FROM PHILANTHROPY TO IMPACT INVESTING: SHIFTING MINDSETS IN SOUTH AFRICA

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Abstract

This paper contributes to the body of knowledge on impact investing in South Africa by defining the phenomenon, outlining the relationship between philanthropy, responsible investing (RI) and impact investing, and discussing the moral roots and historical development of these three concepts. Attention is also given to the current status of philanthropy, RI and impact investing internationally and locally. A review of 53 local RI funds established over the period 1 June 1992 to 31 December 2010 reveal that the majority have an impact investing focus, either on its own or in combination with other RI strategies. The challenges in stimulating growth in impact investing in South Africa are highlighted and suggestions provided to address these challenges.

Keywords: Philanthropy, Investing, Responsible Investing, Impact Investing

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Introduction

"We must appreciate that all over the world, right down the centuries, there have been great religions that have encouraged the idea of giving – of fighting poverty and of promoting the equality of human beings – whatever their background, whatever their political beliefs. That spirit has lived not only in the world, but in South Africa as well." Nelson Mandela (quoted in Kuljian, 2001).

'Philanthropy' is not a word that has much positive resonance for many South Africans. It speaks of affluence beyond the average person's reality and is largely viewed as the terrain of the exceptionally wealthy. For the very poor, it carries unwelcome images of the beneficent few who have much, and who bestow 'alms' on the poor. The fact that the majority of South Africans do not relate to the term 'philanthropy' may be best evidenced by the lack of an equivalent term in many of the official South African languages.

The term 'charity' has similar connotations with respect to the distribution of 'gifts' from those who have to those who do not have. Perhaps it is the religious imperative that it is important to be charitable in one's life, irrespective of one's personal circumstances, which makes this term somewhat more acceptable. Be it as it may, neither term seems to sit comfortably in South Africa.

As a society, South Africa needs better solutions to its most serious problems. Poverty, environmental degradation, HIV/AIDS, and inadequate education remain prevalent even as income rises and the private sector flourishes. Responsibility for the solution of these problems has traditionally been placed with the government, along with whatever help it can marshal from development aid and grant-dependent non-profit organisations.

However, since the turn of the millennium, a new sector has emerged at the intersection of private enterprise and non-profit service delivery, namely the so-called impact investing sector. Impact investors actively invest capital in businesses and funds that generate social and/or environmental good and a range of returns (Investing for social and environmental impact, 2009:7). Impact investments are only authentic when the social and/or environmental benefits are intentional.

Impact investing aims to create a more inclusive capital market, one in which market-based as opposed to aid-based solutions can be leveraged to address societal and environmental problems. An impact capital market would create, by necessity and structural design, a more effective, efficient and accountable development sector.

Nobel prize winner and founder of the Grameen Bank, Muhammad Yunus, sparked global interest in impact investing by stating that "people can change their own lives, provided they have the right kind of institutional support. They are not asking for charity; charity is no solution to poverty" (The Nobel Peace Prize 2006, 2006). The global financial crisis has further shaken investors' confidence in established market ideologies and has alerted them to the impact their investments are having. Impact investing thus offers investors an opportunity to measure social, environmental and financial returns, and presents them with a compelling alternative to charity (The future of investment - Sustainable index investing, 2010:18).

Problem statement and research objectives

Despite the role that impact investing can play in addressing developmental and environmental challenges, confusion exists regarding the relationship between grant-making (henceforth called philanthropy), responsible investing (RI), and impact investing. Although reference is often made to socially responsible investing (SRI) in the South African context, the authors prefer to use the more contemporary term 'responsible investing' (RI). Although no universally accepted definition exists for RI, it generally refers to the integration of ethical as well as environmental, social and corporate governance (ESG) considerations into investment analysis and ownership practices. In the European literature, reference is increasingly being made to sustainability investing. This term covers a range of concepts and niche asset classes, from carbon trading and cleantech investment to the use of ESG information in portfolio construction and voting policies (Siddy, 2009:2). The term 'sustainable investing' is, however, not widely used in South Africa as of yet.

The purpose of this study is thus to shed light on the phenomenon of impact investing, with particular reference to the South African context. In this study attention will be given to:

- the definition of impact investing;
- the relationship between philanthropy, RI, and impact investing;
- the moral roots and historical development of philanthropy, RI, and impact investing;
- the current status of philanthropy, RI, and impact investing internationally and in South Africa;
- the challenges to stimulate growth in impact investing in South Africa; and
- suggestions to address these challenges.

Research design and methodology

This study is based on an extensive review of secondary sources, personal communication with experts in the field as well as the views expressed by delegates attending the 2010 conference of the South African Network for Impact Investing. The research furthermore draws on the findings of a 2010 study into the feasibility of a dedicated impact investing exchange in South Africa undertaken by the GreaterGood group, the South African Network for Impact Investing, and the Johannesburg Securities Exchange (JSE).

This paper will make a meaningful contribution to the limited body of knowledge on impact investing in South Africa.

Defining impact investing

A myriad of terms are used to describe organisations that seek to provide more than mere financial returns, the investors who finance them, and the field of study in general. In this study, the authors will use the term 'impact investing' to refer to investments in a social and/or environmental purpose-driven company, organisation or enterprise that addresses a social and/or environmental cause by applying market-based strategies in sustainable business models that can deploy and provide both financial returns and social and/or environmental impact. The focus is thus on investments in revenue-generating social enterprises and social-purpose businesses (see Figure 1 and Table 1 for a description of these two terms).

<table>
<tr><td>Primary driver is to create social value</td><td colspan="7">← Organisations can create "blended" social and financial value →</td><td>Primary driver is to create financial value</td></tr>
<tr><td colspan="6">SOCIAL-PURPOSE ORGANISATIONS</td><td colspan="3">COMMERCIAL-PURPOSE ORGANISATIONS</td></tr>
<tr><td colspan="2">Charities</td><td colspan="3">Revenue generating social enterprises</td><td>Social-purpose businesses</td><td colspan="3">Traditional businesses</td></tr>
<tr><td>Grants only: no trading, includes traditional philanthropy</td><td>Trading, revenues and grants</td><td>Potentially sustainable social enterprise (>75% in trading revenues)</td><td>Break-even: all income from trading revenues</td><td>Profitable social enterprise: surplus reinvested (no dividends to shareholders)</td><td>Profitable social enterprise: surplus profit distribution</td><td>Corporate social investment (CSI) company</td><td>Company allocates a percentage of profits to charity through its CSI programmes</td><td>Mainstream market company</td></tr>
<tr><td colspan="2">← Impact only →</td><td colspan="4">← Impact first →</td><td colspan="3">← Finance first →</td></tr>
<tr><td colspan="2"></td><td colspan="4">← Venture philanthropy →</td><td colspan="3"></td></tr>
</table>

