

momentum
investments

Investing for impact

Momentum Investments Impact Fund range

Momentum Impact Fund
Momentum Alternative Energy Fund
Momentum Social Infrastructure Fund
Momentum Diversified
Infrastructure Fund

Signatory of:



Impact Investing

Impact investing is happening, and it is the beginning of what the future of investing holds. According to the Global Impact Investment Network (GIIN), the Impact Investment market has grown from \$25.4 billion in 2013 to \$715 billion in 2019.¹

Impact investing is an investment strategy that generates positive, measurable social and environmental impact, while also achieving acceptable financial returns. Impact investments provide capital to address the world's most pressing challenges in sectors such as sustainable agriculture, renewable energy, conservation, microfinance, and affordable and accessible basic services, including housing, healthcare, and education.

It is essential to emphasise that impact investing includes profit as one of its main objectives. Hence, impact investment does not trade off financial return for social or environmental effect, but instead aims to identify investment opportunities that combine them.

In other words, there is an explicit commitment to social and environmental impact goals while earning a market rate of return.

This key characteristic distinguishes impact investment from all other investment types classified on the investment spectrum.

We believe that impact investing is the responsible thing to do and a fundamental part of our commitment to delivering sustainable outcomes to clients. The improvement of society and the environment is vital if clients enjoy the financial returns delivered by their investments, and we will continue to direct our actions to achieve these outcomes.

A common starting point for implementing impact investing in practice is the United Nations' sustainable development goals (SDGs). The member states of the United Nations adopted the 17 SDGs with 169 targets in 2015 as part of the 2030 Agenda for Sustainable Development. These goals form part of an extensive globally coordinated action plan to end poverty and reduce inequality, while also protecting the planet, tackling climate change and spurring economic growth. The goals recognise that social and environmental issues affect everyone and thus apply to every country, irrespective of their 'developed' or 'developing' economic status.

United Nations 17 Sustainable Development Goals



Sustainable development embodies the idea of **doing well by doing good**. By incorporating social and environmental targets into their investment strategies, investors can align their impact objectives to the SDGs and track their contribution towards achieving these goals. Using metrics that reflect their effect on specific SDGs, investors can address how they are contributing to a sustainable and equitable future.

¹ ForexToStocks - Impact Investing, SRI and ESG investing: Market Trends, Data & Stats 2020

Momentum Investments' approach to Impact Investing

We have aligned our impact strategies with six of the SDGs to drive results:

- 1

3

GOOD HEALTH
AND WELL-BEING

To ensure healthy lives and promote well-being for all at all ages.

- 2

4

QUALITY
EDUCATION

Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all.

- 3

7

AFFORDABLE AND
CLEAN ENERGY

Ensure access to affordable, reliable, sustainable and modern energy for all.

- 4

8

DECENT WORK AND
ECONOMIC GROWTH

Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all.

- 5

9

INDUSTRY, INNOVATION
AND INFRASTRUCTURE

Build resilient infrastructure, promote inclusive and sustainable industrialisation and foster innovation.

- 6

13

CLIMATE
ACTION

Take urgent action to combat climate change and its impacts.

The Momentum Investments Impact fund range has incorporated sustainable investing principles and guidance throughout their investment cycles to make the achievement of the goals an intentional objective. That is, the principles have been **integrated into deal origination, due diligence, and investment selection** for the fund range.

Impact investments are assets that will achieve a positive impact while also generating acceptable financial returns. The Momentum Investments Impact Fund range aims to invest in impact assets which are mainly in the infrastructure and related sectors. These assets have attributes that make them attractive for long-term investors, and simultaneously have the measurable positive societal impact we would expect from impact investments.



Why Impact Investments should form part of your investment portfolio



Diversification benefits - the investments are more likely to be unlisted, private market assets, so they won't move in tandem with public market assets. Risk and return drivers are also different to public market assets. Assets in regulated industries provide stable cashflows even through times of economic weakness.



Alternate sources of return - there would typically be an illiquidity premium embedded into these assets, which a holder would be able to access over the long term. Additional returns to equity holders through balance sheet refinancing is also a common occurrence in infrastructure projects.



Inflation hedge - revenues generated by underlying investments are adjusted by an inflation factor, which benefits investors. In addition, concession agreements and other off-take agreements are long-term, meaning greater cash flow certainty.



