equity capability and how we look at it from an ESG perspective. The public markets team handles 89% of total assets under management.

We have made some strong hires in recent months and the team has a total of 145 years of collective experience.

Our ESG integration framework

As a forerunner in Responsible Investing in South Africa, we have extensive experience in measuring and monitoring ESG considerations in investment companies. We believe that ESG issues often pose a financial risk to an investment and that excellence in ESG practices often signals a better-quality company and management team.

The chart below shows the equal consideration we give to ESG as a separate pillar in our investment process. High-conviction ideas/active positions will be stocks that screen best on all our three pillars (Quality, Valuation and ESG).



Peter Takaendesa
Head: Equities

Further refinement of our ESG process

While ESG has always been covered as part of equity research, we have added minimum ESG deliverables as part of our stock presentation checklist/guide to analysts. We are also working on refining our approach to use ESG scores to further guide portfolio construction through position sizing.

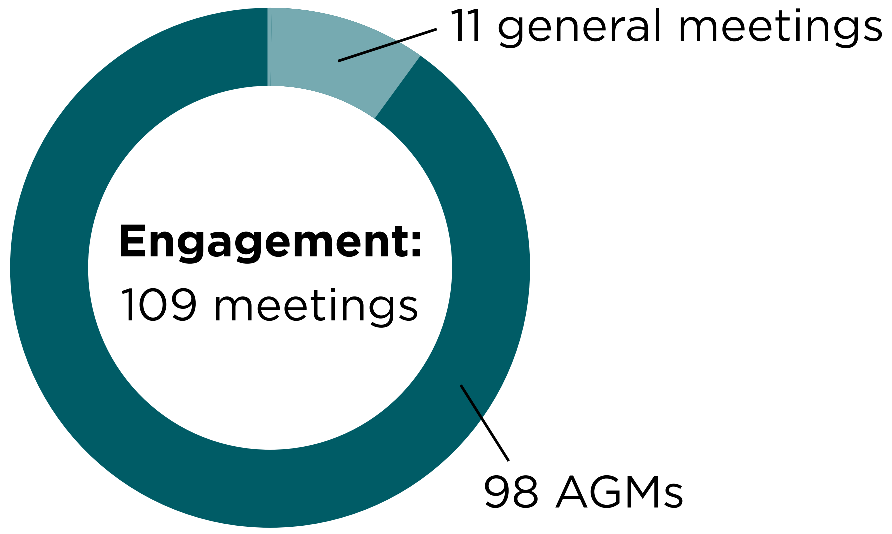
The current challenge to ESG scores - and by extension the ESG scoring of portfolios that all global asset managers face - is data availability for all stocks in the investment universe and the comparability of measurement methods. However, we believe that disclosure and reporting standardisation will improve over time to enable useful scoring and integration measurement.

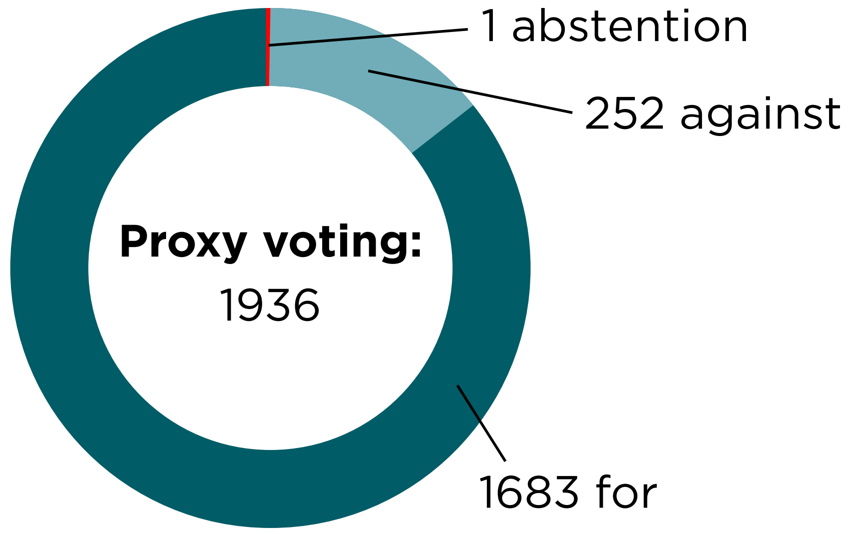
ESG in practice

Our equity analysts meet with management teams frequently and as part of our research process we discuss various ESG risks. For example, we have previously raised the following issues with various management teams: labour relations and the risk of industrial action; regulatory risks in healthcare; potential impact of the carbon tax etc.

We also support managing the move to a net zero carbon economy in an equitable manner (referred to as the Just Transition). The Just Transition is the key reason we have chosen an engagement approach to ESG in our listed equity funds instead of an outright stock exclusion approach. Key pillars of balancing climate change, reducing inequality and poverty and social inclusion are particularly relevant to our South African investment landscape – in other words, the "E" (environmental issues) cannot be sacrificed at the cost of the "S" (social issues) in ESG.

Statistics snapshot (12 months to end-March 2023)





PROXY VOTING EXAMPLE

THE SPAR GROUP

ESG consideration: GOVERNANCE

We took a small position in Spar in January 2023 in line with our process (average quality + cheap valuation + improving on ESG considerations). Our view is that the governance concerns and media reports that drove the Spar share price down materially in the fourth quarter of 2022 were more than priced in and that the share was looking attractive after considering our quality, valuation and ESG process pillars.

