KPMG

SAVCA

KPMG and SAVCA

Venture Capital and Private Equity Industry Performance Survey of South Africa covering the 2009 calendar year

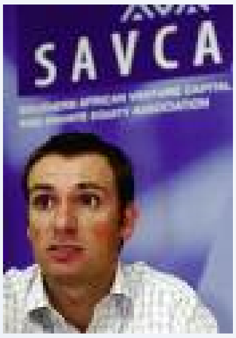
May 2010

AUDIT ▪ TAX ▪ ADVISORY

Contents

Foreword

SAVCA



Despite the tumultuous environment we all faced in 2009 which created a difficult environment for fund raising and a reduction in deal flow, the South African private equity and venture capital industry remained in a relatively healthy position. Certainly, our local market witnessed lower deal values and flow during the period under review than that of previous years. However, new investments in 2009 outweighed follow-on investments, and funds under management by Captives-Government and BEE funds stood at R84.4 billion at 31 December 2009, an increase of 19.4% from the R70.7 billion at the end of 2008.

While our local economy was somewhat shielded from the worst of the global financial meltdown due to our low levels of foreign exposure and ongoing infrastructure development programme, it did not completely escape the negative effects. The private equity industry was struck by reduced debt availability, portfolio write-downs and constricted exit environments, both locally and globally. Fund raising was tricky over the period under review and by the end of the year, the funds raised only amounted to just over half the value achieved in 2008. We have however seen very little distressed debt situations in comparison to other markets predominantly due to the lower levels of gearing in our local deals.

As a result the KPMG / SAVCA survey has shown that:

- the US remains the highest contributor of all funds raised to date and not yet returned to investors (32%), ahead of South Africa (29%) and the UK (23%), still showing that local investors remain an important contributor of funds to the industry and want continued exposure to the positive absolute returns and significant portfolio diversification benefits that investments into private equity funds in South Africa offer;
- given the significant amounts of funds raised from 2005 to 2008, some R32.9 billion is available for further investment by the industry. Just on 80% of these available funds are managed by fund managers that are at least black influenced or managed by Governmental funds. This represents a significant pool of capital for funding businesses and continuing the vital socio-economic BEE (Black Economic Empowerment) process; and
- the scale of activity in our industry continues to outperform most of the major international economies, which bodes well for South Africa's Government stated growth targets, as local and international research confirms that private equity investment is a key driver of entrepreneurial activity and growth in any economy.

Looking ahead, what does the future hold for the our industry?

- As an asset class, private equity has a proven track record for strong performance. So, with its evolved business models focussed on active value management, the industry is in position to take on new challenges with the worst of the financial crisis hopefully over;
- Emerging markets present an attractive case for investment, so local fund managers will be looking to increase activity on the continent, and the sub-Saharan regions in particular. Exchange controls have been relaxed for moving money into the continent but as an association, SAVCA continues to lobby for additional latitude for the industry;
- Last year, the IESE business school released the first ever global venture capital and private equity country attractiveness index, South Africa was ranked 43rd overall and 4th among its direct peer group (Israel, Saudi Arabia, Kuwait, Oman, Morocco, Egypt, Nigeria and Kenya) which speaks to the sophistication of our industry and the attractiveness thereof; and
- Private equity fund managers will remain more internally focused, spending their time on portfolio company management, but as visibility of earnings become more predictable, coupled with expectation of lower competition for assets, this must represent future buying opportunities.

The survey is the definitive industry publication, widely used locally and internationally by industry participants and stakeholders, policymakers, investment analysts and the media. The availability of this source of regular, reliable information and analysis has contributed to a virtuous circle of awareness and understanding which has in turn generated expanded interest in and growth of our industry.

As an industry we owe much thanks to KPMG for their contributions to this virtuous circle of awareness and understanding. I would therefore like to thank the association's members for participating in this survey, a particular thanks to Warren Watkins and Bridget Blackburn of KPMG in South Africa for their very considerable efforts in producing this outstanding body of work. Your efforts are much appreciated

J-P Fourie
SAVCA: Executive Officer

KPMG in South Africa

KPMG is proud to have collaborated with SAVCA for the eleventh consecutive year to produce the 2009 KPMG and SAVCA Venture Capital and Private Equity Industry survey for South Africa.

Last year, being the tenth year of our collaboration, we afforded ourselves the luxury of looking back and reminiscing on the humble beginnings of the industry and celebrating the milestone of having reached the R100 billion mark for funds under management. While there were signs that 2009 was going to be a year of subdued private equity activity, I am pleased to report that the R100 billion milestone remains intact, however, activity in the industry, both globally and locally, was significantly reduced and has fallen to levels last seen in 2006.

As you read the survey, it will become increasingly apparent how far this activity had fallen in 2009. At the time of writing (May 2010) the industry remains in becalmed waters. Many reasons are given for this, amongst them, the difficulties associated with raising funds, the significant gap between buyers and sellers and the lack of suitable credit to fund transactions.

At the annual Unquote Private Equity Conference held in Cape Town in February this year, the 300 delegates were asked, through an interactive survey, to assess when pricing expectations between buyers and sellers were likely to converge and when the South African economy was likely to recover from the recent economic downturn. General consensus in the industry was that we were likely to see signs of these developments in 2011. Of interest, drawn from the same survey, 80% of delegates felt that acquisitions made or likely to be made in 2010 / 2011 would yield returns well in excess of 20%.

From these findings it is apparent that there is light at the end of the tunnel. The 2009 survey might show that the industry is down, but it is certainly not out!

Despite the challenges mentioned above, some highlights from the survey show that a positive role is being played by private equity in market activities.

In the BEE space, for example, (and while there are many categories to define BEE-compliant deals) the fact that the private equity role has grown in this sector from R68.6 billion in 2008 to R81.7 billion in 2009, illustrates a positive development of 19.1% and illustrates the importance of this sector to the economy. BEE compliant fund managers also have undrawn commitments of R23.4 billion (the equivalent of 70.1% of the total undrawn commitments in the BEE sector). The private equity sector significantly supports the BEE influence in the South African economy.

The South African private equity sector represents 3% of the South African GDP. The international norm sits at 2.7%. The above should also be seen in the context of the strengthening Rand value over the past year as many of these funds were raised on the back of a US$-Rand exchange rate of US$ 9.34 in 2008 against R7.38 in 2009. The resultant exchange rate loss on these funds is R4.5 billion with a consequent reduction of the amount available in undrawn commitments. The 3% figure, therefore, remains encouraging and the rand value it represents (R32.9 billion) available in undrawn commitments for future investment is positive. The South African economy has been fortunate as it has not suffered the general toxic debt exposure faced globally and has benefited from a significant reduction in interest rates (15% to 10.5%) over the past year.

All in all, not a bad way for a national economy to survive a recent recession in the face of the current global volatility!

The private equity industry employs over 500 professionals, many of whom have participated in this survey and who remain committed to the long-term benefits of the sector and the growth benefits it brings to the economy.

KPMG in South Africa would also like to take this opportunity to thank all participants who contributed to the findings of the survey.

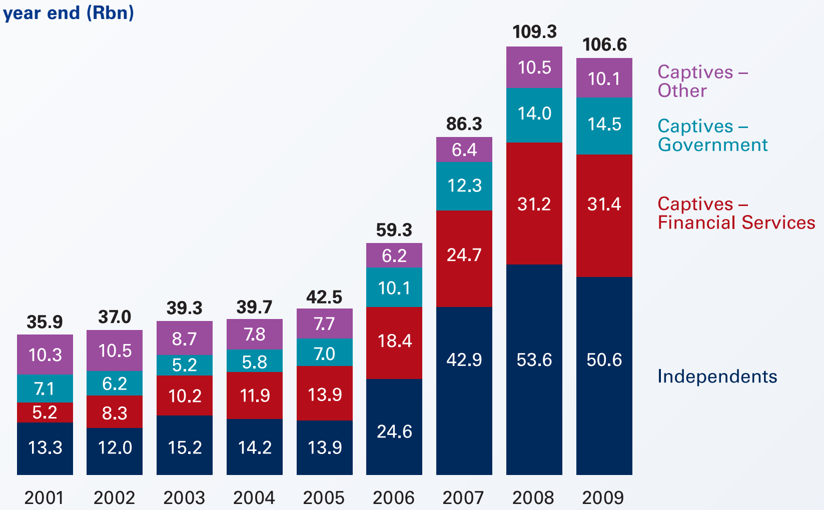
A special word of thanks must also be extended to our partners SAVCA, specifically, Executive Officer J-P Fourie and the survey sub-committee who continue to play an indispensable role in compiling the survey annually. I would also like to thank the Private Equity Markets team at KPMG for their tireless efforts in producing the survey.