Demonstrable positive impact in addition to financial returns - this investment would provide a physical infrastructure that would be of economic utility. There would be measurable outputs from each project in terms of positive societal impact.

Momentum Investments Impact Fund range

1 Momentum Impact Fund: This is the overarching portfolio, with three sub-funds. The funds are set up in a way that allows you maximum flexibility in a chosen area of focus. You can choose to invest at the top level with the Momentum Impact Fund, which will give you access to a portfolio of impact assets across the three sub-funds, or you could choose to focus only on one or two of the sub-funds.

2 Momentum Alternative Energy Fund:

The portfolio is a domestic impact portfolio that targets fundamental social and environmental challenges while also seeking a financial return. The portfolio invests in the equity and debt instruments of sustainable energy companies and projects. Sustainable energy companies are those which are engaged in alternative energy technologies including renewable energy technology; renewable energy developers; energy storage; energy efficiency; enabling energy infrastructure.



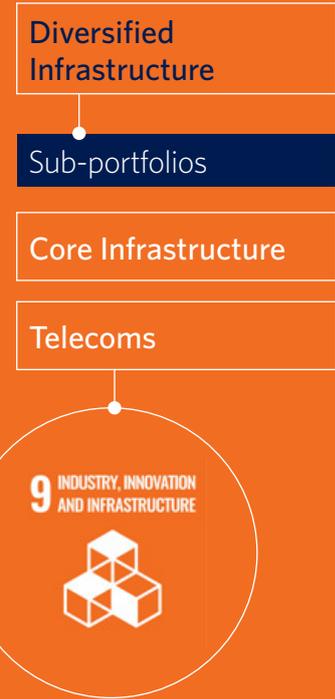
3 Momentum Social Infrastructure Fund:

This is a local impact portfolio, where the investment manager deploys capital to address pressing social challenges, while also seeking a financial return. Investments are aimed at supporting the provision of student housing in the higher education sector, quality affordable housing as well as rural and peri-urban retail shopping centres. The portfolio holds equity and debt instruments in operating companies and projects that develop and manage qualifying facilities. Each investment has measurable impact metrics, which the portfolio team measures, monitors and reports as part of the impact measurement and management framework.



4 Momentum Diversified Infrastructure Fund:

This is a impact portfolio that is invested in core infrastructure assets that provide essential services and have measurable impact outcomes. It provides diversification benefits and attractive financial returns including income and inflation protection. Underlying assets have stable and predictable cash flows as well as strong environmental, social and governance features. It is predominantly invested in South African as well as Southern African Development Community opportunities with positive social and environmental delivery objectives.



Momentum Alternative Energy Fund

This fund invests in alternate forms of energy, including renewable energy, to provide reliable, sustainable, and affordable energy solutions. The aim is to broaden access to clean, affordable, and sustainable energy to the South African market.

The fund targets investments with a healthy cash flow profile over the medium to long-term. This will typically be due to a power purchase agreement signed with Eskom. Currently, the obligations of Eskom under the Renewable Energy Independent Power Producer Procurement Programme (REIPPPP) are guaranteed by the South African government, which significantly lowers the credit risk. Over the medium term, Power Purchase Agreements (PPA) signed with industrial and other commercial off-takers who are of sufficiently good credit quality will be included.

Investable landscape

The Integrated Resource Plan (IRP) has plans for 6 000 MW of new solar PV and 14 400 MW of new wind power by 2030. The current bid window 5 of the REIPPPP calls for 1 600 MW of wind and 1 000 MW of solar PV. The intended separation of Eskom into three separate legal entities, the granting of municipalities the ability to enter into their own IPP arrangements, and the increased threshold to 100 MW will see an increase in energy trading arrangements.

These programs mean that substantial capital will be required to be invested in the energy sector over the medium term, which provides an attractive opportunity for long term investors.



Scan the QR Code to watch our video on a solar power plant that is part of the Momentum Alternative Energy Fund.



Momentum Social Infrastructure Fund

This fund aims to invest in social infrastructure projects. It invests in various types of accommodation facilities, which will have a positive impact on various communities. Some examples of these could include:

- Student accommodation
- Affordable housing
- Healthcare facilities

Investable landscape

There is a dire shortage of affordable, safe, and well-located **student accommodation**. Tertiary institutions' balance sheets are strained and cannot meet this need. The last number of years has seen several private sector providers enter the market to provide solutions for this, but the opportunity remains for significant further investment.