Our view of improving ESG considerations was based on governance improvements in progress at the company. Positive governance updates and changes that were announced included:

- A positive outcome of investigations by an independent law firm finding that allegations of discrimination towards its retailers were “not corroborated and there was no deliberate or intentional practice on the part of Spar”
- An announcement that the Chairman of the Board (and previous CEO) would step down and be replaced by the lead Independent Director as interim Chair in order for Spar to focus on addressing the allegations levelled against the group
- An announcement that a new highly experienced independent Chairman was appointed
- An announcement that the CEO would step down and that a new candidate would be appointed during the course of 2023
- The appointment of further highly experienced Independent Non-executive Directors
- The outcome of an investigation into an alleged fictitious and fraudulent loan practice had shown that while it was deemed to be a reportable irregularity, it was immaterial from a group financial and business continuity perspective and an isolated matter which is no longer taking place.

Following the above, we still voted against resolutions at the AGM to express our view that while we commend the action taken to date, more could be done to restore market confidence in governance at the company. We voted against the re-election of an Independent Non-executive Director and her re-election as member of the audit committee seeing as she was in place at the time that the reportable irregularity took place.

As part of our proxy voting and ESG process, we also wrote a letter to the Board requesting further engagement to gain more information and comfort that appropriate corrective action is being taken by the Board. This culminated in a meeting with the Chairman where we gained more comfort that our concerns are being addressed.

The Chairman directly responded to our outstanding concerns as follows:

- More information was provided for us to understand the accounting impact of the reportable irregularity as we felt insufficient explanation was provided earlier.
- Confirmation that the group CFO was not involved in or aware of the reportable irregularity prior to discovery and that it was not reasonable to have expected him to be aware as it fell under the group audit materiality threshold.
- Confirmation that the employees involved in the reportable irregularity have been removed.
- Confirmation the remuneration policy will be overhauled and will include provision for clawbacks for such events.

Our view is that positive governance changes are being effected at the company. With Spar ranking in our cheap and average quality bucket, we remain overweight but have constrained our position size for now in line with our third process pillar of ESG. While governance is improving, it remains a "work-in progress" combined with our concerns around relatively high debt levels and the poor performance of their Polish business.

PRIVATE MARKETS

The Mergence private markets team has had an exceedingly active and successful year. We have built a strong reputation in the market for leading the way with innovative investments in the impact and infrastructure investing space, witnessed by the many conferences and events at which we are asked to speak.

We are further refining our ESG management system (ESGMS), with a special forward focus on detailed data collection that will improve the granularity with which we measure and report. This reporting is aligned with our focus SDGs as shown on page 5.

Funds

We are currently harvesting the Mergence Infrastructure and Development | Equity Fund I which is fully invested. This open-ended fund delivered to investors 15.98% per annum since inception in May 2015.

We launched Fund II which recently reached first close on 6 June 2023 reaching its target of R474 million. A second close is expected in the last quarter of 2023 with an additional target of R400 million. The investment thesis is similar to Fund I, that is to invest in unlisted equity and quasi-equity, such as mezzanine debt, in infrastructure & development and socio-economic assets, including renewable energy plants, affordable housing, student accommodation, schools, energy efficient programmes and healthcare.

We remain active in the renewable energy market. With margin compression in utility scale projects, we have shifted focus towards private purchase agreements (PPAs) in the commercial and industrial sectors where better returns are still available while concurrently taking pressure off the national grid.

Water

Our investment into water infrastructure has been extensively showcased in the media and the impact reported on in last year's Impact Report. By way of an update on the social impact, close to 300,000 of the 500,000 customers that the project serves are classified as indigent communities to whom we supply free basic water daily.