Warren Watkins
Director – KPMG Services (Pty) Ltd
Head of Private Equity Markets – Africa Region

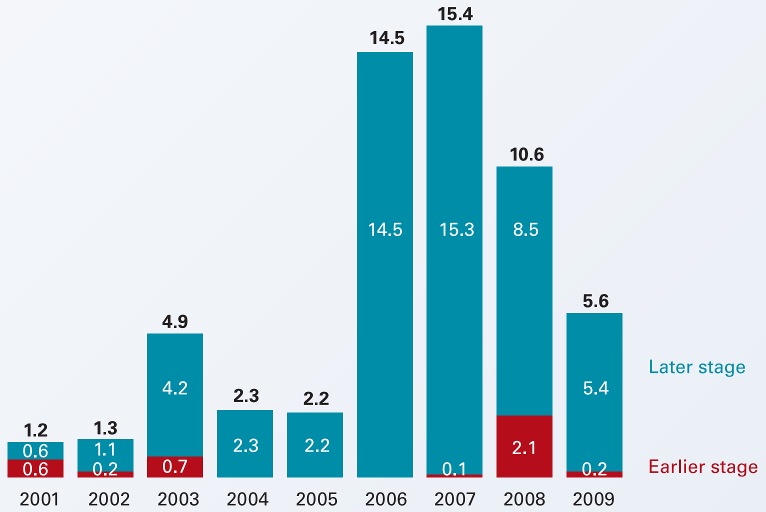
Highlights

- South Africa's private equity industry has R106.6 billion in funds under management at 31 December 2009, a decrease of 2.6% from R109.3 billion at 31 December 2008.
- At 31 December 2009, funds under management (excluding undrawn commitments) were 3.0% of GDP, unchanged from 2008. Funds under management by Independents were 1.1% of GDP (2008: 1.1%) and funds under management by Captives were 1.9% of GDP (2008: 1.9%). Funds under management have had a compound annual growth rate of 14.2% since 1999 when this survey began.
- Independents have decreased their total funds under management by 5.6% from R53.6 billion at the end of 2008 to R50.6 billion at the end of 2009.
- Captives-Government and fund managers that are black owned, empowered or influenced had R81.7 billion of funds under management at 31 December 2009, an increase of 19.1% from the R68.6 billion at the end of 2008. Thus 76.6% of total funds under management are at least black influenced or are classified as Captives-Government (2008: 62.8%).
- R5.6 billion was raised during 2009, which is down from the R10.6 billion of funds that were raised during 2008, and a significant decrease from the record breaking R15.4 billion of funds that were raised during 2007.
- 36.0% of all funds raised during 2009 were from South African sources (2008: 22%). The US contributed 51% (2008: 18%), making it the highest contributor of all funds raised to date and not yet returned to investors (US: 32%, South Africa: 29%, UK: 23%).
- R32.9 billion in undrawn commitments at the end of 2009 is available for future investments. This represents a decrease of 18.8% from the R40.5 billion of undrawn commitments at the end of 2008.
- Investment activity is down 63.0% from R18.9 billion during 2008 to R7.0 billion during 2009 (2007: R26.1 billion).
- Investments in entities during the year that are black owned, empowered or influenced are down 59.9% from R13.2 billion during 2008 to R5.3 billion during 2009. This excludes the investment activities of captives-government.

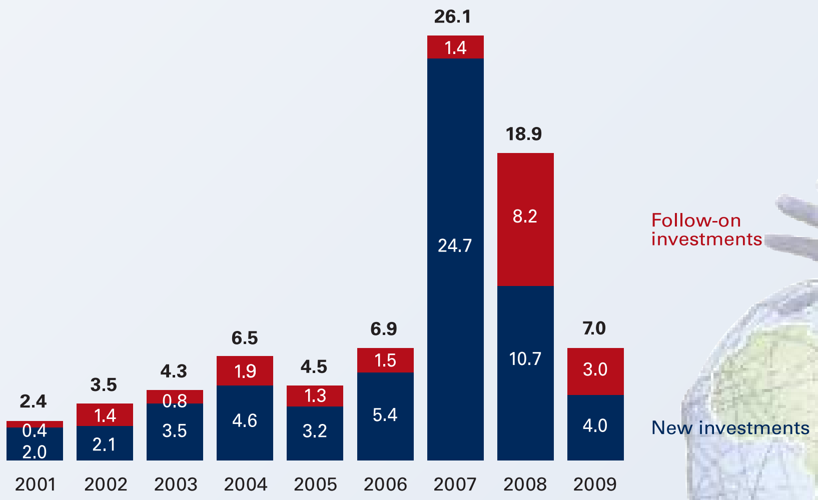
Composition of total funds under management at year end (Rbn)



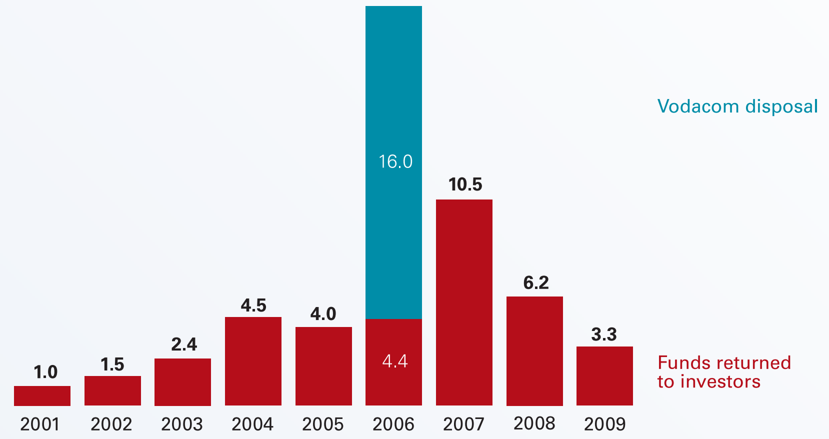
Third party funds raised during the year, analysed by fund stage (Rbn)



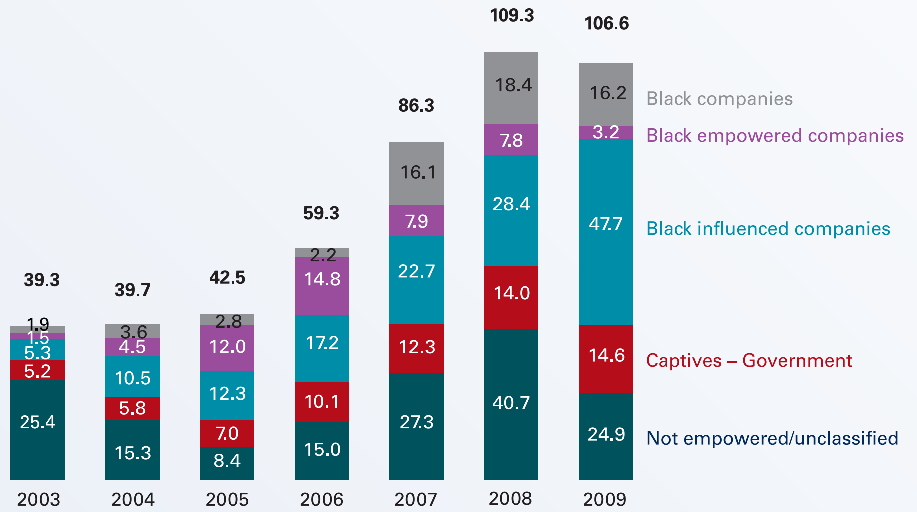
Cost of investments made during the year, analysed by new and follow-on investments (Rbn)



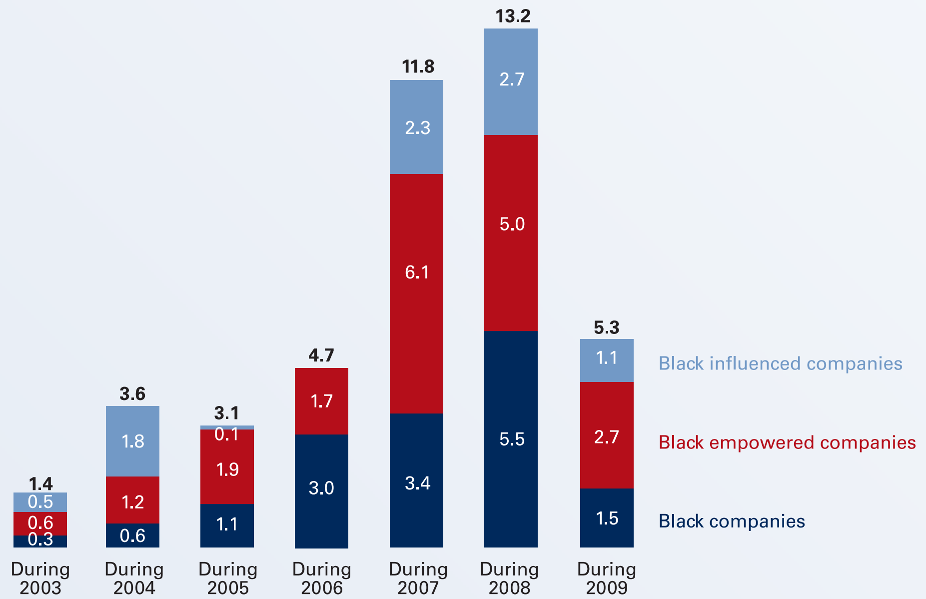
Funds returned to investors during the year (Rbn)



BEE classification of fund managers at year end (Rbn)



Cost of BEE investments made during the year (excluding Captives – Government) (Rbn)



Sources of information

The principal source of information for this survey was the survey questionnaire. In addition we have used a draft version of SAVCA's 2010 Handbook, held discussions with certain private equity industry participants, as well as sourced public information on private equity funds, including international surveys.