Source: Adapted from Oostlander (2010)

Figure 1: The impact investment continuum

Table 1: A detailed analysis of the impact investment continuum

<table>
<tr><th rowspan="2"></th><th colspan="3">SOCIAL-PURPOSE ORGANISATIONS</th><th colspan="2">COMMERCIAL-PURPOSE ORGANISATIONS</th></tr>
<tr><th>Charities</th><th>Revenue generating social enterprises</th><th>Social-purpose businesses</th><th colspan="2">Traditional businesses</th></tr>
<tr><td>Return</td><td>Social return</td><td colspan="2">Social and financial return</td><td colspan="2">Financial return</td></tr>
<tr><td>Performance measurement</td><td>Social measures</td><td colspan="2">Social and financial measures</td><td colspan="2">Financial measures</td></tr>
<tr><td>Typical investment type</td><td>Grants</td><td colspan="2">Debt & Private equity</td><td colspan="2">Debt & Equity</td></tr>
<tr><td>Platforms</td><td>Online giving platforms and off-line donations</td><td colspan="2">Dedicated fund managers and individual deal makers</td><td colspan="2">Stock markets and exchanges</td></tr>
<tr><td>Transaction costs</td><td>About 30%</td><td colspan="2">About 15%</td><td colspan="2">About 5 %</td></tr>
<tr><td rowspan="2">Market size</td><td rowspan="2">About $300 billion</td><td colspan="2" rowspan="2">About $500 billion (+/- 1% of assets currently under management globally)</td><td>Financial capital markets</td><td>Responsible investing (RI)</td></tr>
<tr><td>About $111.5 trillion</td><td>About $7.7 trillion</td></tr>
</table>

Adapted from: Markets for Good (2010)

The impact investing market brings together an assortment of players with a range of motivations. On the one hand there are banks and other financial institutions responding to their clients' needs and fulfilling their social responsibilities along with foundations, individuals and family trusts expressing their values through their investments. On the other hand, there are inspired social entrepreneurs and fund managers who develop impact investing offerings and opportunities (Bugg-Levine and Goldstein, 2009:18). It should be noted that social-purpose organisations can be (and often are) managed according to traditional business models. Their primary mission should, however, be to uphold a particular social and/or environmental cause (Chance, 2010).

The micro finance industry is an excellent example in this regard. A study across 54 countries found that micro finance is increasingly viewed by both providers and investors as a commercially viable industry (Global microscope on the microfinance business environment 2010, 2010). This is also the case in South Africa and can be ascribed to the fact that clients not only have access to capital, but also to a range of services beyond microcredit (A guide to finance for social enterprises in South Africa, 2011). Other successful social enterprises in South Africa operate in the health, energy, education, traditional handcraft, child-care, agriculture and eco-tourism sectors (Finance for social entrepreneurs, 2011).

An analysis of Table 1 seems to suggest that impact investing is distinct from RI. The authors are of the opinion that this might be the case in developed economies where RI mainly takes on the form of screening and shareholder activism. North American authors such as Weber (2010) and Sosa (2010) therefore argue that impact investments represent a separate asset class and one for which there is "true moral hunger".

Given the unique socio-political history of South Africa, RI is, however, seen by many local market participants as consisting of screening, shareholder activism and impact investing also called cause-based or targeted investing (Viviers, Bosch, Smit and Buijs, 2009:2). From a regulatory point of view, it is imperative that impact investments in South Africa is not seen as a separate, alternative asset class (Pension plan: apartheid throwback?, 2010). Impact investments can serve as vehicles through which the local pension fund industry can channel more capital into areas of national priorities (such as infrastructure development. In the new growth path for South Africa announced in November 2010, a great deal of emphasis was placed on infrastructure development and the creation of employment opportunities in agriculture, tourism and other high-level services, as well as the 'green' economy (The new growth path: the framework, 2010).

Whether or not impact investing is regarded as a separate asset class, it is clear that a need exists to make larger volumes of capital available to developmental and environmental causes, particularly in emerging economies. Sosa (2010) highlights the need to move away from niche RI to tap into the trillion dollar pot of traditional investment capital: "The world has never been more open to supporting social entrepreneurship and social entrepreneurs. With global knowledge that old school aid models are broken and that funding for public services is shockingly low, societies are looking to social entrepreneurs to skillfully leverage the capitalist market to solve more social problems."

Impact investors should, however, be mindful of the fact that they are entering a market for 'patient capital' – a type of capital investment that accepts a longer time horizon for maturation, supports higher risk tolerance and has as its goal maximising social and environmental returns alongside financial returns. Unlike pure philanthropy, 'patient capital' is usually a debt or equity replacement, expecting payment or an exit only within five to seven years (Sosa, 2010).

Two groups of investors are driving growth in the global impact investing market, namely traditional philanthropists and high-net-worth individuals (Kropp, 2010; Bugg-Levine and Goldstein, 2009:18). Several sources indicate that traditional philanthropists (including foundations and family trusts) are increasingly integrating their grant-making activities with impact (or mission-related) investing (Capital markets with a conscience - Social investing grows up, 2009; Olsen and Tasch, 2003:5). High-net-worth individuals are also moving away from philanthropy as they are more interested in where their money goes. A recent study in Europe showed that high-net-worth individuals are increasingly looking towards RI in general and impact investment in particular, to combine their financial aspirations and sustainability interests (High-net-worth individuals and sustainable investment 2010 survey, 2010:6).

To understand the rationale for this mindset shift, an investigation into the moral roots and historical development of philanthropy, RI and impact investing is required. The following section will thus focus on society's views of morality, wealth and giving during the pre-capitalistic era (circa 2000BC to 1500AD) and the capitalistic era (1500AD to the present).

The moral roots and historical development of philanthropy, RI and impact investing

During the pre-capitalistic era two dominant forces shaped the Western world's view of morality and wealth. These were the Judeo-Christian religion, and the espousal of rational thought introduced by the ancient Greeks. The Hebrews believed that God bestowed moral freedom on all giving them the capacity and personal responsibility to choose between good and evil (Perry, 1993:29). Based on Hebrew teachings, Jesus Christ emphasised the dignity of the individual and the need to express mercy towards the poor.

Akin with the Hebrews, the ancient Greeks asserted that individuals are responsible for their own behaviour and that wealth was nothing to be proud of, unless it could be employed for the benefit of the common good. Makedon (1995) argues that there were undoubtedly many ancient Greeks who wallowed in the accumulation of their possessions, but that they did not represent the acknowledged ideal of the time. He states that those individuals who sought wealth or power for their own sake were often "…shunned, stumped out, or hated as the occasion may allow".