Kasief Isaacs
Head: Private markets

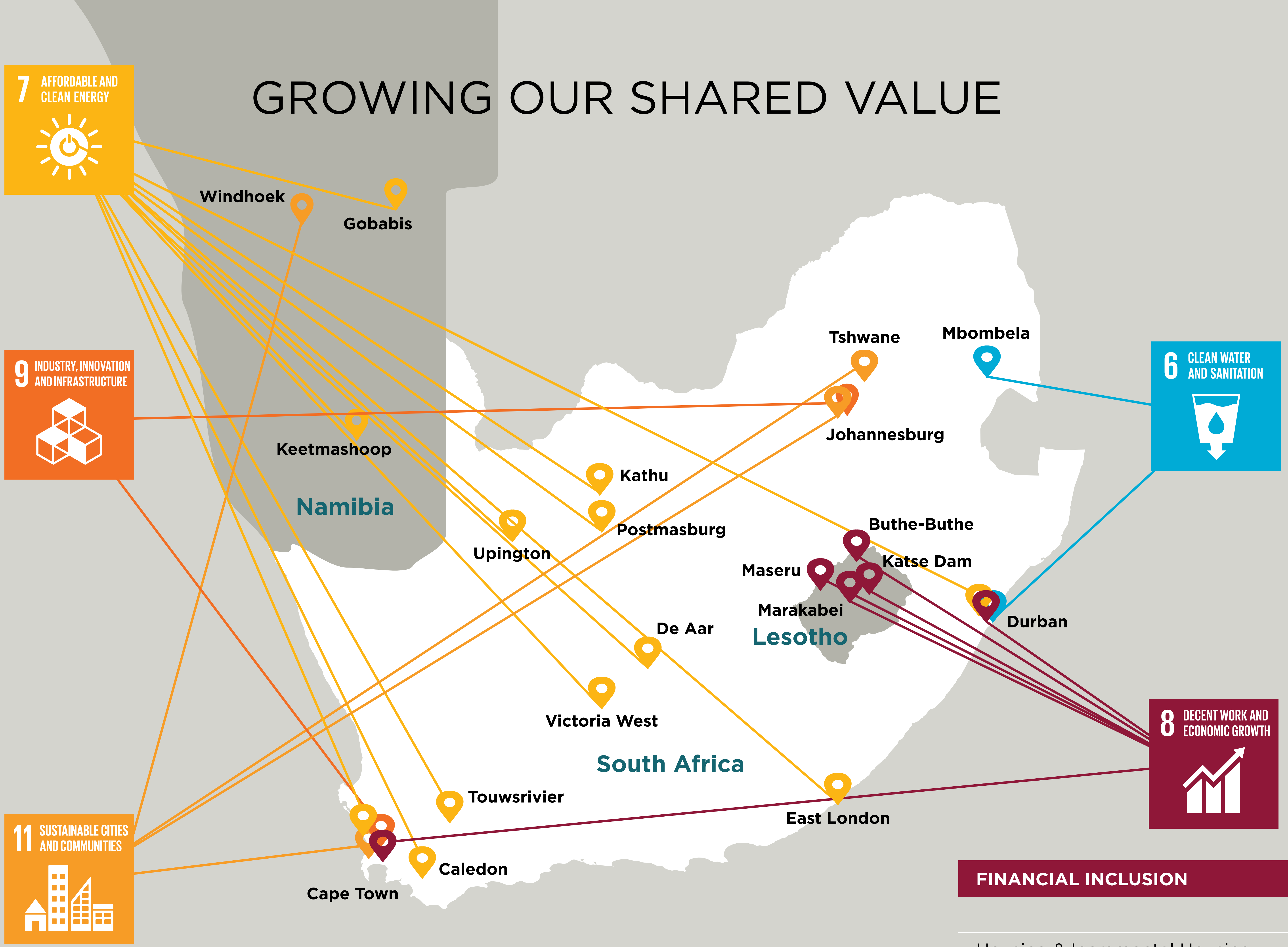
The team has a collective experience of 105 years, and 75% are black females.

GROWING OUR SHARED VALUE

CLEAN ENERGY	Total
Installed capacity (MW)	101 097
Greenhouse gas emission avoided (tonnes)	487 990

DIGITAL INFRASTRUCTURE	
Number of internet users/ customers (total)	10 752
Increase in number of internet users/customers	1 743
Extension of fibre network coverage	1 000
Existing areas already serviced	11
New areas not serviced previously	2

AFFORDABLE HOUSING	
Tenants (all)	2155
Occupancy rate	96%
Gender	
Male	42%
Female	58%
Age	
<20	3%
21-25	27%
26-35	31%
>35	39%
>R25k	14%
Income of tenants	
R5k-R10k	17%
R10k-R15k	43%
R15k-R20k	15%
R20k-R25k	11%



EMPLOYMENT		
Direct jobs	Sustained	**7525**
	New	**1074**
Indirect jobs		**2057**

WATER	
System capacity (Kl)	48 803 600
Volume supplied (Kl)	35 486 555
Water loss relative to total disbursed	9.5%
Wastewater (total volume)	
Water treated	14 218 668
Water available for reuse	54%
Client base	
Total	30 851
Increase (new clients)	2 271
Indigent clients served	12 814
Indigent communities served (increase)	2

FINANCIAL INCLUSION	Applications approved	Loan book
	9 976	646 225 305
Housing & Incremental Housing	47%	42%
Education	50%	53%
Client profile		
Customers (all)	12 205	
Female	52%	
Youth	15%	

Case Study | Private Markets

BUSINESS PROCESS OUTSOURCING

NUTUN
Digital Business Services

Nutun, a wholly owned subsidiary of Transaction Capital Limited, provides a range of specialised and bespoke business processing services, including receivables management, payment processing, and customer services. The services are offered globally, from a South African base, using local call centres and a state-of-the-art technology platform.

The company employs over 4,700 people and has offices in Johannesburg, Durban, Cape Town, Fiji and Melbourne. It is experiencing massive growth and needs to increase its funding pool.

The Mergence investment in Nutun is housed in the Mergence Infrastructure & Development Fund | Debt Fund. The investment rationale is predicated on high job creation through call centres and sales agents, as well as driving economic growth by promoting credit market stability through the rehabilitation of debtors.

Nutun operates two pillars:

1. **Debt rehabilitation:** Nutun purchases non-performing loan portfolios from financial and other institutions, assisting them in recovering part of the debt. This process enhances the client's balance sheet and reintegrates distressed debtors into the credit market, offering financial wellness education. Nutun leverages over 20 years of experience in acquiring non-performing loan portfolios with attractive risk-adjusted returns.
2. **Global customer services:** Nutun provides customer services through its call centers to a diverse range of corporate clients in South Africa, the United Kingdom, Australia, and soon the United States. The focus here is on job creation, with many employees entering the job market for the first time.

The Nutun difference

As a good corporate citizen, Nutun spent R4m during their FY 2022 to improve 6,218 lives via their Corporate Social Investments. One such programme is One Agent, One Child.