The survey questionnaire was developed jointly by KPMG in South Africa and a specially constituted SAVCA sub-committee.

For clarity, the guidelines for participation in this survey are as follows:

Participants must:

- Have as their principal business the management of capital (third party and / or proprietary capital) for the provision of capital (equity or quasi equity) primarily to unlisted companies; and
- Employ professionals - dedicated to the management of the capital and the investments made using the capital (and capital from other providers); and
- Generate returns – mainly through medium to long-term returns on investment and / or social development returns.

Investments should be included if, they are made in South Africa, regardless of where they are managed from. This is a change from prior years where, in addition to these investments, investments made outside of South Africa, but managed from South Africa, were also included in the survey. From the submissions, had those investments outside of South Africa but managed from South Africa, been included in the 2009 survey, funds under management would have increased by R3.7 billion (2008: R2.9 billion).

We note that determining the level of private equity industry activity is not an easy task. Whilst certain parties lobby for a more inclusive approach to measurement, others believe that overstating the level of local activity is a disservice to the industry as this could possibly reduce the appetite of Development Financing Institutions (DFIs) and foreign investors to commit funds to South Africa in favour of other under-funded emerging markets. The 'purists' also argue that this survey should only measure the activity of the independent funds, as these form the core of the professionally managed private equity industry both locally and globally. This, however, would negate the significant role played by corporates, banks and DFIs in private equity in South Africa. For the purposes of presentation, and elimination if deemed necessary by specific users, we have presented data split, wherever possible, between the various types of fund managers.

Questionnaires were e-mailed to 73 entities that indicated that they would consider participating in the survey. Of the 73 entities, 41 of them (representing 61 funds) at least partially completed the questionnaire. In addition, alternative sources were used to obtain information on a further 13 private equity firms, representing 13 funds, that did not complete the questionnaire. Although these alternative sources did not provide us with as much information as our questionnaire, we believe that the information is complete and understated, if anything.

Other data has been sourced from various sources, including:

- EVCA 2009 European Private Equity Market (Preliminary figures)
- EVCA Press release, 10 March 2010
- EVCA/Thomson Reuters Performance Benchmarks 2008 European Private Equity
- Statistics South Africa
- The 2009 Preqin Global Private Equity Review
- Thomson Reuters/National Venture Capital Association – press release of 5 May 2010
- Zephyr – a Bureau van Dyk product
- Ernst & Young Mergers and Acquisitions – A review of activity for the year 2009 (19th Edition)
- Other sources specifically included in the footnotes.

In compiling the information for this survey KPMG has worked closely with a SAVCA sub-committee to try to ensure meaningful interpretation and comment has been included in this report. The sub-committee reviews the document prior to its public release, but does not have access to any of the individually completed questionnaires submitted to KPMG or any other information not presented in this publication.

Although care has been taken in the compilation of the survey results, KPMG and SAVCA do not guarantee the reliability of its sources or of the results presented. Any liability is disclaimed, including incidental or consequential damage arising from errors or omissions in this report.

Introduction to private equity

The term 'private equity' refers to shareholder capital invested in private companies, as distinguished from publicly listed companies. Private equity funds are generally investment vehicles that invest primarily in enterprises which are not listed on a public stock exchange.

An enterprise may seek private equity financing for a variety of applications, from increasing its working capital base in times of business expansion, developing new technologies and products to grow and remain competitive, making acquisitions of other businesses, to buying out certain shareholders to restructure the ownership and management of the business. Another vital application of private equity in South Africa is facilitating the introduction of BEE investment.

The role of private equity

Investments by private equity funds into companies hold great benefits besides the mere cash effect to develop businesses. Private equity investments have considerable impacts in terms of productivity, skills development and job creation, as it includes the transfer and exchange of know-how and not only the flow of capital. Private equity fund managers play an active role in managing their investments in companies as they derive a return from the increased valuation of their investments (not just debt repayment and an associated interest rate) and hence focus on business development for the companies they invest in.

In South Africa the private equity industry represents a significant sector within the overall financial services industry, and an attractive asset class within the broader capital markets. As seen across a range of indicators, the profile of the local private equity industry is that of a productive contributor to the development of the South African economy. These contributions are detailed in The Economic Impact of Venture Capital and Private Equity in South Africa 2009 study, which is available from SAVCA. In addition private equity facilitates BEE, addresses economic imbalances of the past, promotes entrepreneurial initiatives and positions South Africa to compete successfully on the global stage.

Through the use of leverage in certain transactions, private equity sponsors can assist in improving the capital efficiency of their investee companies.

As can be seen in this survey, private equity is an important source of Foreign Direct Investment (FDI), both indirectly via the raising of offshore money by local fund managers but also more recently by direct investment by foreign fund managers.

Investment stages

For the purposes of this survey we have broadly classified private equity into three sub-classes, namely:

- Venture Capital
- Development Capital
- Buy-out Funding.

Because the definitions of the terms 'venture capital' and 'private equity' vary from country to country, the figure below sets out the terminology used in this survey to avoid confusion.

Figure 1: Private equity investment stages

Private equity category	Stage of business development	Typical application
Venture capital	Seed capital	Funding for research, evaluation and development of a concept or business before the business starts trading.
	Start-up and early stage	Funding for new companies being set up or for the development of those which have been in business for a short time (one to three years).
Development capital	Expansion and development	Funding for growth and expansion of a company which is breaking even or trading profitably.
Buy-out	Leveraged buy-out or buy-in	Funding to enable a management team or empowerment partner, either existing or new, and their backers to acquire a business from the existing owners, whether a family, conglomerate or other. Unlike venture and development capital, the proceeds of a buy-out generally go to the previous owners of the entity. Buy-outs are often leveraged.
	Replacement capital	Funding for the purchase of existing shares in a company from other shareholders, whether individuals, other venture-backers or the public through the stock market. Unlike venture and development capital, the proceeds of replacement capital transactions are generally paid to the previous owners of the entity.

Development of private equity in South Africa

Beyond being defined as a range of investment categories applicable to non-listed companies, private equity is also a distinct asset class within the broader capital market, and is supported by a well-defined industry made up of various players and stakeholders.

The current profile of the private equity industry in South Africa is the result of various historical developments in the country and in global capital markets. In South Africa, the industry was boosted by the large number of leveraged buy-outs and management buy-outs (LBOs and MBOs), resulting from the widespread disinvestment of multinationals from South Africa in the 1980s. These transactions were structured, financed and managed by the major commercial, merchant and investment banks of the time.

As these local banks developed the in-house expertise to manage private equity investments on an internally funded basis, there was a global trend, especially in the US and Europe (more specifically the UK) towards the formation and management of private equity funds whose capital was sourced from third party investors such as pension funds, large corporations and other institutional entities.

In South Africa the private equity industry benefited from the global trend towards recognising the asset class as an attractive investment vehicle for investors, combined with its growing reputation as an effective means of economic development for Governments and development agencies. It may be argued that South Africa has one of the most sophisticated private equity industries among emerging and developed markets, with different funds at all stages of business development, from start-up venture capital funds through to late-stage and buy-out funds.

Globally in 2000 the vast majority of funds, over 77%, were focused on North America (2009: 37%), with Europe and Asia and Rest of the World accounting for 15% and 8% respectively. However, since 2000, private equity has steadily become a more global industry, with more than one-quarter of funds now focused on Europe, and the market share of Asia and Rest of the World growing at an even more rapid rate over the period. The United States, nevertheless, remains the main centre for private equity activity, with the majority of funds still focused on the region.

2009 was a year of reduced investment, fund raising and exit activity in the South African industry. This is in line with global trends.

The second half of 2008 saw an end to the record levels of fundraising that had been steadily increasing over the previous five years. Global fundraising for the industry was down dramatically in the second half of 2008 and for the whole of 2009 as the credit crunch began to affect investors' appetite and ability to invest in new fund opportunities:

- Global investment decreased (71%) from US$658 billion during 2007 to US$190 billion during 2008[1] to US$147 billion in 2009.

[1] Data sourced from Zephyr – a BVD product

Types of private equity firms

A distinction needs to be made between captive and independent fund managers. Fund managers include independents who manage funds on behalf of third parties as well as captives who manage on-balance sheet investments that were funded by a parent or group often from an indeterminate pool of money. Captive funds are for the purpose of this survey further classified into the captive funds of government, financial services (including banks and insurance companies) and other captive funds (including corporates).