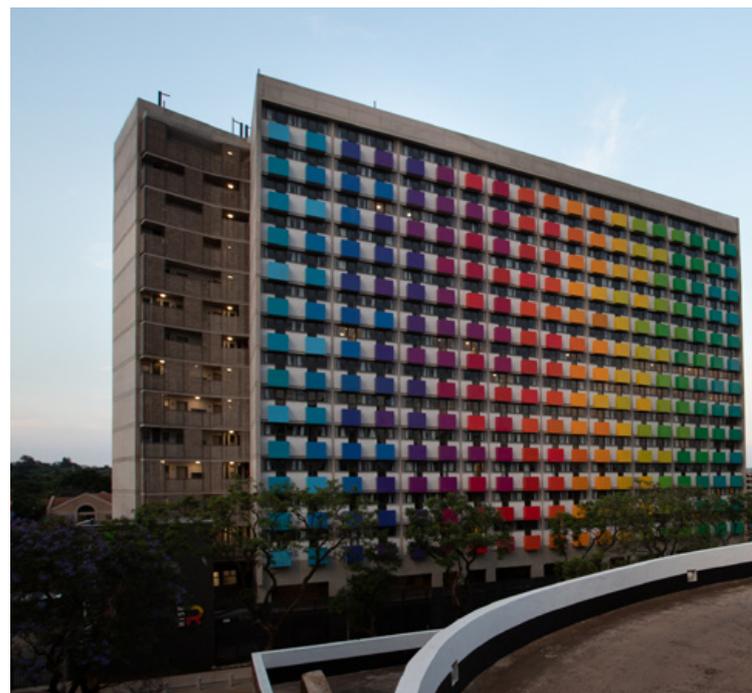
Credit risk needs to be carefully managed by optimally allocating accommodation between students funded by National Student Financial Aid Scheme (NSFAS) and those who are self-funded.

Affordable housing also presents an opportunity for private capital to meet a gap in the provision of accommodation. South Africa is a rapidly urbanising country, and up to 180 000 new housing units are needed to be built on an annual basis. The opportunity is to provide affordable accommodation for the so-called 'missing middle' who earn too much to be provided with a state-subsidised housing unit but too little to be able to afford a mortgage. Several providers are active in this sector that provide quality accommodation. For investors, this provides an investment with a good income yield, protection against inflation through annual adjustments and the opportunity for capital growth.

There is also the need for investment in the **healthcare sector**. Private healthcare providers are looking to set up day clinics as an alternative to their full-service facilities. While the quality of private healthcare in South Africa is high, this comes at a cost.



Scan the QR Code to watch our video on the student accommodation that is part of the Momentum Social Infrastructure Fund.



Momentum Diversified Infrastructure Fund

This fund aims to invest in broad and diversified economic infrastructure, including transport infrastructure, telecommunications and water infrastructure opportunities.

It invests in infrastructure assets that do not fall within the mandate of the other two funds. This will include exposure to infrastructure assets such as:

- Transport infrastructure
- Telecommunications and digital infrastructure
- Water and sanitation infrastructure

Investable landscape

The investment opportunity set for this fund includes sectors that are enablers of economic activity in the country. An efficient **transport system** will help commuters get to and from work safely and in an affordable manner and allows for the efficient transport of goods.

Further rollout of **digital infrastructure** enables more people to participate better in the economy through better delivery of education, lowers the cost of seeking employment, and broadly lowers the cost of doing business.

Improved **water and sanitation** infrastructure will lead to better health outcomes for the population. South Africa is a water-scarce country, and the resource needs to be utilised as such.

Re-use of wastewater and industrial quality water will mean there's more potable water available for human consumption. Fixing leaks in the distribution infrastructure will reduce the current significant amount of water that gets lost that way.

These investments all present potentially attractive opportunities for long-term investors.



Community Investment Ventures Holdings (CIVH)

Our investment in Community Investment Ventures Holdings (CIVH) forms part of the Diversified Infrastructure fund. We have been investors in Community Investment Ventures since 2009. After the most recent financial year-end, we have invested a further amount of R50 million as part of a rights issue Momentum Metropolitan was undertaking to more optimally structure its balance sheet and position it for further growth.

