IMARA
Asset Management

Sector-Specific Guidelines to Responsible Investing

The UN PRI defines responsible investment as a strategy and practice to a) Incorporate environmental, social and governance (ESG) factors in investment decisions and b) active ownership.

Broadly speaking, there are 3 ways to incorporate responsible investment into investment decisions – ESG integration, thematic investing and screening.

- ESG Integration: Including ESG issues in investment analysis and decisions. Evaluating each investment individually and adding ESG alongside traditional investment methods to better manage risk and improve returns.
- Screening: This could be exclusionary screening (negative screening) which is avoiding certain investments based on values, ethical concerns or preferences (e.g. arms manufacturers). Or positive screening (best in class selection), preferring investments with better ESG performance relative to peers.
- Thematic: Investing with the intention to contribute to a specific environmental or social outcome by targeting certain themes or sectors (includes Impact investing).

Dissecting this last point, our mandate is not that of an impact fund or thematic fund. However, we believe that thematic investing is encoded in the DNA of certain industries and businesses that we like.

The definition of thematic investing is "*to invest with the intention to contribute to a specific environmental or social outcome by targeting certain themes or sectors*". In our approach, we aim to identify companies that are in the sectors that capture the mega trends driving African growth and which have demonstrated an ability to continue to expand their market share. These trends drive the African story through demographics, urbanisation and increased formalisation of markets. We believe that there are particular sectors that capture these trends which are growing rapidly.

We have found that, by nature, these sectors satisfy several UN Sustainable Development Goals (SDGs). These sectors include:

- Financial Services: Banks with strong retail franchises from superior infrastructure and technology, targeting low cost retail deposits and non-interest fees from a rapidly growing and broader customer base. Economies of scale from larger customer bases and increased use of technology fuel financial inclusion. Focusing on the unbanked and using behavioural data allows for appropriate risk pricing within the banking sector and improves the livelihoods of many (SDG 10).

- Consumer staples (Food and Beverage): as tastes change and as more women enter the workplace, packaged and convenience foods, beverages and Home and Personal Care (HPC) become increasingly popular. The multinational subsidiaries are typically best in class at procuring, manufacturing and distributing tried and tested products into substantially underpenetrated and underserved markets. Increased local production of key inputs and rollout of more supermarket chains, further strengthens the model. e.g. sorghum beer brands being sold by the big brewers replacing the current home brew and illicit alcohol market, attracting a whole new consumer and stealing market share from the unhealthy and illegal practice of home brewing

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- Communications services: In addition to ever-increasing demand for basic voice services, telecommunications companies are driving innovation in transacting and lending through mobile money. They are also the owners of all the major super apps – mobile money, ride hailing services and online shopping. In each of these use cases there tends to be few operators and the dominant provider can establish well over 50% share. First mover advantage, particularly in data and mobile money can ratchet that share over 75%, becoming the go to product or service, essentially becoming the plumbing of the industry, e.g. M-Pesa or EcoCash.

In aggregate these sectors satisfy cover a significant portion of the UN SDGs.