One Agent One Child, a groundbreaking initiative, reflects the Nutun's commitment to its people, who are at the very heart of its mission. In partnership with Mellon Educate, One Agent One Child seeks to provide education to underprivileged children in South Africa. It pledges that for every qualified agent, including those serving international clients, one child will receive fundamental literacy education.

The impact

Nutun rehabilitates debtors (consumers/SMEs) by normalising their debt obligations to become credit-worthy again.

- Current debtors' book has outperformed with collection at > 90%
- Rehabilitation of 215,000 debtors on average within a year to the value of R455m

Nutun maintains a level 1 B-BBEE status and currently employs 5,931 individuals of which:

71% female	**96 black employees**	**75% under the age of 35**	**84% low-skilled employees**

Nutun promotes climate resilience through their operations:

- Nutun has developed robust work-from-home capabilities over the past two years, allowing for the effective implementation of a sustainable hybrid working model. Consequently, in 2022, Nutun consolidated three of its Johannesburg premises into a single new green building, contributing to a reduction in its environmental footprint for FY 2023.

Case Study | Private Markets

CLEAN ENERGY

The Redstone Concentrated Solar Power Plant (CSP) Project is one of the first-ever project-financed CSPs with molten salt receiver projects in the world. It has been designed to operate and maintain a 100 MW capacity concentrated solar power plant, located near Postmasburg in the Northern Cape.

The project was awarded to ACWA Power and Solar Reserve (ACWA) under bid window 3.5 of the South African Renewable Energy Independent Power Producers Procurement Programme (REIPPPP). ACWA is one of the largest Independent Power Producers in the world with a strong reputation for backing its partners.

At R11,6 billion total investment, Redstone is the largest solar renewable energy project in SA to date as well as one of the largest in the world. Investors include the Development Bank of Southern Africa, the Central Energy Fund, Pele Green Energy, Aventro Investments (Aventro), Public Investment Corporation, Old Mutual Life Assurance South Africa, and the Humansrus Community Trust. The Redstone project has facilitated circa R7 billion in foreign direct investment to fund and support the strategic energy transition goals for SA.

Redstone's capacity will be increased, with a thermal storage potential increased to 12 hours (1,200 MWh), a relatively economical option compared to battery storage used in photovoltaic solar power plants. The thermal storage system will allow the Redstone CSP (100 MW) to operate at full capacity for 12 hours in the absence of solar radiation (after sunset or on temporarily cloudy days).

Commencement of operations is scheduled for Q4 2023. The Redstone project is expected to have an operational life of more than 30 years.

Mergence has provided construction funding for BEE partner Aventro in ACWA Redstone Solar Reserve. Aventro is a black-owned investment company with extensive experience in the fields of smart proprietary technologies in the energy sector. Mergence partnered with Mahlako Energy Fund and Third Way Investment Partners on the transaction. The investment is housed in the Mergence Infrastructure and Development Fund | Debt Fund as well as the Mergence Renewable Energy | Debt Fund.

The impact

The Redstone project is expected to close the energy supply gap, reduce dependence on coal, limit carbon emissions, create local jobs, and develop a national solar energy industry. The Redstone project with 12 hours of full-load energy storage will be able to reliably deliver a stable electricity supply to more than 200,000 South African homes during peak demand periods, even well after the sun has set.

The main beneficiaries of the project are the people of the Northern Cape province and ultimately all the people of South Africa. The project will create more than 2000 construction jobs at peak (with about 400 from the local community) and additional hundreds of SA supply chain jobs. Approximately 100 permanent direct jobs will be created, during the operating period of the project.