Observing the adverse effects of affluence on morality, Stoic philosophers (circa 500BC) warned 'wise individuals' not to pursue wealth, power or fame, for "…the pursuit thereof would only provoke anxiety" (Makedon, 1995). The apostle Paul, living in the first century AD, likewise cautioned young Christians that the love of money is the root of all kinds of evil (Spirit Filled Life Bible: 1 Timothy 6:10, 1991).

The aforementioned views underpinned much of Western morality for centuries, but were slowly replaced by a growing secular outlook from the late Middle Ages onwards (circa 1500AD to the present). Several Catholic bankers and merchants in Italy, for example, profited from usury - a practice utterly condemned by the Church. However, instead of cutting themselves off from the Church, many merely kept a 'conscience account' for making contributions to charitable causes (Hale, 1966:16).

Stevenson (2005:60) remarks that the Reformation of the 16th century laid the foundation of early capitalism as it gave people a religious obligation to pursue wealth as well as the self-discipline to do so. Convinced that prosperity was God's blessing and poverty His curse, Calvinists had a spiritual inducement to labour industriously. They viewed hard work, diligence, dutifulness, efficiency, prudence, and a disdain for pleasurable pursuits as necessary traits for businessmen to succeed in a highly competitive world.

Therefore, by the time of the Industrial Revolution (circa 1760AD) the exemplary Christian was no longer a selfless saint, but rather an enterprising businessman, motivated by self-interest. Unfortunately, the Protestant values of work, thrift and prudence eventually led to harsh individualism, materialism, selfishness and callousness (Perry, 1993:337). Liberal economic thought during this period gave rise to the laissez-faire approach which was characterised by governments' abstention from interference in trade and commerce (Bosch, Tait and Venter, 2006:729). Adam Smith (1732-1790), a leading liberal of his time, maintained that a free economy, in which private enterprise was unimpeded by government regulations, was as important as political freedom for the wellbeing of the individual and the community. Liberalists believed that when people acted from self-interest (as espoused by Calvinist doctrine), they worked harder and achieved more (Stevenson, 2005:189). Due to their belief that individuals were responsible for their own misfortunes, liberals were often unmoved by the suffering of the poor (Hobsbawm, 1962:251).

Criticism was, however, mounting against the 'accepted' business practices of child labour and slavery as manifested in early capitalism. Religious groups, such as the Quakers, who held that the light of God's truth worked in every human being, vehemently opposed slavery. They subsequently refrained from owning slaves or investing in businesses associated with the slave trade. As the Quakers in the United States (US) furthermore shunned enterprises associated with gambling and the production and/or sale of alcohol and weapons, they effectively became the first 'modern' responsible investors (Schueth, 2003:189).

The French Revolution of 1789 marked a significant turning point in Western morality. The French Declaration of the Rights of Man and of the Citizen emphasised the natural rights of individuals and sanctioned resistance against governments that deprived individuals of these rights (Perry, 1993:310).

Between 1860 and 1880 the laissez-faire policy reached its peak and resistance against free capitalism started to set in (Bosch et al., 2006:729). Revolutionaries such as Marx (1818-1883) and Lenin (1870-1924) fervently opposed free capitalism, claiming that it does not only produce material poverty, but also poverty of the human spirit. Their ideologies eventually ignited the Russian revolution of 1917.

Perry (1993:263) points out that World War I brought about a change in the social consciousness of the West, calling into question the established norms of the time. Sceptical of core liberal beliefs such as the essential goodness of human nature, the primacy of reason, the efficacy of science and the inevitability of progress, many scholars turned back to Christianity in an attempt to explain the moral crises of the 20th century. In 1933, Dawson, a Catholic theologian, wrote: "…if our civilisation is to recover its vitality, or even to survive, it must cease to neglect its spiritual roots and must realise that religion is not a matter of personal sentiment which has nothing to do with the objective realities of society, but is, on the contrary, the very heart of social life and the root of every living creature" (Mandala, 2003:23).

Views like these of Dawson gave rise to the first screened retail funds in the US. Launched in 1928, the Pioneer Fund was the first of its kind and catered specifically for the needs of religious investors by employing a range of exclusionary 'sin' screens (Schwartz, 2003:196).

At the height of the Great Depression in the 1930s, US president Franklin D. Roosevelt was reported as saying: "…We have always known that heedless self-interest was bad morals; we know now that it is also bad economics" (A brief history of socially responsible investing, 1998). The wisdom of this statement was, however, rapidly forgotten when, after World War II, most Westerners once more pursued profit maximisation at all costs.

In the period following World War II, philosophers and theologians increasingly criticised Western society for its espousal of secular rationality and argued that 'reason without God' degenerates into selfish competition, domination, exploitation and unrestrained hedonism (Stevenson, 2005:203). To gain social legitimacy, many corporations thus adopted a 'poor box' version of philanthropy. According to Olsen and Tasch (2003:4), this type of philanthropy is built on the premise that, after wealth is maximised, a portion of it can be deployed to remedy social and environmental problems. It could be argued that corporate social investment (CSI) in its current form (see Figure 1 and Table 1) is based on the same premise.

The prevailing global political climate of the 1960s and 1970s sparked growing interest in RI, called 'social investing' at the time. Issues emerging from the Cold War, anti-Vietnam sentiments, and the civil rights and women's liberation movements, fostered a greater sensitivity towards investors about ethical and social considerations. During the 1970s, labour issues as well as anti-nuclear and anti-South Africa attitudes evolved to take centre stage in the RI arena (Guay, Doh and Sinclair, 2004:126; Mandala, 2003:15).

Environmental disasters in the 1980s, such as the explosion at the Chernobyl nuclear reactor in the Ukraine in 1986, the Exxon Valdez oil spill in the Gulf of Alaska in 1989, as well as vast amounts of new information about global warming and ozone depletion shifted the attention of the global investment community to environmental concerns. As a result, a large number of 'green' funds came into existence in North America and Europe (White, 1995:326).

During the late 1980s and early 1990s, a global concern for human rights started to feature prominently on the RI agenda (Schueth, 2003:190). This period also saw the establishment of the first RI funds in South Africa, as trade unions refused to invest their members' contributions in businesses that were supportive of the apartheid policies of the time or those that practised poor industrial relations (De Cleene and Sonnenberg, 2004:15). The new millennium saw a spate of corporate scandals which rekindled the debate on corporate governance, initially introduced by Berle and Means (1932).

The growing recognition of the impact of environmental, social and corporate governance (ESG) factors on long-term financial performance gave rise to the publication of the Freshfields Bruckhaus Deringer Report in 2005. This report presented institutional investors with a legal framework for the integration of ESG considerations into investment analysis and ownership practices. Further awareness of institutional investors' role in shaping corporate policies and practices was created with the launch of the United Nations Principles for Responsible Investment in 2006. Since the introduction of the Principles, 750 asset owners, asset managers and service providers in 40 countries have become signatories. By doing so, they acknowledge the duty to act in the best long-term interests of their beneficiaries, the notion that ESG issues can affect the long-term performance of investment portfolios, and that a re-alignment of investment objectives with broader societal goals is necessary.

