PROVIDING ASSURANCE FOR INVESTORS CONSIDERING CREDIT INVESTMENTS WITH A SOCIAL IMPACT

SIGNATORY TYPE

Investment Manager

OPERATING REGION

Sub-Saharan Africa

ASSETS UNDER MANAGEMENT

R5.2 billion (Atlantic Credit Enhanced Fund: R650 million capital committed with R420 million invested amongst eight investments (target closing R680 million))

Atlantic Asset Management (Atlantic) is an asset management house specialising in income-related investments. The Atlantic Credit Enhanced Fund focuses on unlisted, credit investments that have a positive socio-economic impact within Sub-Saharan Africa. The fund targets a stable return of 3% over inflation by investing in investment grade, unlisted debt and aims to provide a measurable, positive impact on society through its investments. Typically, the fund provides established and growing SMEs and intermediaries with expansion capital that in turn provides employment opportunities for people at the lowest socio-economic rung to be included in the job market.

The PRI's Fixed Income Case Study series highlights examples of interesting and innovative approaches to responsible investment. Written by fixed income practitioners from around the world, the case studies cover topics such as integrating ESG, negative and positive screening, thematic investment and engagement.

Sharing these examples will enable investors to collectively build a concept of emerging good practice. The PRI aims to publish a set of these short pieces every quarter. If you would like to learn more or contribute your own case study please contact us.

WHY OFFER ASSURANCE FOR INVESTORS CONSIDERING CREDIT INVESTMENTS WITH A SOCIAL IMPACT?

Asset owners are often concerned about the broader social circumstances to which their members may retire into and wish to address those issues, without compromising their capital.

South Africa's potential as a nation is limited by high unemployment and because there are so many young South Africans for whom finding a first job is an almost insurmountable hurdle: the unemployment rate is at a ten-year high of 26.4%, with youth unemployment estimated to be in excess of 60%.

Investment in established and growing businesses (typically net job creators) is crucial as they are known to be the driving force behind economic growth. They expand an economy by providing a broader range of goods and services, and this additional competition benefits the market as a whole. They foster an environment of entrepreneurship that builds a strong middle class, and has the potential to transform the economic infrastructure of a nation.

However, unlisted or socially responsible investments are often, incorrectly, perceived by asset owners (mainly pension funds) to carry undue risk that would push the investment risk beyond their tolerance threshold.

HOW WE PROVIDE ASSURANCE FOR INVESTORS CONSIDERING CREDIT INVESTMENTS WITH A SOCIAL IMPACT

The South African government, looking to support private sector innovation that would create jobs and foster more inclusive economic growth, launched an initiative in 2011 to provide matched funding to any entity that proposed innovative solutions to creating jobs in the country.

In 2013, we proposed partnering with the government to create a guarantee mechanism to provide a first loss capital guarantee of up to 50% over each underlying investment, with a cumulative cap. The mechanism we created, based on global best practice, provides comfort to asset owners who are looking to diversify their asset base in an impact investment fund, but are reticent to do so because of the perceived risk assumptions. It is the first ever government-backed portfolio guarantee in South Africa.

The mechanism sits independently of Atlantic. Underlying investments within the Atlantic Credit Enhanced Fund are placed under guarantee and in the event of a default, the guarantee will pay out up to a contracted limit.

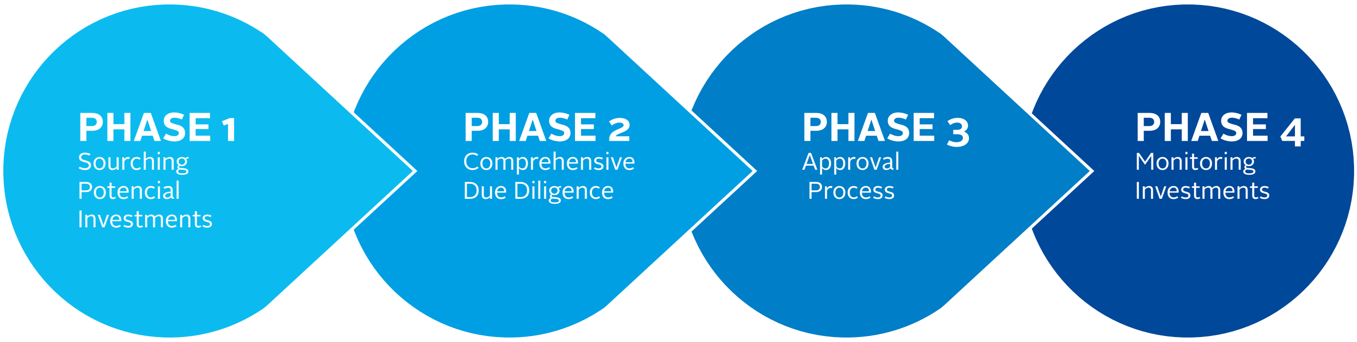
The Atlantic Credit Enhanced Fund was launched in November 2014 with the government-backed guarantee mechanism in place. To date, the fund has raised R650 million from four major institutional investors and invested R420 million across eight job-creating holdings. Our due diligence process is built on considering environmental, social and governance (ESG) factors, with particular emphasis on governance, and social.

The fund is listed on the Global Impact Investment Network (GIIN)'s Impact Base. Impact Base is GIIN's database of screened funds that aims to connect impact-motivated Investors and impact-orientated funds.

INVESTORS COMING INTO THE FUND

To date, four institutional investors have capitalised the Atlantic Credit Enhanced Fund. The fund returns comfortably ahead of its benchmark of 3% over inflation, with a cash-like return signature and low volatility over time. While there is no lock-in for investors, they are encouraged to remain invested for at least three-to-five years. This period mirrors the underlying loan agreements to investees.

1 GIIN focuses on increasing the scale and effectiveness of impact investing. It was launched at the 2009 Clinton Global Initiative and is based in New York.



Atlantic develops a pipeline of investable opportunities based on pre-screening criteria, which include the potential target having up to five years of audited financial statements and a record of successful financial management.

Potential investments are then subjected to Atlantic's due diligence process. Analysts present the credit report, term sheets and loan agreement for each investment to the Credit Committee. ESG factors are integrated within the due diligence process, with the initial emphasis on governance, on the basis that good governance is a strong determinant of the willingness of the investee to repay, before the capacity to repay is considered.

INVESTMENT EXAMPLE: SMALL ENTERPRISE FOUNDATION

The Atlantic Credit Enhanced Fund has invested R30 million in the Small Enterprise Foundation (SEF), a not-for-profit, microfinance institution working towards eradicating poverty by creating a supportive environment where credit and savings services foster sustainable income generation, job creation and social empowerment.

Over the life of the investment we expect this investment to create in excess of 3,000 new micro-enterprise jobs. Increased financial inclusion has been recognised as crucial to encouraging home ownership, household savings plans and the expansion of small business as avenues for job creation in South Africa. SEF uses the group lending model pioneered by Grameen Bank in Bangladesh.

Since inception, SEF has disbursed in excess of R3bn of loans with a bad debt ratio of less than 1% which is significantly lower than that of mainstream banks in South Africa.