Case Study | Private Markets

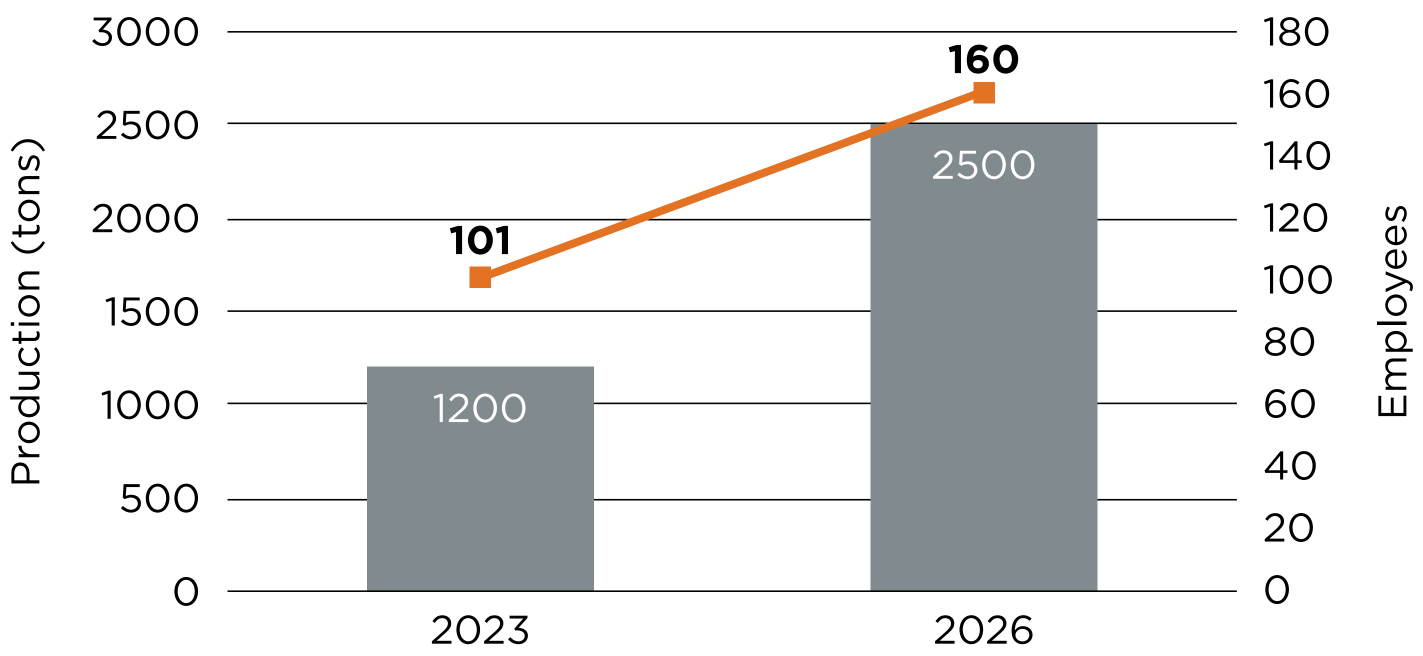
FOOD SECURITY & JOB CREATION

SanLei Premium Trout, based in the Lesotho Highlands on the Katse Dam, is the largest trout farming operation in Southern Africa. It supplies high-quality product to a niche export and South African market.

We reported on this unique project in the Mergence 2022 Impact Report and here show further recent steps taken by the facility in building resilience.

- Entering the US market
- Dam level changes and the need to regulate oxygen and pH levels: aerators have been installed
- Keeping the fish healthy
- Keeping fish fresh from harvest to frozen

Projected growth of the SanLei operations



Impact

Employment

SanLei currently employs 101 people mainly from the local communities (excluding casual labourers which are utilised frequently), spanning from general workers through to upper management. All the employees are remunerated well above the Lesotho minimum wage, receive healthcare, pension, death and disability cover as well as a funeral policy.

Construction

Local contractors have been involved in the construction, expansion and ongoing maintenance of the company's operational facilities.

Transport

Local companies are used for the transport of certain supplies and staff. Local clearing agents are used for imports and exports.

Retail

Procurement of refreshments, consumables and ongoing office supplies is done from local suppliers as far as possible. Our increase in consultants and staff also directly correlates to increased local spending.

Community initiatives

SanLei as the investee company provide Mergence with a monthly beneficiation report which details its relationship with each of the surrounding villages from where the workforce is derived. There are two primary beneficiation projects, The Rosehip Company and the Khokhoba CaRe Fund, which help to generate additional income streams for the local communities and to complement SanLei's operations.

The Rosehip Company

Situated in Mohale's Hoek, The Rosehip Company was established in 2008. There is a massive market demand for Rosa Canina (rosehip) which is well known as a medicinal plant used traditionally for various metabolic and inflammatory diseases. Lesotho is one of the very few places offering the Rosa Canina plant, and The Rosehip Company plays a critical role in stimulating the Lesotho economy by directly employing up to 120 people, indirectly employing approximately 4,500 individuals and financially supporting more than 30,000 people annually.

The Khokhoba CaRe Fund

The widely recognized catchment degradation in Lesotho led to the development of the Catchment Resilience Fund (CaRe Fund) in 2017.

SanLei financially supports the CaRe Fund initiative, which aims to create a financing mechanism that generates sustainable incentives for the Khokhoba community to improve catchment management, thereby generating socio-economic benefits. In return, the Khokhoba community commits to enhancing rangeland and wetland management while rehabilitating degraded areas. The partnership committee provides annual workplans, activity targets, and quarterly reports to SanLei, reflecting its financial, management, and monitoring records.

The CaRe Fund money is used by the Khokhoba community to implement projects benefiting the community as a whole and supporting individual households. These benefits serve as meaningful incentives for the community to actively contribute to the catchment management activities under the CaRe Fund.

TRANSFORMATION AND EMPOWERMENT

Mergence has made transformation a top priority since its inception. As one of the early adopters of full diversity representation among asset managers in South Africa, our commitment to transformation remains steadfast. While achieving level 1 BEE verification, we view the Financial Sector Charter not as a mere checkbox exercise but as a valuable tool to guide our journey.

We have consistently been at the forefront of advocating for transformation within the asset management sector. We are dedicated to building upon our past achievements, with a special emphasis on empowering women, thereby contributing to the national goal of increased female empowerment.

In line with our people-centric approach, the former executive management team has transitioned leadership roles to four new members. This transition offers valuable executive management experience to younger team members, while the seasoned veterans remain actively engaged and accessible for consultation. Additionally, we've welcomed our Human Resources Manager to the team, ensuring comprehensive coverage and discussion of the people aspects within our business. As a result, our executive management team now encompasses expertise across five key pillars of our business.