A number of authors claim that the global financial crisis between 2007 and 2009 provided significant impetus to the RI movement (Financial innovation and the poor, 2009). According to Arjaliès (2010:57), financial actors began to admit that there are limits to the economic business models they have been promoting for years and acknowledged that there is a need for improved non-financial analysis. The old debate whether, or to what extent, financial markets are a force for social good thus took on a new urgency in the aftermath of the global financial crisis (Capital markets with a conscience - Social investing grows up, 2009).

Against this background, the current state of philanthropy, RI, and impact investing globally and locally is examined in the next section.

The current state of philanthropy, RI, and impact investing internationally

6.1 Philanthropy

Several studies show that charitable giving is surging worldwide (Naidoo, 2010b:28), but note that there is a shift from traditional philanthropy to more focussed social enterprise causes (Global giving - The culture of philanthropy, 2010). Opinion leaders claim that a new generation of "engaged, aspirational givers, empowered (and enriched) through entrepreneurship" are applying their business skills to tackle pressing social and environmental challenges. This growing class of so-called 'philanthrocapitalists', led by billionaires such as Bill Gates and Warren Buffet, believe that using business models to solve global problems is far more effective than using traditional grant-making approaches.

The same type of reasoning is permeating the philanthropic arms / CSI programmes of large multinational corporations causing many to "turn commercial" (Financial innovation and the poor, 2009). Donors now want to address the source of the problem and want feedback on the difference their money is making in people's lives (Global giving - The culture of philanthropy, 2010).

Despite the enhanced developmental and environmental impact, the capitalistic approach to philanthropy and CSI is scrutinised. Concerns have been raised that philanthropic causes could become a power game for the wealthy to "create a world that mirrors the values of the market rather than focussing on social or charitable goals" (Financial innovation and the poor, 2009). According to Naidoo (2010a:27), this new approach to philanthropy also raises questions over issues of mutual accountability, legitimacy and effectiveness. Kramer, Mahmud and Makka (2010:2) further argue that few funders have, as of yet, developed a comprehensive approach to integrate impact investing and grant-making into a single strategy.

6.2 Responsible investing

The 2010 Report on Socially Responsible Investing Trends in the US (2010) indicated that RI continued to grow at a faster pace than the broader universe of conventional investment assets under management in the US. Since 2005, responsible investments have increased more than 34 per cent, while the broader universe of professionally-managed assets has increased only three per cent. The report identified $3.07 trillion of assets being managed according to RI principles, representing one out of every eight dollars under professional management in the US.

According to the most recent report of the European Social Investment Forum (EuroSIF), the European Sustainable and Responsible Investment market is undergoing a transformative period and has almost doubled since 2008. The European RI market has shown remarkable resilience to the ongoing financial crisis and is expected to become the largest RI market in the world within the next three to five years (European SRI Study 2010, 2010).

6.3 Impact investing

Research by Weber (2010) suggests that impact investing is expanding exponentially on a global scale, commanding attention from policymakers and significant investment from asset managers. A recent study by Hope Consulting found that there is currently in the region of $120 billion of retail market opportunity for impact investing in the US alone, half of which is for smaller investments (less than $25 000) by retail and high-net-worth individual investors (Money for Good – Impact investing overview, 2010). A related survey of 60 social purpose businesses in the United Kingdom found that roughly half were planning to raise capital in the next 12 to 18 months, some of them in the range of $7 million or more (Money for Good - The US market for impact investments and charitable gifts from individual donors and investors, 2010).

According to Bugg-Levine and Goldstein (2009:19), impact investors have already made their mark in the US, most notably in the areas of low-income housing, micro finance and 'green' energy. In the US, reference is often made to community, mission-related or mission-based investing when referring to impact investments (Lamore, Link and Blackmond, 2006:429; Cowton, 1999:99; Hutton, D'Antonio and Johnsen, 1998:281).

Bugg-Levine and Goldstein (2009:19) estimate that impact investing will grow to about $500 billion (approximately one per cent of the world's total assets under management), within the next ten years. Growth estimates are based on the following drivers:

- Most impact investments are made in emerging economies which are expected to grow faster than developed economies (Financial innovation and the poor, 2009).
- The global financial crisis has sensitized investors of the need to integrate ESG risks into the investment process (Kropp, 2010).
- Impact investments have significantly outperformed the mainstream market during the global financial crisis (High-net-worth individuals and sustainable investment 2010 survey, 2010:6; Financial innovation and the poor, 2009; Emerson, 2009).
- Investors are increasingly realising that impact investments are uncorrelated with other assets and thus offer diversification and reduced portfolio risk (Financial innovation and the poor, 2009; Petersen, 2005).
- Investors are growing impatient with traditional investment approaches. Bugg-Levine and Goldstein (2009:20) claim that after half a century of both remarkable success and failure, traditional philanthropic options are uninspiring to some. They claim this frustration creates an ideal opportunity for impact investing.
- Impact investing is seen as a powerful compliment to philanthropy and governments' efforts to address social and environmental challenges (Global Impact Investing Network, 2010; Bugg-Levine and Goldstein, 2009:19).
- Governments in some European countries are providing support in terms of legislation and tax breaks (Financial innovation to the poor, 2009).
- Specialised intermediaries such as social investment banks and consulting companies have sprung up to develop innovative products and assist decision-makers in the impact investment market (Kramer et al., 2010:7; Financial innovation to the poor, 2009).
- Freundlich (2010) states that in a world filled with publicly traded securities and derivatives issued by large

corporations and mutual funds, it is very easy to lose touch with what your money is actually doing for (or against) the planet and global community. He argues that it is this disconnection that has been fueling much of the growth in the community investing market.

The current state of philanthropy, RI and impact investing in South Africa

7.1 Philanthropy

According to Naidoo (2010a:25), the South African philanthropic movement is characterised by a host of small, private initiatives run by prominent family trusts that have been operating for years. Examples include the DG Murray Trust, the Ernest Oppenheimer Memorial Trust, the Donald Gordon Foundation and the Albert Wessels Trust.

Although many of these trusts have been operating under the radar, the debate about “the affluent being obliged to give back to the society that made them wealthy” is all but muted. One of the best-known new generation of philanthropists in South Africa, Cyril Ramaphosa, argues that corporate philanthropy (CSI) should not merely be ‘cheque-book charity’ - it should be central in doing business in South Africa (Naidoo, 2010a:26). His views are mirrored by other ‘philantrocapitalists’ such as Tokyo Sexwale and Patrice Motsepe.