Independent fund managers raise cash commitments from third party investors. Generally, in terms of the agreement between the third party investors and the private equity fund manager, the private equity firm draws down on the commitments as and when investments are to be made. Independents are the dominant type of firm in the UK, the rest of Europe and in the US, where these funds are structured as limited partnerships. Private equity firms typically act as the general partner of the limited partnership, whilst institutions and other investors become limited partners.

Unlike captive funds, independent funds are usually closed ended. This means that once a fund has been raised, it is closed out, following which no further commitments are accepted from third parties. Typically, third parties' commitments expire, often according to a time schedule based on a 'use it or lose it' principle, once a maximum drawdown time period expires. Professional private equity managers usually earn income from a combination of a management fee based on total commitments plus an enhanced carried interest, which is based on the performance of the fund relative to a benchmark. Captive fund managers usually do not charge any management fee.

In line with recent trends in many developed private equity markets, we are likely to soon see the 'spin-out' of private equity teams of some of South Africa's financial institutions into semi-captive fund managers. Absa Capital Private Equity and the primary investing fund of the Old Mutual Private Equity Fund have moved into a semi-captive structures.

Black Economic Empowerment

One of the notable features of South Africa's private equity industry is the very significant role it plays in the development of BEE. The industry's impact on BEE is far reaching, as detailed in the various sections of this survey. It is specifically important to note that:

- Private equity transactions enable higher gearing, whereby a combination of private equity investment and bank loans allow the implementation of an appropriately geared financial structure, allowing management of the investee company to acquire a significant stake in the company. This leveraged model also creates opportunities for the involvement of black management and other BEE parties in the ownership and management of the investee company.
- The vast majority of transactions concluded by the industry have a significant BEE component and the majority of private equity fund managers have a BEE element to their own shareholding structure.
- The Codes of Good Practice for Broad-Based BEE (BEE Codes), issued by the Department of Trade and Industry (DTI), stipulate the conditions under which a company may treat its ownership arising from a private equity fund as if that ownership were held by black people. These requirements were finalised in June 2007 and provide the industry clarity on how to further increase its already significant contribution on this vital socio-economic process. The requirements can be summarised as follows:
    - More than 50% of any exercisable voting rights associated with the equity instruments through which the private equity fund manger holds rights of ownership must be held by black people.
    - More than 50% of the profits made by the private equity fund manger after realising any investment made by it, must by written agreement, accrue to black people.
    - The private equity fund manger must be a black-owned company, as defined in the BEE Codes.
    - Over a 10-year period, the private equity fund must have more than 50% of the value of funds invested, invested in black-owned enterprises that have at least 25% direct black ownership.

Funds under management

Our research shows that South Africa's private equity industry now has a total of R106.6 billion funds under management (inclusive of undrawn commitments of R32.9 billion). This is a R2.7 billion (2.6%) decrease from funds under management at 31 December 2008 of R109.3 billion (inclusive of R40.5 billion undrawn commitments). The industry has achieved a compound annual growth rate of 14.2% of total funds under management since 1999 when the survey began.

Independents have decreased total funds under management by R3.1 billion from R53.6 billion at 31 December 2008 to R50.6 billion at 31 December 2009.

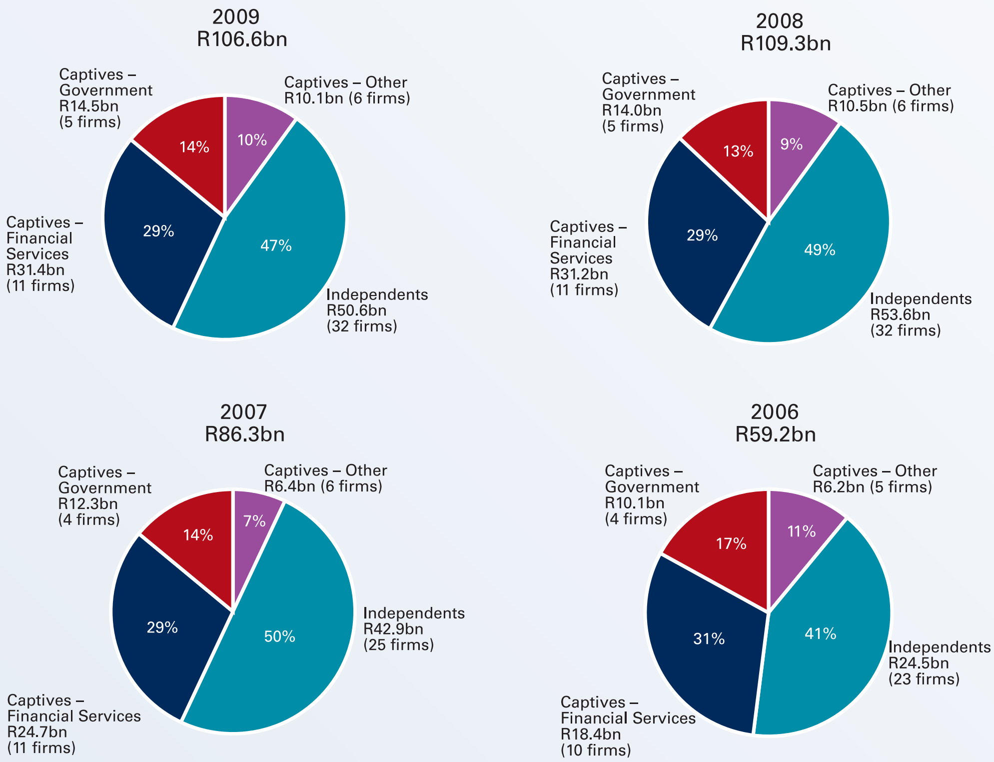
Captives-financial services' total funds under management increased marginally by R0.2 billion from R31.2 billion at 31 December 2008 to R31.4 billion at 31 December 2009.

Funds under management by captives-government increased by R0.6 billion from R14 billion at 31 December 2008 to R14.5 billion at 31 December 2009 (4.3% increase).

Funds under management by captives-other decreased by R0.4 billion from R10.5 billion at 31 December 2008 to R10.1 billion at 31 December 2009 (3.8% decrease).

[1] Although our 2008 survey reported total funds under management of R103.1 billion at 31 December 2008, the 2008 results now include certain private equity and mezzanine debt funds which were excluded last year and vice versa. In addition investments exclude those made outside of South Africa (which were previously included), but managed from South Africa. The restatement of comparative data by certain participants has also been a major contributor to the restatement. In analysing the research it is important to note that, in most cases, only comparative 2008 information has been restated but not pre-2008 information.

Figure 2: Total funds under management



At 31 December 2009, the split between Captive funds and independent funds is almost equal, with Captive funds accounting for approximately 52.6% of the total funds under management (2008: 51.0%).

Figure 3: Composition of total funds under management at year end (Rbn)

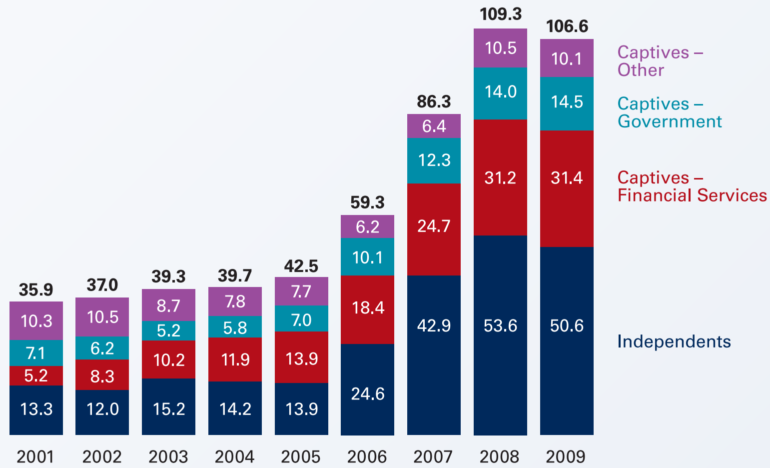
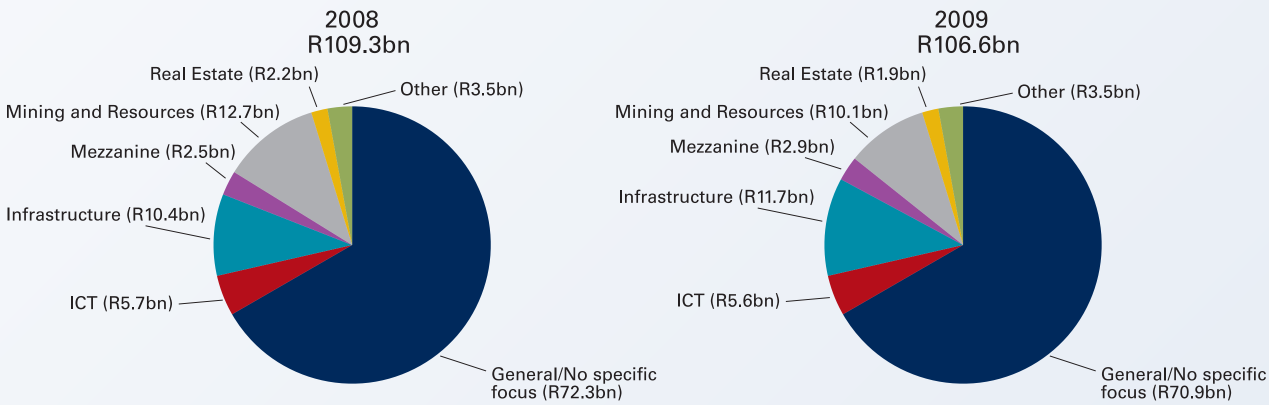