STRATEGY

Sholto Dolamo
Managing Director

BSc (Chemistry), B Tech (Ceramic Science), MSc (Engineering), MBA

1 year with Mergence; 17 years industry experience

CLIENTS

Semoli Mokhanoi
Director SADC & Head: BD & Marketing

BCom (Accounting), BCom Hons (Fin Planning), MBA (Strategy)

6 years with Mergence; 22 years industry experience

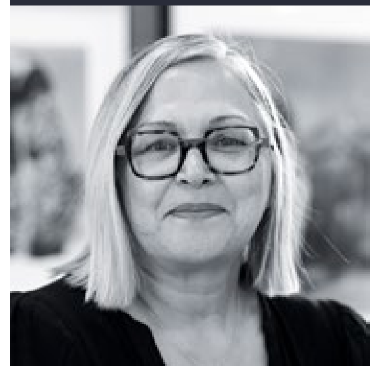
INVESTMENTS

Bradley Preston
Chief Investment Officer

BSc Hons, MSc (Financial Mathematics)

18 years with Mergence; 18 years industry experience

OUR PEOPLE

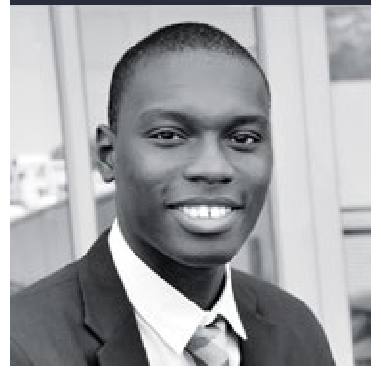


Karen Wagner
HR Executive

Diploma (HR Mgmt, Bookkeeping & Practical Accounting)

9 years with Mergence; 33 years industry experience

FINANCE



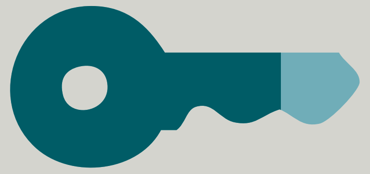
John Afordofe
Chief Financial Officer

BCom (Accounting), PG Dip (Accounting), CA

5 years with Mergence; 11 years industry experience

"People are at the heart of Mergence."

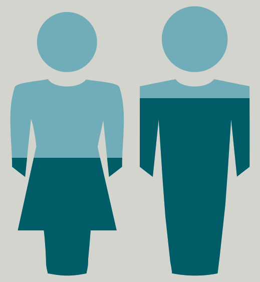
Masimo Magerman
Non-Executive Chairman



78.75% black ownership

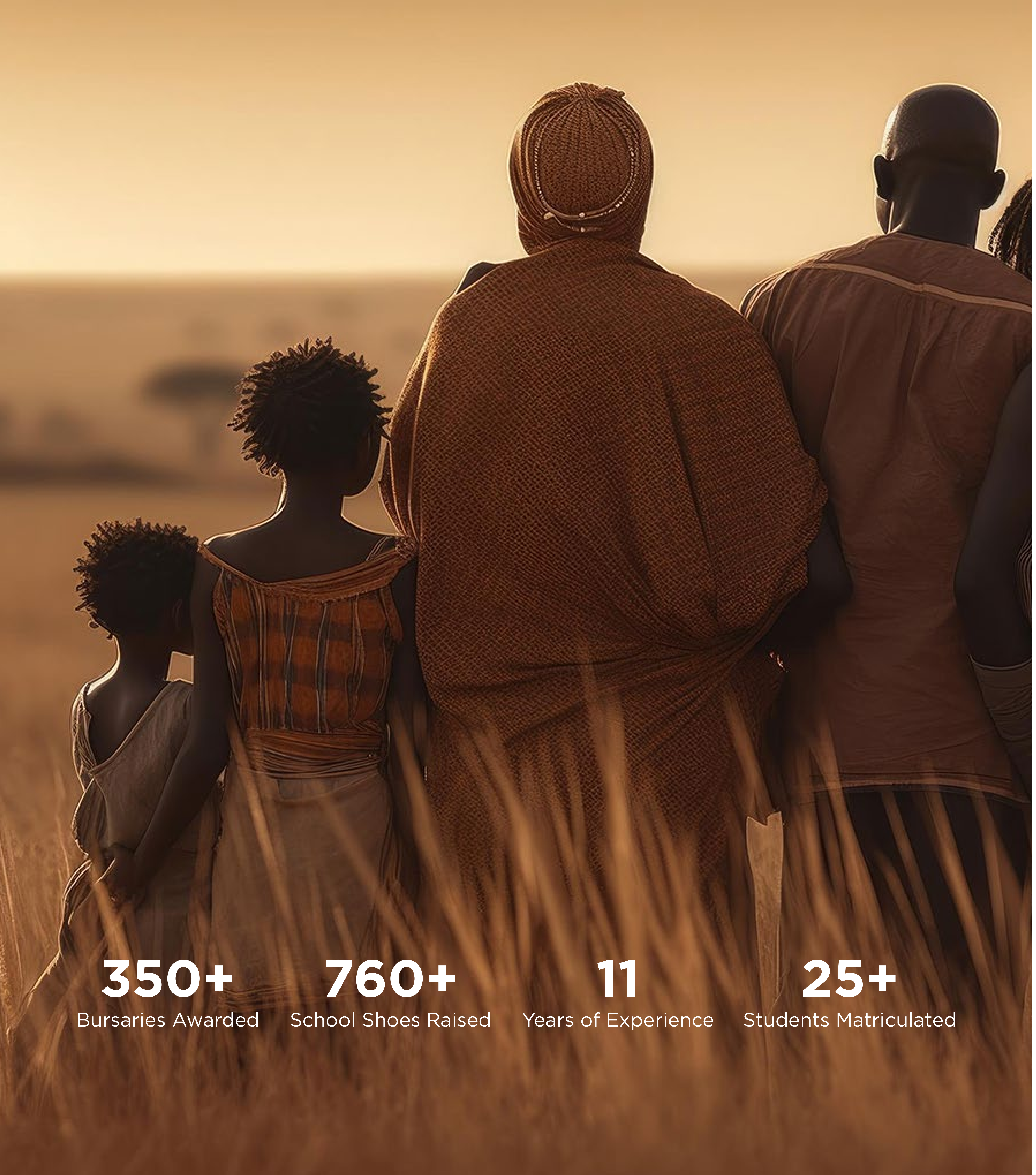
100% black board members

80% black executive management (20% black female)