When it comes to giving, South Africans are the second most generous nation, only beaten by the US (Global giving - The culture of philanthropy, 2010). Reasons being the country’s low level of social services and the growing inequality between rich and poor. The report claims that the government’s inability to address many of South Africa’s social challenges has prompted the wealthy to take on the responsibility. They [the rich] believe that they have a moral duty to bridge the gap.

7.2 Responsible investing

To track the development of the RI sector in South Africa since the establishment of the first RI funds in 1992, the database of local RI funds created by Viviers et al. (2009:8) was updated in 2010. As far as could be established, 53 RI funds were launched in South Africa over the period 1 June 1992 – 31 December 2010. Of these, 12 RI funds were discontinued.

For the purpose of this research, a RI fund refers to any local collective investment scheme that employs one or more of the following strategies: ethical exclusions, positive screening, impact investing or shareholder activism. A discontinued fund refers to a local RI fund that was established on or after the 1st of June 1992 but was either closed, merged with another fund, or one that has changed its investment mandate at some point before the 31st of December 2010. Funds of funds were excluded in this study. A summary of the RI funds established and discontinued in South Africa is shown in Table 2 and Figure 2. The names of these funds are listed in Appendix A.

Table 2: RI funds established and discontinued in South Africa (1 June 1992 – 31 December 2010)

Active funds	Equity	Asset allocation / Balanced	Fixed interest	Alternative / Private Equity	Property	Total per RI strategy
Ethical exclusions[a]	7	3		1		**11**
Positive screening[b]	3		1			**4**
Impact investing[c]	1		3	4	1	**9**
Shareholder activism[d]	1	2				**3**
Positive screening and shareholder activism	3					**3**
Positive screening and impact investing		3	2	2		**7**
Positive screening, shareholder activism and impact investing		1		1		**2**
Positive screening, ethical exclusions and impact investing				1		**1**
Ethical exclusions and shareholder activism	1					**1**
Total active funds	**16**	**9**	**6**	**9**	**1**	**41**

Discontinued funds	Equity	Asset allocation / Balanced	Fixed interest	Alternative / Private Equity	Property	Total per RI strategy
Positive screening	3	1				**4**
Impact investing	1	3		1		**5**
Positive screening and impact investing		2		1		**3**
Total discontinued funds	**4**	**6**	**0**	**2**	**0**	**12**

Total sample over the period	**20**	**15**	**6**	**11**	**1**	**53**

[a] Ethical exclusions refer to the use of negative screens to avoid investments in morally undesirable countries, industries and companies. The use of exclusionary screens in South Africa is mainly based on Shari'ah (Islamic) law.
[b] Positive screening refers to the selection of financial securities that meet a defined set of ESG criteria.
[c] Impact investing was defined earlier in this paper.
[d] Shareholder activism, also called 'active engagement', refers to shareholders communicating with management boards on specific ESG issues. Investors can do so through dialogue, by filing resolutions, using their voting rights at annual general meetings and divesting from companies that fail to transform. This is a long-term process whereby investors seek to influence company behaviour related to their ethical and ESG practices.

Source: See Appendix A

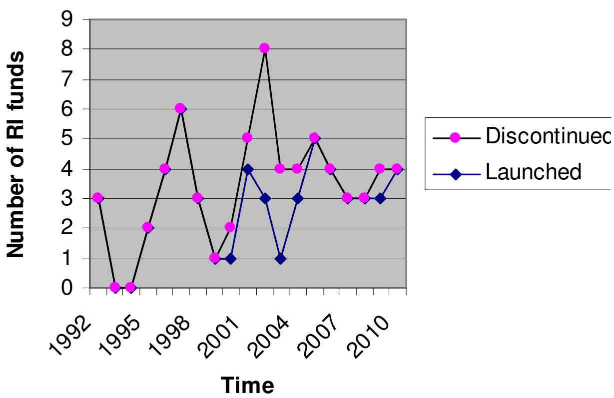

Figure 2: RI funds established and discontinued in South Africa (1 June 1992 – 31 December 2010)

The launch of the FTSE/JSE Socially Responsible Investment Index in 2006 drew significant attention to RI in South Africa (FTSE/JSE SRI Index, 2011). Growing numbers of local market participants have subsequently become signatories of the United Nations Principles for Responsible Investment. On 31 December 2010, 22 local asset managers, two asset owners and seven service providers were signatories to the Principles (Personal communication Bertrand, 2010; United Nations Principles for Responsible Investment, 2010).

The South African Government Employees Pension Fund (GEPF) was one of the founding members of the Principles and is the largest asset owner in the country. As it represents about one third of the entire pension fund industry in South Africa, the trustees feel morally obliged to take the lead in RI (Cranston and Naidoo, 2010). The Fund has a long-term view and evaluates companies on how they address ESG risks in their respective sectors (Gunnion, 2008). The Fund favours "return-seeking capital investments" in the following areas: economic infrastructure in energy, logistics, transport, water and broadband technology; social infrastructure in construction, health care or housing; environmental investments in 'green' energy and cleantech; and enterprise development, job creation and black economic empowerment (Moloto, 2010).

In April 2009, the GEPF convinced a group of South African investors and service providers worth R1 625 billion to launch an investor-led network as part of their commitment to the Principles. South Africa is only the third country after Brazil and South Korea to host such a network. The network aims to raise awareness about the business case for RI; to capture best practice on how to factor ESG considerations into investment processes; and to examine regulatory and other barriers that might prevent local investors from engaging with companies on ESG matters.

Unfortunately, few local pension funds are following the example set by the GEPF. At present less than one per cent of life and pension funds are directed towards responsible investments in South Africa, compared with the eight per cent in the US (Demystifying responsible investment performance, 2007). According to Munshi (2009) and Norris (2009:11), the challenges lie in changing mindsets, creating an enabling regulatory environment and reforming the role of pension fund trustees and pension fund consultants to embrace a RI philosophy.

7.3 Impact investing

The investment mandate of each local RI fund listed in Appendix A was analysed to establish how many of the funds have an impact investing focus. The statistics in Table 3 indicate that the majority of RI funds in South Africa have an impact investing mandate (26.42%). A large number of funds (18.87%) also combine impact investing with a positive screening strategy.

Table 3: RI strategies employed by local RI fund managers

RI strategy	N Active funds	N Discontinued funds	Total	%
Impact investing	9	5	14	26.42
Ethical exclusions	12	0	12	22.64
Positive screening and impact investing	7	3	10	18.87
Positive screening	5	4	9	16.98
Shareholder activism	3	0	3	5.66
Positive screening and shareholder activism	2	0	2	3.77
Positive screening, shareholder activism and impact investing	2	0	2	3.77
Positive screening, ethical exclusions and impact investing	1	0	1	1.89
Total	**41**	**12**	**53**	**100**

As illustrated in Table 4, the vast majority (88.89%) of RI funds with an impact investment focus invest (or invested in the case of discontinued funds) in infrastructure projects. Close to half of these funds (44.15%) provide (or provided) financing for Broad-Based Black Economic Empowerment (B-BBEE) transactions. It is encouraging to note that many of the local RI funds support economic growth and development (25.93%) as well as job creation (22.22%). This finding supports the argument that impact investing goes far beyond traditional philanthropy in that it strives to improve the overall standard of living in local communities. It is clearly about teaching a hungry man to fish, rather than giving him a fish.