CIVH invests in 2 main companies, Dark Fibre Africa (DFA) and Vumatel that focus on fibre infrastructure networks and internet service providers. DFA has successfully piloted lower cost uncapped fibre packages in certain neighbourhoods, including Soweto and Mitchell's Plain, and is now expanding the rollout of this. This is done on a prepaid basis. Vumatel has a strategy of connecting schools for free where their infrastructure passes the school. So far, it has connected more than 300 schools with 1Gbps fibre connectivity.

Performance expectations

The **Momentum Impact Fund** targets a return of CPI+6% over a rolling three-year basis. Most of the investments would include annual CPI related adjustments to their revenues.

The **Momentum Alternative Energy Fund** invests in transactions earning CPI+6%. These are long-term investments of at least 6 years.

The **Momentum Social Infrastructure Fund** invests in transactions earning CPI+6%. These are long-term investments of at least 5 years.

The **Momentum Diversified Infrastructure Fund** invests in transactions earning CPI+6%. These are long-term investments of at least 5 years.

Opportunities we are currently busy with

Negotiating and concluding transactions in the unlisted space can take an extended period. That's why it is important to always build up a steady pipeline of deals. Access to deal flow is key for a fund of this nature to ensure that assets are invested in attractive opportunities. The Momentum Alternative Investments team has significant experience in the private markets space and have developed good relationships with several parties in the industry. As part of a large listed financial services group, Momentum Metropolitan Holdings, we are often consulted on opportunities by our colleagues in Balance Sheet Management and from elsewhere in the group.

We are working on a number of transactions which are imminent in the renewable energy space. These are smaller, but several larger transactions are likely during 2022.

For the social infrastructure fund, development is commencing on a few student accommodation projects. This will see requests for funding coming through. A portfolio of affordable housing projects is also being considered for investment, which could require a meaningful amount of capital.

Based on the above opportunities, investment capital of R300-R500 million is possible during 2022. Further work is being done to increase the pipeline of investable transactions.

Fees

The current fee offering is 1.25%. This is a flat fee with no performance element.

Legal Structure

The funds are set up as on-balance-sheet products. Clients would access the products via a policy agreement. Due to the complexity in administration, the funds are not available on a segregated basis and will only be considered for large clients.

The funds are all open-ended, so they will include restrictions on liquidity. These are long-term investments, so any client considering this for investment should have an investment horizon of at least three to five years.



Liquidity management

The open-ended nature of the portfolios optimises returns for clients as the portfolios are not a forced seller of assets at any time, and investors can therefore benefit from the illiquidity premium embedded in these investments. The portfolio will also have a mix of assets with various vintages, referring to how long we have been invested in the asset. Assets of similar vintage display similar performance characteristics, so a mix of vintages is good for diversification, lowering risk and ensuring a steady flow of portfolio income.

Investors should understand that the portfolios are intended for the longer-term investor and that the underlying investments are unlisted and illiquid.

Where some investments may need to be sold to facilitate early exits, there is a possibility that the full valuation of the asset may not be realised.

Exit from investments

The investments in the portfolios are intended to be unlisted private market investments. The underlying portfolio investments could take various forms, which will have an influence over how we exit from them:

- Concession agreements – these are limited life projects (typically 20-30 years). The concessionaire makes returns through the life of the concession by means of dividends and returns the asset at the end of the concession period for nominal value. In these types of investments, all the investment returns would be received in the form of dividends. There is an active secondary market for infrastructure equity investments. Additional returns to investors could be in the form of balance sheet refinancing.
- Renewable Energy assets – under the REIPPP, these companies have Power Purchase Agreements with Eskom. Investment returns are generated during this period from dividends. Again, there's an active secondary market for these investments.
- Direct equity in an unlisted company – in these types of investments, returns are in the form of dividends and capital growth. Potential exit options include put options, selling to another shareholder, and tag along clauses.