75% black Investment (40% black female)

84% black total staff (53% black female)



CORPORATE SOCIAL INVESTMENT

The Smart Foundation

In Q1 2023 Mergence supported the KwaZulu-Natal-based non-profit organisation, the Smart Foundation, with a donation of R100,000 towards their KZN Disaster Flood Relief Programme. The foundation is doing remarkable work in helping to rebuild communities devastated by the floods of April 2022.

The floods led to the government declaring a State of Disaster. According to data received by The Smart Foundation, 547 households were affected, with the majority suffering the loss of their entire home; and other households suffering varying degrees of damage, ranging from the need to rebuild structures, repair water supply and/or replace furniture and equipment.

An innovative voucher system to benefit both households and SMMEs

Using donor funds, The Smart Foundation has issued vouchers to affected beneficiaries who can then use the vouchers to purchase building and other materials from hardware stores and other businesses classified as SMMEs – in the process both helping to rebuild communities AND support small business.

Nonkululeko Nzimande, CEO of The Smart Foundation, said that private sector financial donations had strongly boosted government's programmes to provide relief to flood victims.

Impact as at June 2023

The KZN flood relief programme is only one of several programmes run by The Smart Foundation. The organisation's main focus over the past 10 years has been to provide educational support via bursaries and other programmes to learners in the Umlazi area. These bursaries, available to children in grades 1-12, cover school fees for the entire year, provide summer and winter school uniforms, monthly food parcels, and necessary stationery, ensuring comprehensive support throughout their school years.

THE MERGENCE SUSTAINABILITY JOURNEY

Mergence has been on its own sustainability journey for many years now. Our headquarters are in the new Cape Town Cruise Terminal at the V&A Waterfront. As a world-class destination, the V&A has in place comprehensive and sophisticated policies to guide sustainable operations, to which it requires tenants to adhere.

Waste recycling

Our staff actively participate in recycling, utilising the designated bins within our office premises. Our dedicated office support team is responsible for transferring all recyclables to the common area refuse room. In these areas, you'll find the necessary wheelie bins and informative posters that guide users in proper waste separation:

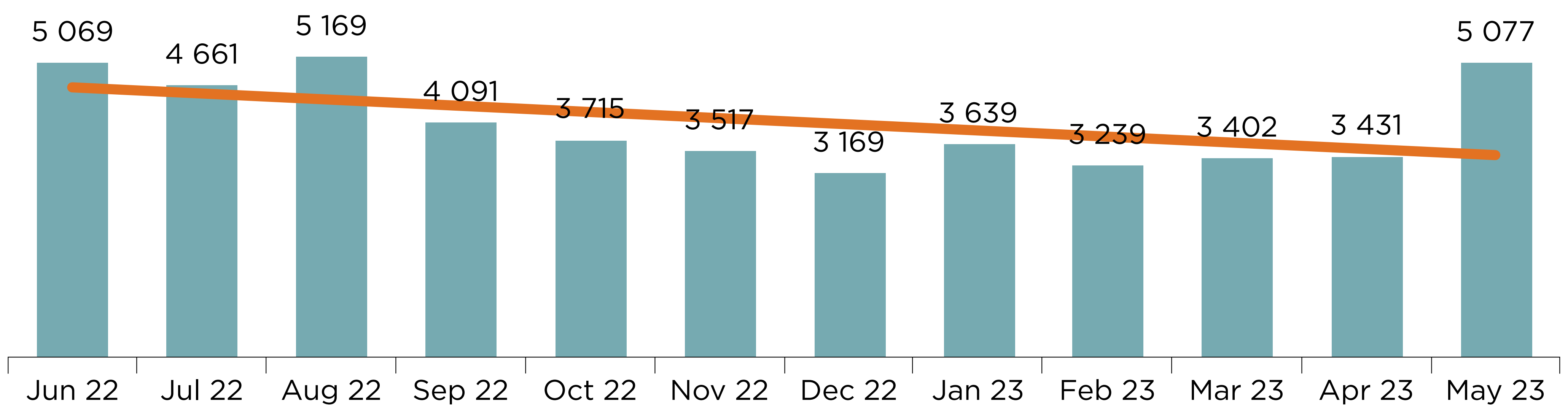
All the collected waste is transported to the V&A Waste Recovery and Recycling Centre for further sorting and disposal. This on-site facility is designed to handle up to 1,000 tonnes of waste each month.

Our waste disposal service provider meticulously records waste volumes and tracks all waste movements by category on-site. This data is reviewed monthly to aid in measuring the V&A's carbon footprint. For instance, in May 2023, the waste management report for the Cruise Terminal revealed that only 29% of our waste ended up in a landfill site.