Figure 4: Composition of total funds under management at year end by the focus of the fund (Rbn), includes Pan-African funds[1]

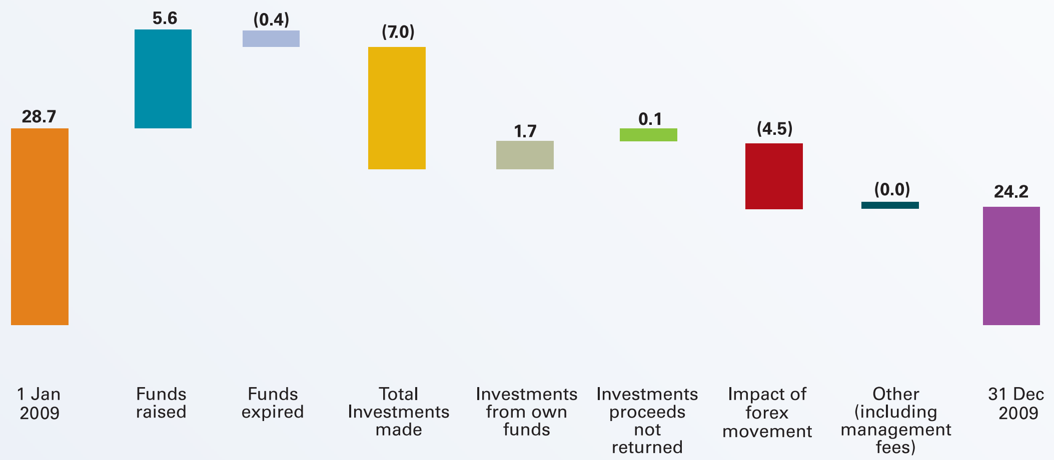


General funds are still dominant, with more than two thirds of the funds under management at 31 December 2009.

[1] The total funds under management includes Pan-African funds who have an element of undrawn commitments that may be invested throughout Africa, including South Africa.

Total undrawn commitments at 31 December 2009 are R32.9 billion (2008: R40.5 billion), of which R23.2 billion (2008: R28 billion) reflects the undrawn commitments of independent fund managers. Significant factors influencing the reduction in undrawn commitments are the reduction in fund raising activity (see Fund raising activity section of the survey) and the negative effect of exchange rates on foreign denominated funds. (The Rand strengthened 21% against the US dollar from R9.34 as at 31 December 2008 to R7.38 as at 31 December 2009.) For the independents, this reduction alone on undrawn commitments was reported to be R4.5 billion.

Figure 5: Roll-forward of undrawn commitments from third parties (Rbn)[1]



Undrawn commitments raised from third parties decreased to R24.2 billion at the end of 2009 (2008: R28.7 billion). However, this still bodes well for those seeking to sell to private equity funds. These funds often work on a 'use it or lose it' principle, meaning that there is an ongoing drive by fund managers to invest their funds as soon as possible. The timing, however, is also dependent on prevailing economic factors and conditions.

From the second half of 2008 and for the whole of 2009, the credit crunch has significantly curtailed global and South African private equity investing activity. This is reflected in the reduced amount of funds raised, and investments made. Although as mentioned, South Africa was not as severly affected as it could have been or as some countries were.

1 In prior years this roll forward was for 3rd party funds available to Independents only, however this year, as with 2008, a number of Captives have shown that they raised a portion of third party funding as well. Therefore, the closing balance of R24.2bn will not agree to the closing balance of Independents of R23.2bn for 2009. The R24.2bn also does not agree to the R32.9 billion total undrawn commitments at the end of 2009 as the difference is made up of Captives who are showing undrawn commitments that they have available off their own balance sheet i.e. not raised from third parties.

Figure 6: Total funds under management at year end, split by undrawn commitments and investments (Rbn)

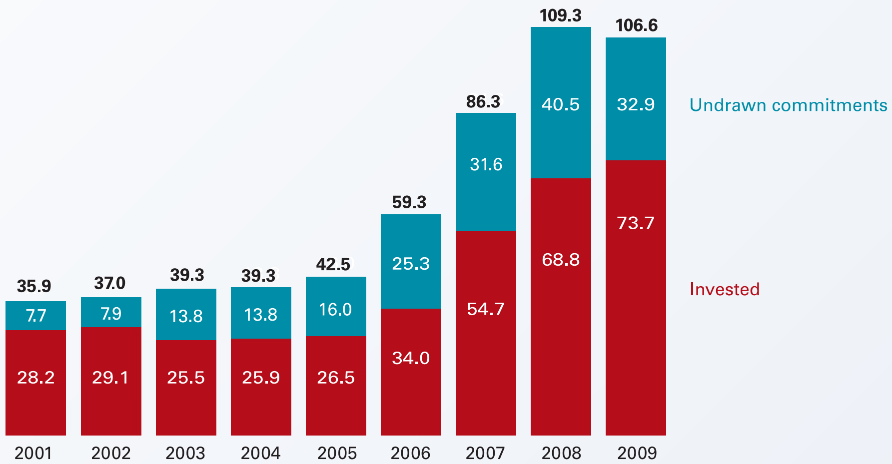
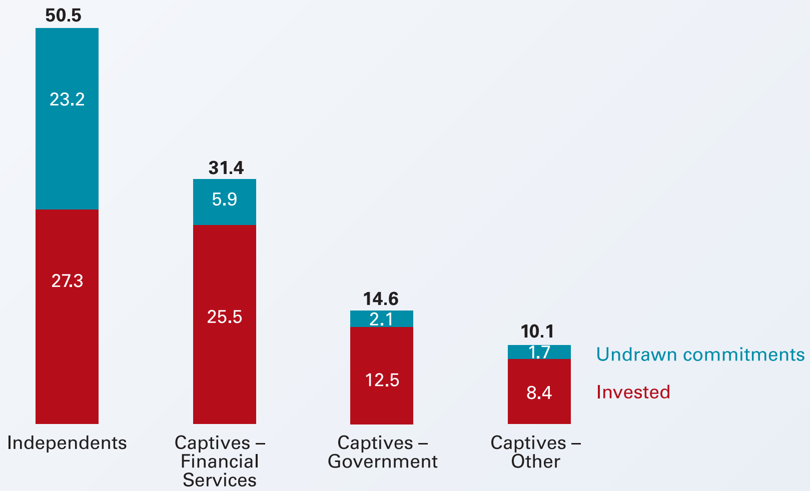


Figure 7: Total funds under management at 31 December 2009, split by undrawn commitments and investments (Rbn)



Captive funds, and specifically Captives-Financial Services, generally have no contractual commitments from its parent/group, although this is not necessarily indicative of their capacity to make additional private equity investments. In certain instances, Captive funds have reported the cash available for private equity investments as undrawn commitments while others have only reported unrealized investments without including the pool of available funds as undrawn commitments.

Participants in this survey have indicated that 52.2% of undrawn commitments at 31 December 2009 can be invested in new and/or follow-on investments (2008: 39.9%). The balance available only for new investments is 44.2% for 2009 (2008: 57.1%) and only for follow on investments 3.6% for 2009 (2008: 3%).

The undrawn commitments at 31 December 2009 of Independents include R23.2 billion raised from third parties and R0.4 billion of their own funds[1].

[1] Note that these amounts include undrawn commitments available for investment both in South Africa and for investment in Pan-African investments (that is, no specific African region /country has been stipulated).