Providing basic services such as electricity, water and sanitation as well as education and training also feature prominently in the investment mandates of the 27 impact-orientated RI funds. This finding is not surprising given the government's inability to effectively render these services.

Table 4: Impact investing mandates of South African RI funds[(a)]

Impact investments in South Africa…	Total	% of funds (out of 27 RI funds with an impact investing focus)
…support the development of social infrastructure in general and in underdeveloped and rural areas in particular.	24	88.89
…provide B-BBEE financing.	13	48.15
…support infrastructure projects that contribute to economic growth and development.	7	25.93
…promote education and training / skills transfer.	7	25.93
…support job creation.	6	22.22
…invest in electricity / energy infrastructure.	6	22.22
…support projects dealing with water, sanitation and the natural environment.	6	22.22
…invest in projects that contribute to community regeneration and improved standard of living (e.g. providing access to shopping facilities).	5	18.52
…finance projects that lead to social upliftment and the equitable distribution of wealth.	5	18.52
…support infrastructure developments in the telecommunication sector	4	14.81
…finance projects to improve health care.	3	11.11
…provide financing and support for the development of small, medium and micro enterprises (SMMEs).	3	11.11
…support infrastructure projects in the transport (mainly the building of roads).	3	11.11
…support projects in the agriculture sector.	2	7.41
…build houses.	2	7.41
…finance projects to improve security in underdeveloped and rural areas and build correctional services.	2	7.41
…support projects to stimulate exports.	1	3.70
…support projects to improve financial services in the country.	1	3.70
…fund projects to develop rural areas.	1	3.70
…invest in projects to enhance municipal service provision.	1	3.70
…fund technology development.	1	3.70
…support projects in the tourism sector.	1	3.70

(a) Some fund mandates are more detailed than others, creating the illusion that important social causes (such as housing) are only superficially addressed by local RI funds. This is not necessarily the case as a variety of social causes could be addressed under the umbrella of 'economic and social infrastructure development'.

An in-depth study was furthermore undertaken by the researchers to determine the demand for impact investing in South Africa. The research involved intensive interaction with relevant stakeholders in order to obtain feedback and guidance on the development of an appropriate solution. Overall more than 75 social-purpose entities or impact issuers, 80 impact issuer intermediaries or technical assistance providers, 60 financial advisors and consultants and 200 asset managers and asset owners were identified. The study highlighted that a local investment platform that caters to impact investment opportunities is not only viable, but holds the potential to enact large-scale developmental change. Given that 85 per cent of respondents planned on raising additional capital over the next three years, 48 per cent of these stated a desire to raise over R25 million during this period, while 19 per cent planned on raising other forms of finance other than grants (debt, venture capital, equity and commercial loans), there seems to be a healthy interest in impact investing in South Africa.

South Africa is in many ways a perfect testing ground for impact investing. It contains some of the most sophisticated financial infrastructure and successful private sector businesses in the world, but also struggles with many of the same developmental, social and environmental challenges as the rest of the developing world. If South Africa can mobilise its powerful and dynamic private sector and capital markets to work towards social and environmental goals, those goals will become more attainable, more quickly. Impact investment can also provide an efficient mechanism for South Africa to pursue some of its unique societal objectives. However, there are a number of challenges in growing the impact investment sector, the most important of which are outlined in the following section.

Identifying the challenges to stimulate growth of impact investing in south africa

Like many emerging sectors, impact investment is struggling with inefficiencies as it grows and enters mainstream consciousness and investment practices. While impact investing has enormous potential to bring about meaningful and sustainable societal change, it currently lacks the co-ordinated informational networks, financial sophistication, intermediary infrastructure, and market makers that are critical in establishing an effective capital market. As a result, social-purpose organisations must spend inordinate amounts of time and money seeking funding and technical assistance through whatever underdeveloped and inefficient channels exist, which detract them from their core business.

From the literature, a number of specific challenges to stimulate the growth of impact investing internationally have been identified (Sosa, 2010; Weber, 2010; Crotty, 2010; The future of investment - Sustainable index investing, 2010:18; Financial innovation and the poor, 2009). Most of these challenges are applicable to the South African market and were highlighted at the 2010 conference of the South African Network for Impact Investing. Shortcomings include:

- The lack of a 'common language' between impact investors and social entrepreneurs.
- The lack of standardised social and environmental performance measures. At present there is no agreed upon measure of social and environmental impact that mirrors profit in the traditional capital markets. Furthermore, participants in this sector often disagree fiercely about what constitutes social good. In addition, the absence of systematised rating and consolidated systems make it difficult for advisors to compare and package impact investment opportunities.
- A shortage of documented success stories i.e. of social entrepreneurs who have received investments and have been able to generate a meaningful return.
- Higher costs and a lack of transparency and liquidity associated with impact investments.
- Lack of relevant expertise of advisors and consultants and rigorous research in the field.
- The lack of a clear definition of an impact investment.
- The lack of conducive legislation
- The lack of a clear definition of an impact investment.
- A shortage of specialised intermediaries such as social investment banks, fund managers and consulting companies to assist local market participants (investors and social entrepreneurs) in finding, evaluating and making impact investments.

According to Weber (2010) the biggest obstacle in strengthening the impact investment market is changing the mindset of investors. Weber (2010) claims that many investors have difficulties in distinguishing between philanthropy and business opportunities in the social-purpose sector. Bugg-Levine and Goldstein (2009:20) agree and add that capital markets and the legal system hinder impact investing precisely because they are still structured to support the binary poles of either philanthropy or profit maximisation.

A 2008 study in South Africa found that a lack of understanding of RI led to the misperception that responsible investments constitute a financial sacrifice (Eccles, Nicholls and De Jongh, 2008:14). General uncertainty around where and how to access RI opportunities was also noted in this study. The absence of consistent and rigorous reporting of social and environmental impacts further undermines confidence in the actual effectiveness of impact investments. Such uncertainty translates into a lack of demand for RI and impact investment products, which in turn, leads to a shortage of supply of these products.

These twin obstacles: a lack of infrastructure and support services along with misperception and uncertainty around the investment proposition, are articulated time and time again when asking industry role players in South Africa what mechanisms would support effective development of the impact investment field. One impact-purpose entity summarised the shortcomings as follows: "Inadequate measuring criteria…lack of public understanding as to what an impact enterprise is, [and a] limited local platform to showcase these enterprises." Financial and issuer intermediaries yearn for "one single platform per country, listing a variety of social investment opportunities in a way that allows for comparison", while investors themselves agreed that "there is a requirement for a single trading platform environment where all buyers and sellers can meet with utmost transparency".