Electricity usage

In our Cape Town offices, we benefit from a dedicated Transnet electricity supply area, ensuring that load shedding does not affect our operations. To promote energy conservation, we encourage our staff to turn off lights, air conditioners, and computers when leaving the office. Furthermore, we've implemented an automated power-off system for our central air conditioning unit, programmed to switch off at 19:00 daily, providing an extra layer of energy efficiency. Our electricity consumption for the 12-months ending May 2023 is illustrated below.

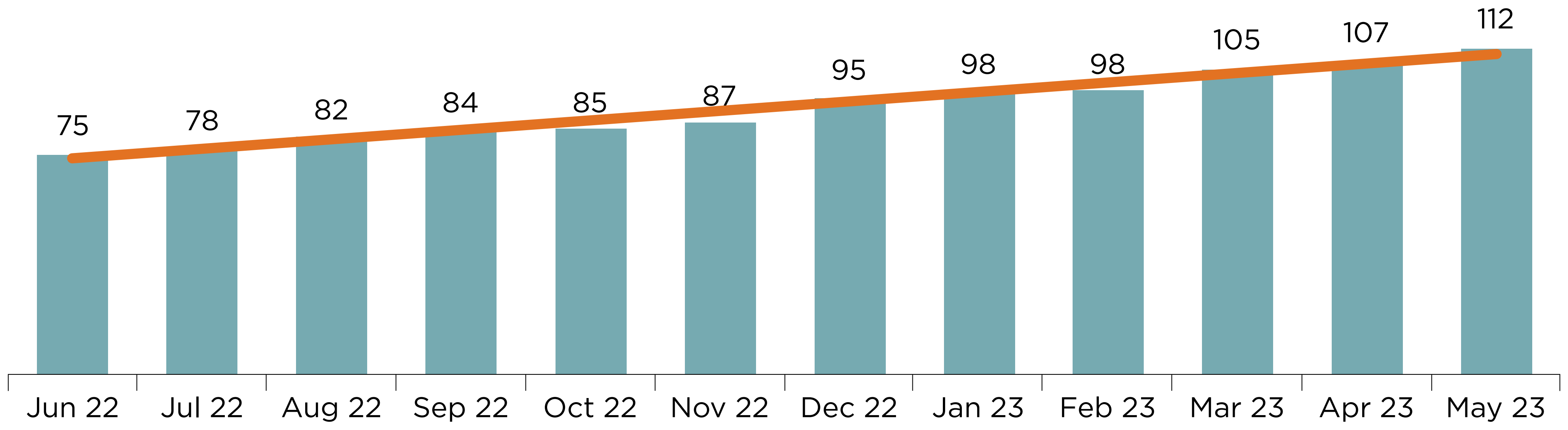
Electricity usage (kWh)



Water usage

Despite our ongoing endevours to reduce water consumption through practices such as utilising disposable crockery and employing a dishwasher for cutlery and remaining dishes, we have observed a noticeable rise in our water usage during the past year. This escalation can be attributed solely to the increasing number of staff members returning to the office from remote work.

Water consumption (Kl)



To address this concern, we have planned educational sessions involving all staff members to reinforce our commitment to managing water consumption effectively and prevent any further increases.

Carbon neutrality

We maintain our commitment to monitoring our carbon footprint, aligning with the international Greenhouse Gas (GHG) Protocol, which categorises emissions into three scopes:

- **Scope 1:** Direct GHG emissions, including self-generated energy
- **Scope 2:** Indirect GHG emissions stemming from our use of purchased electricity, heat, or steam
- **Scope 3:** Other indirect emissions, such as those from material and fuel extraction, outsourced activities, waste disposal, and more

Here are the carbon emissions calculated for Mergence Investment Managers' offices in Cape Town, Johannesburg, Windhoek, and Maseru for the 2021-2023 period:

Description	CO2e Kg
Scope 2: Office electricity usage	179 732
Scope 3: Flights	269 427
Scope 3: Staff commuting	51 812
Scope 3: Car rental	44 216
Total carbon emissions to be offset for 2020-2021 period	**545 187**

During this assessment, some noteworthy observations were made:

- A positive trend in airline travel, with a **15% year-on-year decrease in flights taken**.
- An **increase in staff presence in the office**, rising from an average of 1.67 days per week in the 21/22 year to 3.23 days per week in 22/23.

Furthermore, we partnered with Credible Carbon, a South African carbon registry facilitating carbon footprint reduction and poverty alleviation. Through them, we chose to offset our carbon emissions by acquiring credits from the Kuyasa project at R140 per ton.

Kuyasa, located in a disadvantaged area of Khayelitsha, Western Cape, is a low-carbon housing development. By 2014, the project had equipped 2,100 houses with solar water heaters (110-litre units), ceilings, and energy-efficient CFL lightbulbs. This initiative not only saves households money previously spent on coal-fired electricity and paraffin but also enhances indoor air quality and curbs greenhouse gas emissions.

The project's benefits extend to reduced household expenditure on coal-fired electricity, local job creation, decreased local air pollution leading to fewer respiratory illnesses, and a decline in accidents and property damage from fires. Carbon credit revenue primarily supports ongoing solar water heater maintenance. In 2021, some of the carbon revenue was allocated to support an Early Childhood Development project, involving the establishment of food gardens in the area.

Carbon Offset Project Kuyasa | Low-carbon Housing Development

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