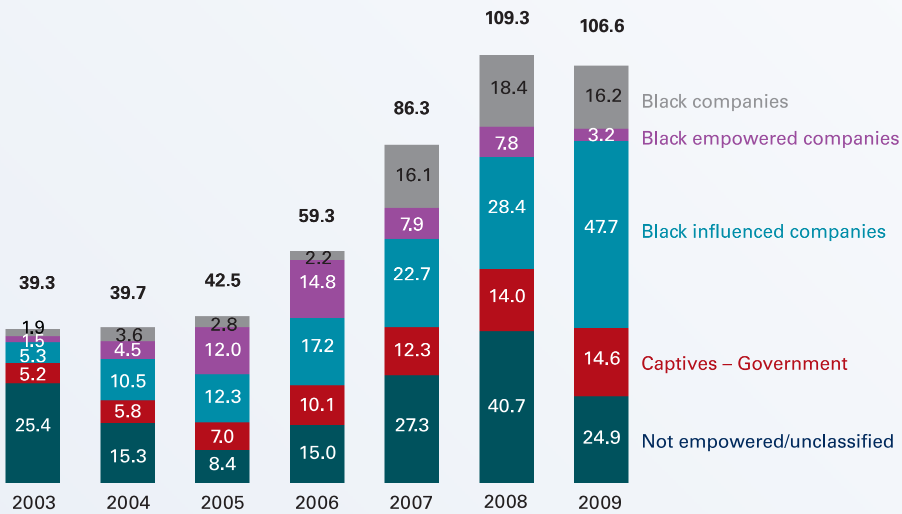
Analysis of total BEE funds under management

Captives-Government and fund managers that are themselves black-owned, empowered or influenced (that is, have at least 5% black ownership) had R81.7 billion of funds under management at 31 December 2009, an increase of 19.1% (2008: R68.6 billion). 76.6% of total funds under management are thus at least black-influenced or classified as Captives-Government (2008: 62.8%).

Using an alternative measure, whereby Captives-Government are excluded, fund managers that are black-owned, empowered or influenced increased by 22.9% from R54.6 billion at the end of 2008 to R67.1 billion at the end of 2009. This represents 62.9% of total funds under management, an increase from the 49.9% at the end of 2008.

It should be noted that where participants did not return a completed questionnaire, and if we were unable to include them in certain parts of this survey using publicly available information, all these funds under management have been classified as not empowered.

Figure 8: BEE classification of fund managers at year-end (Rbn)



R26.7 billion of the funds under management of at least black-influenced companies and Captives-Government at 31 December 2009 (2008: R29.4 billion) remained undrawn at the year-end. Of the combined black owned, empowered or influenced companies, R24.6 billion of their funds under management remain undrawn at year-end. This represents 74.8% of the total undrawn commitments (2008: R27.2 billion / 82.7%)

The BEE Codes have provided clarity as to the criteria that a private equity fund and fund mangers must meet for a company to treat ownership arising from a private equity fund as if ownership were held by black people.

Going forward we hope to report more fully on the BEE rating of the private equity fund manager and their compliance with the requirements of BEE Codes which stipulate when a company may treat its ownership arising from a private equity fund as if that ownership were held by black people.

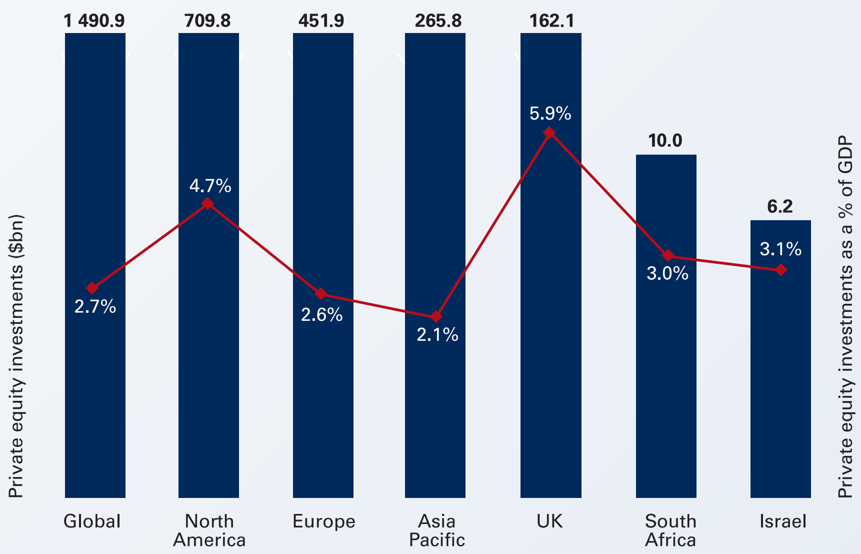
Comparison to the global market

Although the South African private equity industry is small in comparison to those of the US and UK, it is significant in relation to many other countries.

In terms of total funds under management relative to GDP, South Africa's private equity industry at 3.0% is higher than the global average of 2.7%, higher than the European average of 2.6% and the 2.1% for Asia Pacific. It is still some way off that of North America (4.7%) and the UK (5.9%).

South Africa's funds under management, excluding undrawn commitments, relative to GDP of 3.0% can be split between funds under management by Independents, which were 1.1% of GDP, and funds under management by Captives, which were 1.9% of GDP.

Figure 9: Size of international private equity markets (US$bn) relative to GDP[1]



It is important to note that the above graph is based on the information available at the time of going to print. Unfortunately the comparative data is based on information which is becoming dated. For specific details, refer to the footnote below.

[1] Based on funds under management excluding undrawn commitments for South Africa at 31 December 2008 and at 31 December 2007 for the UK as reported by EVCA and converted at €1=US$1.47. Global, North America, Europe and Asia Pacific is based on cumulative investments at cost made from 1998 to 2007 as reported by the PwC Global Private Equity survey (covering the 2007 calendar year). Israel is based on cumulative investments at cost made from 2000 to 2008 as reported by the MoneyTree Survey prepared by Kesselman & Kesselman PwC. South African data excludes undrawn commitments to allow for comparability and converted at US$1=R7.38 2009 GDP for South Africa was sourced from Statistics South Africa (estimate at March 2009). Israeli GDP as reported by the CIA World Fact Book. Global, North American, UK, European and Asia Pacific GDP as reported in the PwC Global Private Equity survey (covering the 2007 calendar year).

South Africa remained in the global Top 30 (25th).

Figure 10: Country ranking – Aggregate deal value (US$ bn) 2009[1]

	Country	Investment Value (US$billion)		Country	Investment Value (US$billion)		Country	Investment Value (US$billion)
1	USA	52.5	11	Germany	2.6	21	Sweden	1.2
2	UK	12.4	12	Korea	2.5	22	Russian Federation	1.2
3	China	12.4	13	Switzerland	2.3	23	Pakistan	1.0
4	France	10.7	14	Netherlands	2.2	24	Portugal	1.0
5	Japan	5.9	15	Singapore	2.0	**25**	**South Africa**	**0.9**
6	Luxembourg	5.8	16	Czech Republic	1.8	26	Brazil	0.9
7	Belgium	4.6	17	Canada	1.6	27	Austria	0.9
8	Italy	4.4	18	Ireland	1.3	28	Bulgaria	0.9
9	Spain	2.8	19	Bermuda	1.3	29	Finland	0.7
10	India	2.6	20	Australia	1.2	30	Denmark	0.7

South Africa was ranked in the global Top 30 (23rd) of investment activity.

Figure 11: Aggregate deal value (US$ bn) 2008[1]

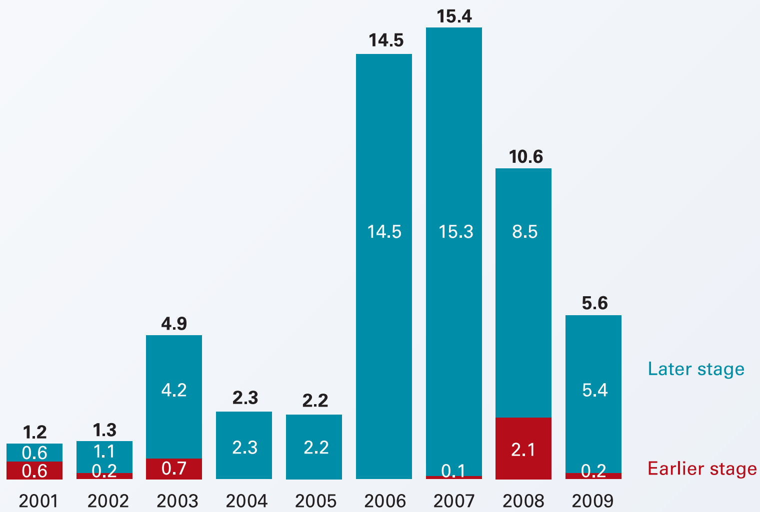
	Country	Investment Value (US$billion)		Country	Investment Value (US$billion)		Country	Investment Value (US$billion)
1	USA	112.9	11	China	4.9	21	Portugal	2.5
2	UK	44.7	12	Netherlands	4.1	22	Chile	2.5
3	Germany	20.4	13	Australia	3.9	**23**	**South Africa**	**2.0**
4	Spain	17.3	14	Korea Republic	3.5	24	Belgium	2.0
5	France	15.7	15	Japan	3.2	25	Finland	1.7
6	Italy	13.5	16	Denmark	3.1	26	Switzerland	1.6
7	Canada	12.7	17	Turkey	3.1	27	Cyprus	1.6
8	Russian Federation	12.6	18	Luxembourg	2.9	28	Mexico	1.4
9	India	8.0	19	Norway	2.8	29	Greece	1.2
10	Sweden	5.3	20	Brazil	2.6	30	Cayman Islands	1.2

[1] Data sourced from Zephyr – a BVD product

Fund raising activity

The figure below highlights the decrease in the amount of funds raised from R10.6 billion during 2008 to R5.6 billion during 2009 (47.2% decrease). The trend continued in 2009 for the majority of the funds raised being for later stage investment.[1]

Figure 12: Funds raised during the year, analysed by fund stage (Rbn)



The majority of reported fund raising activity during 2008 and 2009 was by independents.