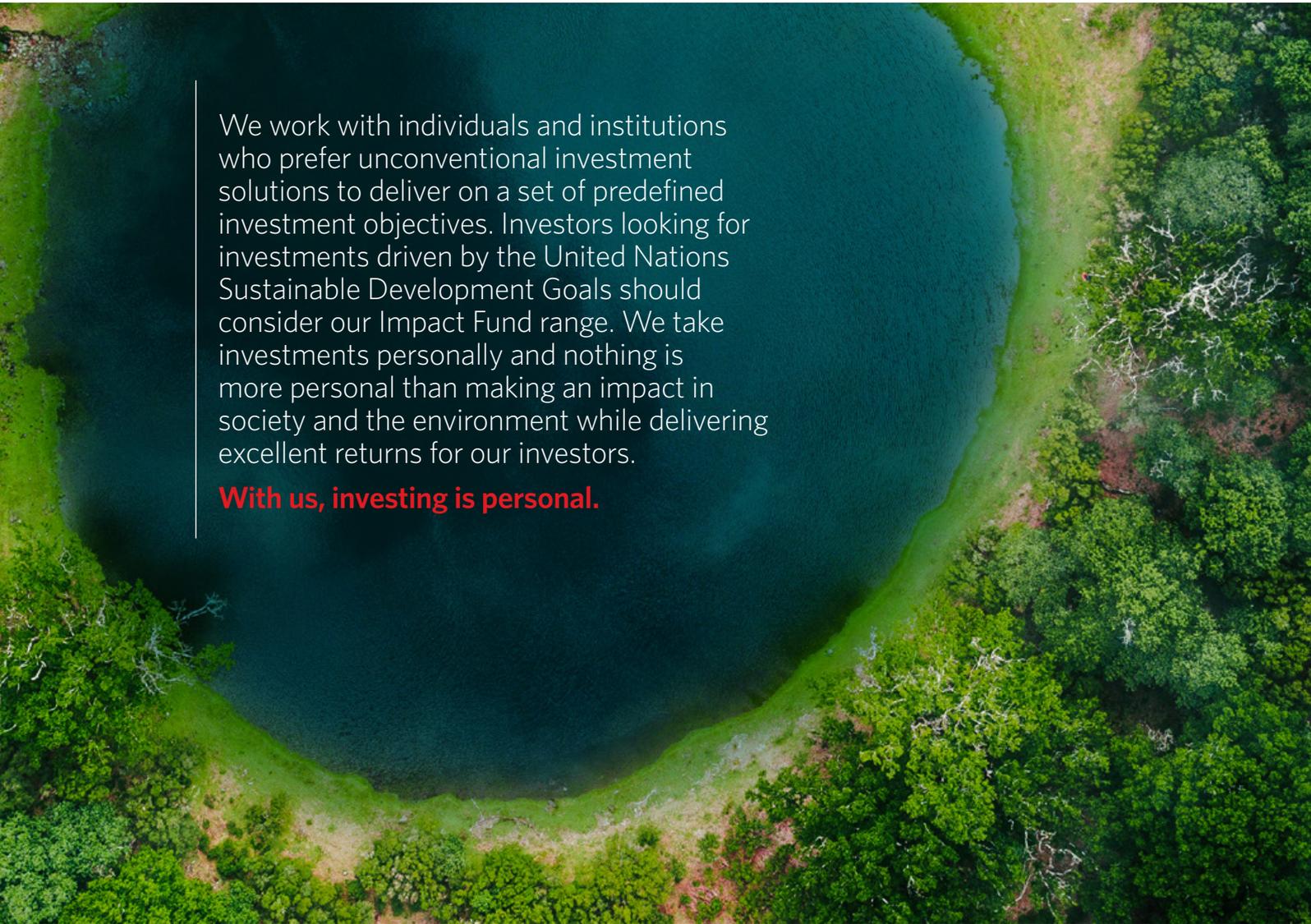
Investment Restrictions

The fund may invest up to 100% of its assets in South Africa. A maximum of 30% of fund assets could be invested in other African countries outside South Africa.

It is not the intention of the fund to invest in listed assets. A maximum of 30% of the fund could be invested into listed infrastructure assets.

Valuations

The investments in the fund are intended to be unlisted private market investments. As such, valuations of the underlying investments will take place mostly quarterly. We will aim as far as possible to obtain independent valuations from third parties or our co-investment partners. Methodologies used to value the investments will comply with IPEV guidelines and could include discounted cashflows, PE ratios, and price to book. We will ensure an appropriate and consistent valuation methodology is adopted, dependent on what is most appropriate for each asset.



We work with individuals and institutions who prefer unconventional investment solutions to deliver on a set of predefined investment objectives. Investors looking for investments driven by the United Nations Sustainable Development Goals should consider our Impact Fund range. We take investments personally and nothing is more personal than making an impact in society and the environment while delivering excellent returns for our investors.

With us, investing is personal.

momentum

investments

www.momentum.co.za

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