Addressing the challenges to growing impact investing in south africa

The challenges to develop a shared taxonomy and credible standards for measuring social and environmental impacts are being addressed internationally by organisations such as the SROI (Social Return on Investment) Network. SROI is an approach to understand and manage the impacts of a project, organisation or policy. This approach attaches a financial or market value on important impacts identified by stakeholders (The SROI Network, 2011). In similar vein, the Global Impact Investing Network has developed a common framework for reporting the performance of impact investments. This framework consists of a standard set of performance measures for describing social and environmental performance and facilitates data comparisons (Global Impact Investing Network, 2010). Developments such as these are commendable and should be encouraged in South Africa.

With regard to the lack of education and research in the RI and impact investment sectors, it is suggested that NGOs, industry groups and higher education institutions play a more prominent role. Conferences bringing together impact investors and social entrepreneurs will also go a long way in educating market participants, while it will also clarify concepts and showcase success stories. Advisors and trustees in particular need to acquire a deeper knowledge of RI and impact investing in the South African context.

According to Crotty (2010), industry leaders should work closely together to measure and articulate the industry's successes, build infrastructure to increase its efficiency and create investment products that will respond to investors' demand for transparency. Improved industry cooperation and advocacy is furthermore needed to remove the barriers to impact investing as contained in Regulation 28 of the Pension Fund Act (No 24 of 1965). The view that pension funds should be enabled to invest up to five per cent of their assets in impact investments is championed by the Committee on Responsible Investment by Institutional Investors in South Africa (2010). This Committee released a draft Code on RI for public comment in September 2010.

The GreaterGood group is addressing the need for a single impact investment trading platform and is currently identifying investment partners to capitalise this initiative. The authors fully agree with Yunus, who envisions a world in which social exchanges will operate alongside traditional financial exchanges (Achwal, 2010).

Ractliffe (in Waggoner, 2010) claims that the realignment of assets towards social-purpose organisations is changing the entire playing field. She (2010) argues that the move to impact investing requires of social-purpose organisations to become more transparent and accountable, despite the time and cost of doing so. This mindset shift is necessary to make impact investments more attractive to traditional investors and 'philantrocapitalists'. By becoming more involved in the impact investment sector, they will be assisting the South African government in addressing areas of national priority, improving socio-economic conditions in the country and yield some financial returns in the process.

Conclusion

The unusual mix in South Africa – of a middle-income country with a far-reaching social and economic transformation agenda – has provided valuable experience in defining and developing systems for the traditionally developed world of investors whilst addressing the pressures and demands of the traditionally developing world of beneficiaries. Industry charters and the legislative framework governing the corporate sector's input into socio-economic empowerment in South Africa require that organisations bring tangible results to the communities in which they operate. In particular, the B-BBEE scorecard awards points not just for the transformation of ownership or management, but also for an organisation's investment in building skills, supporting enterprise and developing local communities. South Africa's developmental challenges cannot be surmounted by the benevolence of private capital alone - the answer to sustainable change lies in the marriage of financial and social value creation.

South Africa's unique situation has further created an imperative for flexibility and rapid change. Whilst the country still has a long way to go to address critical developmental challenges, the dynamic environment offers interesting opportunities for social investment that stretches far beyond conventional philanthropy.

In the words of Bugg-Levine and Goldstein (2009:21): "Building a mature impact investing industry will require brave self-examination by impact investors and the businesses and funds with which they invest. The industry must be realistic about the return it will offer and investment products it must develop to become a viable proposition for institutional investors". From the findings of this study, it seems that market participants in South Africa are starting to embark on this process of self-examination. The authors are of the opinion that, should the challenges be appropriately addressed, many social, environmental and financial benefits are to be derived from impact investing.

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Appendix A: **RI funds established in South Africa (1 June 1992 - 31 December 2010)**

Fund type	Fund name	Type of fund	Date of inception	Status	Date of discontinuance	RI classification
Equity[h, j]	AMB Empowerment Equity Fund	Could not be established	1 April 1997	Discontinued	31 December 2002[e]	Impact investing
	Community Growth Fund	Unit trust	1 June 1992	Active	-	Positive screening and shareholder activism
	Element Earth Equity Fund[b]	Unit trust	4 October 2001	Active	-	Engagement
	Element Islamic Equity Fund[b]	Unit trust	1 February 2006	Active	-	Ethical exclusions and shareholder activism
	Futuregrowth Albaraka Equity Fund	Unit trust	1 June 1992	Active	-	Ethical exclusions
	Futuregrowth Anchor Fund	Pooled	1 July 1997	Discontinued	31 May 2004	Positive screening[f]
	Futuregrowth SRI Equity Fund	Could not be established	1 July 2004	Active	-	Positive screening
	Investec RI Equity Fund	Could not be established	1 June 2008	Active	-	Positive screening and engagement
	Kagiso Islamic Equity Fund	Unit trust	13 July 2009	Active	-	Ethical exclusions
	Nedbank Sustainability Equity Fund	Unit trust	1 June 1992	Discontinued	31 October 2003	Positive screening
	NewFunds Shari'ah Top40 Index Fund	Exchange traded fund	6 April 2009	Active	-	Ethical exclusions
	Oasis Crescent Equity Fund	Unit trust	31 July 1998	Active	-	Ethical exclusions
	Oasis Crescent International Fund of Funds[a]	Unit trust	28 September 2001	Active	-	Ethical exclusions
	Oasis Crescent International Property -Equity Feeder Fund	Unit trust	30 April 2007	Active	-	Ethical exclusions
	Sanlam SRI Equity Fund	Could not be established	2 January 2009	Active	-	Positive screening and engagement
	Sanlam Empowerment Equity Fund	Unit trust	15 September 1997	Discontinued	30 April 2003	Positive screening
	Sasfin Equity Fund[c]	Unit trust	14 October 2005	Active	-	Positive screening
	Sasfin TwentyTen Fund	Unit trust	1 November 2005	Active	-	Positive screening
	Stanlib Nationbuilder Fund	Unit trust	31 January 2007	Active	-	Impact investing
	Stanlib Shari'ah Equity Fund	Unit trust	1 July 2007	Active	-	Ethical exclusions