The major fund raisers for 2009 were inter alia, Capitalworks, OMIGSA, International Housing Solutions and Vantage Risk Capital.

In 2008, the major fund raisers included Absa Capital Private Equity, Actis, Capitalworks, Horizon Equity, Inspired Evolution, International Housing Solutions, Leaf Capital, Medu Capital and Mezzanine Partners.

67.0% of all third party funds raised during 2009 were from Government, aid agencies and DFI's (2008: 58%). The next largest categories during 2009 were pension and endowment companies (12.5%) and insurance companies (9.9%). With the exception of Government, aid agencies, and DFI's, all other funding was sourced locally. SAVCA is optimistic that the proposed changes to the Pension Funds Act (Regulation 28) and the statements by National Treasury on a move from a 'rules-based' approach to 'principle-based regulation' will permit further investment by pension funds into private equity funds. This is very important, as when international investors consider investments into private equity funds, a key consideration for them is the amount of local participation by investors into the industry. A situation that limits this local participation, will hamper the extent to which international investors will invest and in this way limit private equity as an important source of foreign direct investment for South Africa.

[1] The R7.2 billion of funds raised during 2008, as reported in the 2008 survey has been restated due to additional participants joining, and the unreported funds and updates from existing participants. As with all earlier surveys, only the prior year is restated. In addition, funds raised for investment elsewhere in Africa, but to be managed from South Africa are no longer included in the 2009 survey numbers.

Figure 13: Sources of third party funds raised during 2009 (R5.6bn)

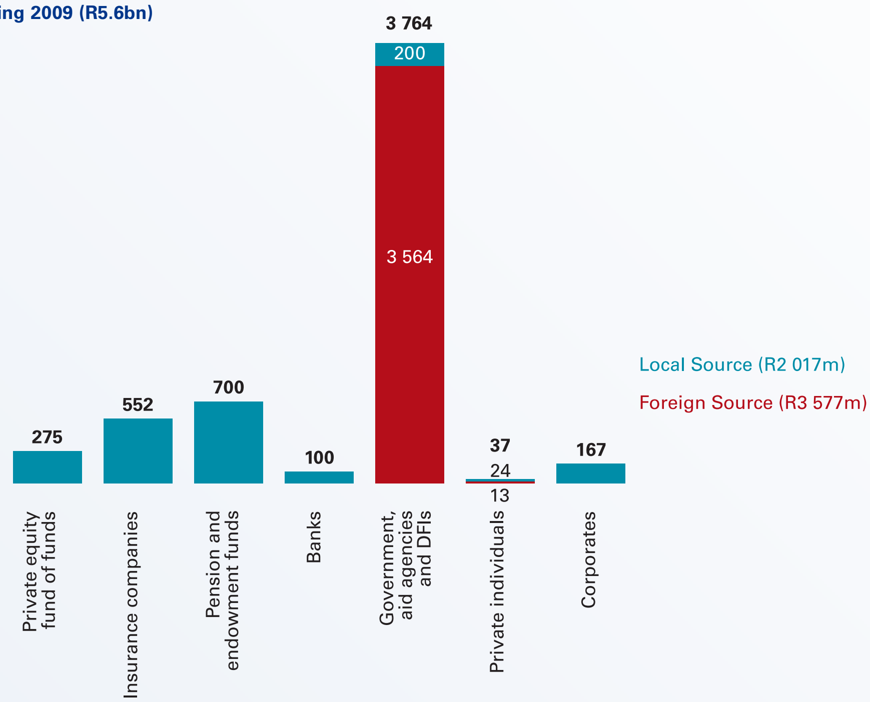
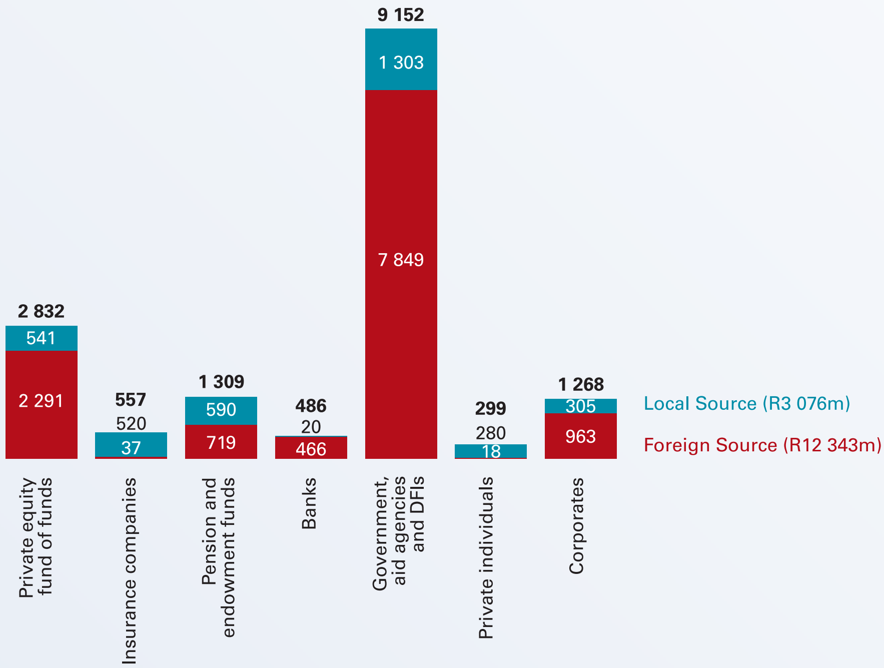
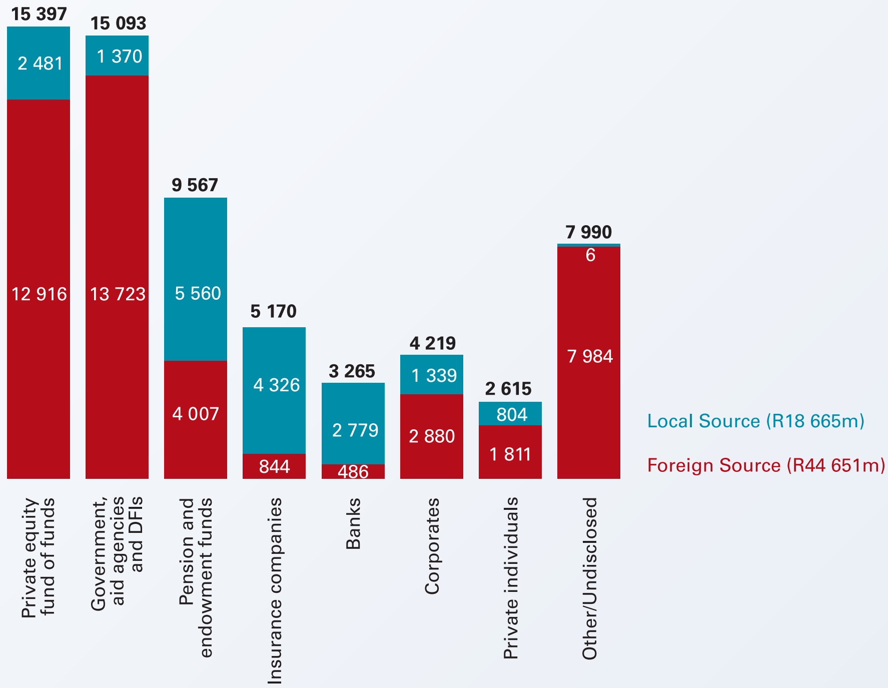


Figure 14: Sources of third party funds raised during 2008 (R10.6bn)

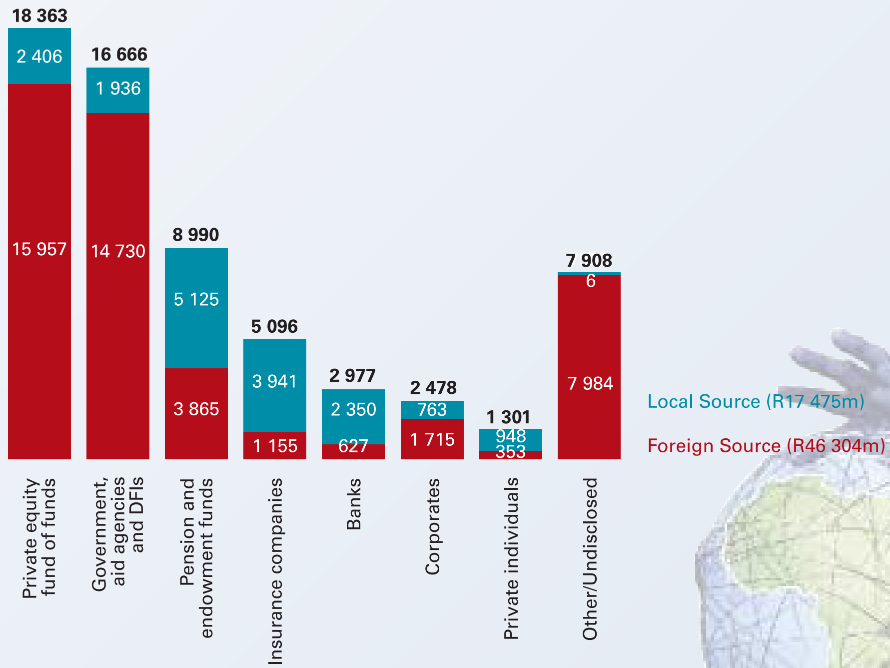


24.3% of third party funds raised and not returned to investors to 31 December 2009 were from private equity funds of funds followed by governments, aid agencies and DFIs (23.8%), pension and endowerment funds (15.1%) and insurance companies (8.2%). The remaining 28.6% was raised from other sources.