Asset allocation / Balanced[i]	Advantage Shari'ah Fund	Could not be established	August 2008	Active	-	Ethical exclusions
	Advantage / Momentum Super Nation Fund	Pooled	1 May 2002	Active	-	Positive screening, shareholder activism and impact investing
	Element Flexible Fund[b]	Unit trust	15 October 2001	Active	-	Engagement
	Element Islamic Balanced Fund (C)	Unit trust	28 April 2010	Active	-	Ethical exclusions
	Element Islamic Balanced Fund (A)	Unit trust	28 April 2010	Active	-	Ethical exclusions
	Element Real Income Fund[b]	Unit trust	9 October 2002	Active	-	Engagement
	Futuregrowth SRI Balanced Fund	Pooled	30 September 2004	Active	-	Positive screening and impact investing
	Futuregrowth Diversified Development Fund	Pooled	Sometime in 1997	Discontinued	31 July 2001	Impact investing
	Investec Mafisa Fund	Could not be established	1 October 1997	Discontinued	31 August 2002 [e]	Impact investing
	Investec Sechaba Fund	Could not be established	1 August 2000	Discontinued	31 August 2002 [e]	Impact investing
	MetAM African Wealth Creator[g]	Pooled	1 October 1996	Active	-	Positive screening and impact investing
	Metropolitan SRI Fund	Pooled	1 December 2005	Discontinued	1 April 2009	Positive screening
	Sanlam Community Builder Fund	Pooled	1 October 2002	Discontinued	Sometime in 2003	Positive screening and impact investing
	Stanlib Corporate Wealth Development Fund	Pooled	1 January 1997	Active	-	Positive screening and impact investing
	TopGEAR Fund	Pooled	1 February 1998	Discontinued	30 September 2002[e]	Positive screening and impact investing
Fixed interest	Cadiz Infrastructure Bond Fund[d]	Segregated	1 January 2001	Active	-	Positive screening and impact investing
	Cadiz SRI Bond Fund	Could not be established	1 October 2008	Active	-	Impact investing
	Coronation Siyakha Bond Fund	Could not be established	1 November 2005	Active	-	Impact investing
	Futuregrowth Infrastructure and Development Bond Fund	Pooled	1 January 1995	Active	-	Impact investing
	Community Growth Gilt Fund	Unit trust	14 July 1998	Active	-	Positive screening

	Sanlam SRI Bond Fund	Pooled	Sometime in 2010	Active	-	Positive screening and impact investing
Alternative / Private equity	Kagiso Infrastructure Empowerment Fund	Could not be established	September 2006	Active	-	Impact investing
	Futuregrowth Structured Empowerment Fund	Pooled	1 October 1995	Discontinued	Sometime in 2000	Impact investing
	Futuregrowth Agri Fund	Pooled	1 March 2010	Active	-	Positive screening and impact investing
	Futuregrowth Development Equity Fund	Pooled	1 August 2006	Active	-	Positive screening, negative screening and impact investing
	Investec TDI Balanced Fund	Could not be established	1 July 2006	Active	-	Positive screening and impact investing
	Investment Solutions Sakhiswe Fund	Pooled	1 November 2004	Active	-	Impact investing, positive screening and shareholder activism
	Investment Solutions Shari'ah Fund	Pooled	1 April 2005	Active	-	Ethical exclusions
	Maquarie & Old Mutual African Infrastructure Investment Fund	Pooled	Sometime in 2003	Active	-	Impact investing
	Maquarie & Old Mutual South African Infrastructure Investment Fund	Pooled	Sometime in 1996	Active	-	Impact investing
	OMIGSA IDEAS Fund	Pooled	1 January 1999	Active	-	Impact investing
	Sanlam Development Fund	Pooled	1 November 1996	Discontinued	Sometime in 2002	Positive screening and impact investing
Property	Futuregrowth Community Property Fund	Pooled	1 July 1996	Active	-	Impact investing

(a) This fund also called the Oasis Crescent International Feeder Fund.

(b) The name of this management company changed from Fraters Asset Management to Element Investment Managers on 1 August 2009, hence the name of the unit trust also changed.

(c) This fund was called the Sasfin Socially Responsible Fund up to 2007.

(d) This fund was called the African Harvest Infrastructure Bond Fund prior to the merger of Cadiz and African Harvest in 2006.

(e) As the exact date of discontinuance could not be established, the date on which the fund was excluded from the Alexander Forbes Asset Consultant's TDI Manager Watch Survey serves as proxy.

(f) Although the exact SRI strategy of this fund could not be established with certainty, two options seem likely: (1) the fund could have had an impact investing strategy. This can be justified by looking at all the other RI funds in the Futuregrowth stable. All the RI funds launched before the establishment of the FTSE/JSE SRI Index in 2004 employed such a strategy. Only after the launch of the FTSE/JSE SRI Index, did the company establish two new RI funds, both employing a positive screening strategy. When Futuregrowth launched the Anchor fund in 1998, they had (and still have) a distinct advantage in the area of alternative investments and

	might have wanted to capitalise on this strength. (2) the fund could have had a positive screening strategy. This can be justified by looking at the fund's classification (general equity) and its benchmark (80% FTSE/JSE Financial, Industrial 30 Index and 20% FTSE/JSE Resources Index). The company might have focused on listed equities with a strong empowerment focus as many other SRI funds which were launched late in the 1990s.On balance, the second option seems the most likely and will thus be assigned to this fund for the purpose of this study. It could be argued that the fund did not employ a negative screening strategy. All five local SRI funds with a negative (exclusionary) screening approach are based on Shari'ah law and reflect this fact in their names e.g. Element's Islamic Fund or the Investment Solutions' Shari'ah Fund. If this fund employed a negative screening strategy, it would probably have been named accordingly. Futuregrowth did exactly this when they renamed the Pure Equity Fund to the Albaraka Equity fund when the fund became an Islamic compliant fund.
(g)	This fund used to be called the Metropolitan Futurebuilder Fund.
(h)	Giamporcaro (2010) identified the Prescient SRI Equity Active Quant fund as another RI equity fund. However, not enough information is publicly available for inclusion in this fund.
(i)	Giamporcaro (2010) identified the 27Four Shari'ah Fund as another RI asset allocation fund. However, not enough information is publicly available for inclusion in this fund. The same applies to the Kunye Fund mentioned on their website.
(j)	Dibanisa Fund Managers offer institutional investors an exchange-traded fund based on the FSTE/JSE SRI Index. However, not enough information is publicly available for inclusion in this fund.

Sources: 27Four (2011); Dibanisa Fund Managers (2011); Futuregrowth Asset Management (2011); Investment Solutions (2011); Advantage Asset Managers (2010); Cadiz (2010); Element Investment Managers (2010); Equinox (2010); FundsData (2010); Giamporcaro (2010); RisCura (2010); Sanlam - SRI Bond Fund (2010); Sanlam – SRI Equity Fund (2010); Sanlam - Economic Empowerment (2010); STANLIB Nationbuilder Fund (2010); Viviers *et al.* (2009:14); Viviers, Bosch, Smit and Buijs (2008:4); De Cleene and Sonnenberg (2004); Personal communication: Albertyn (2011); Canter (2011); Taylor (2011) and Gray (2010)