Figure 15: Sources of third party funds raised to 31 December 2009 not yet returned to investors R63.3bn



Sources of third party funds raised to 31 December 2008 not yet returned to investors R63.8bn



There are a number of differences in the pattern of funds raised not yet returned to investors from 1 January 1995 to 31 December 2009 between South Africa and Europe.

The relative proportions of funds raised from funds of funds and pension and endowment companies are 24% and 15% respectively for South Africa and 11% and 11% respectively for Europe. As one would expect, in South Africa there is a large contribution from Governments, aid agencies and DFIs to the local industry (24%), whereas in Europe the contribution is smaller (11%).

In Europe, banks are a major contributor to funds raised as they tend to prefer providing funding to Independents rather than investing in private equity assets directly. In South Africa the banks are still major, direct players in the local private equity industry.

Figure 16: Source of third party funds raised not yet returned to investors – South Africa compared to Europe (2009)[1]

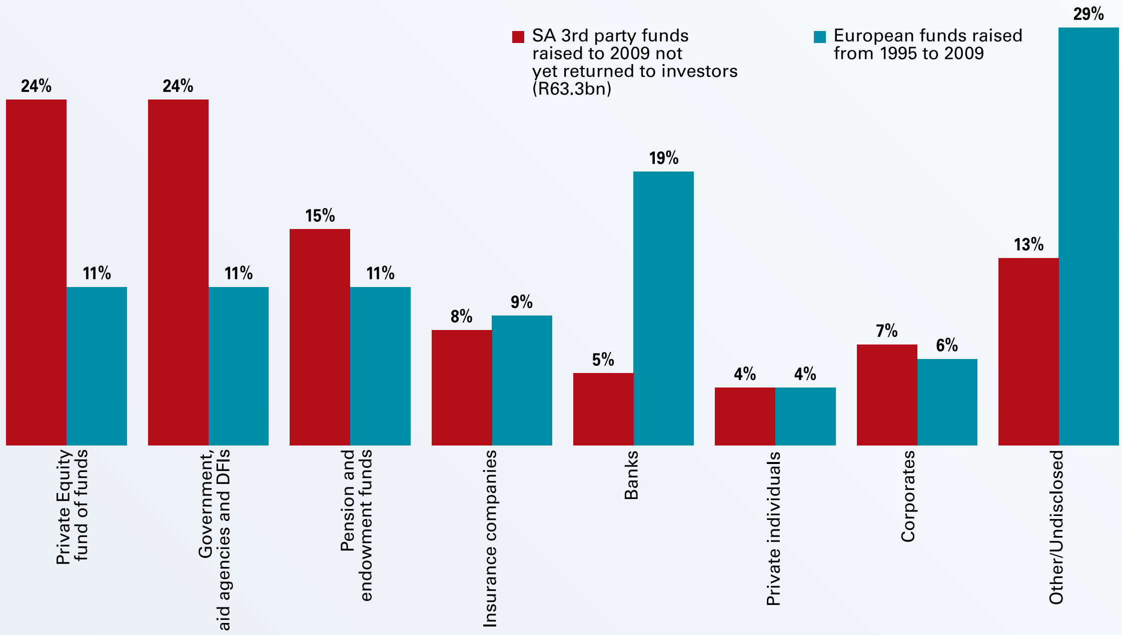
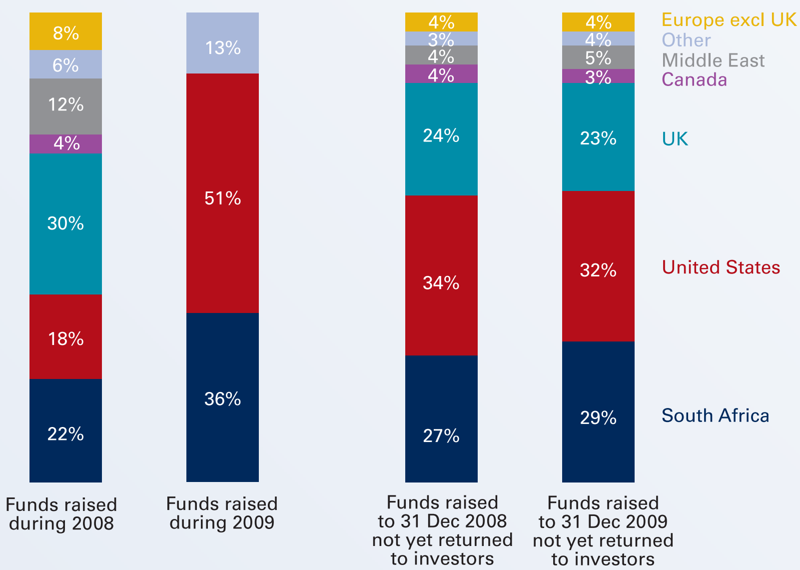


Figure 17: Geographic sources of third party funds raised



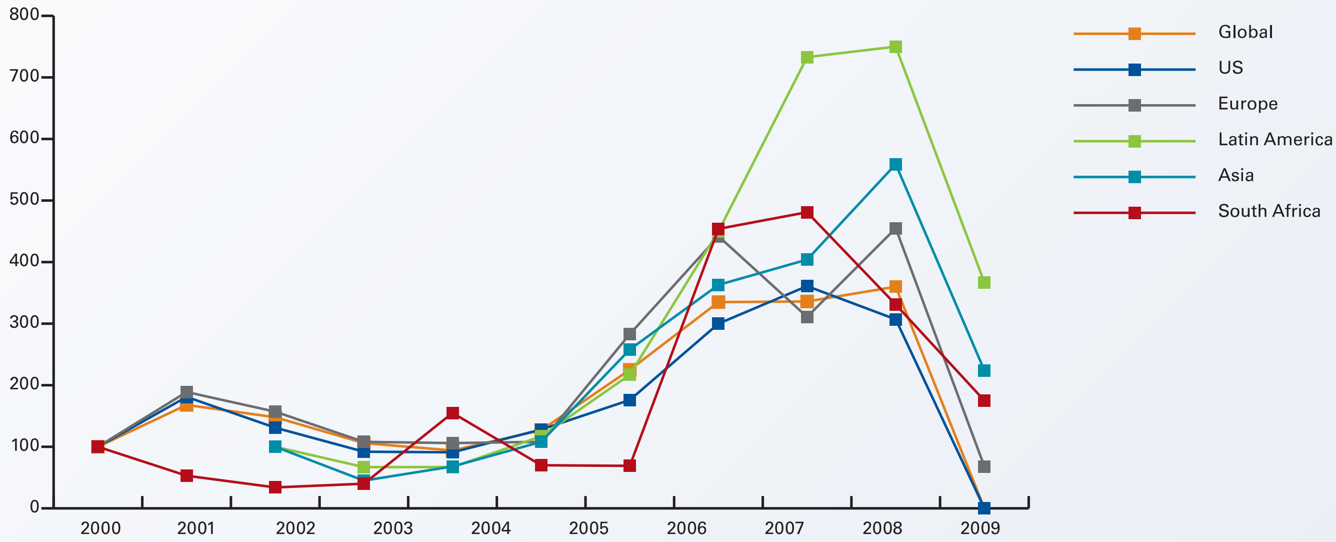
[1] European data sourced from EVCA

South Africa contributed 36% (2008: 22%) of funds raised during 2009. Funds raised from the US were 51% (2008: 18%).

Cumulatively, the US still remains as the main source of fund raising to date (32%), ahead of South Africa (29%) and the UK (23%).

When fund raising overseas, it is vital that local fund managers are able to demonstrate local support. With a 36% contribution to funds raised during 2009, local funders remain an important contributor of funds to the South African private equity industry.

Figure 18: Global and South African fund raising activity during the year (1999 = 100)[1]



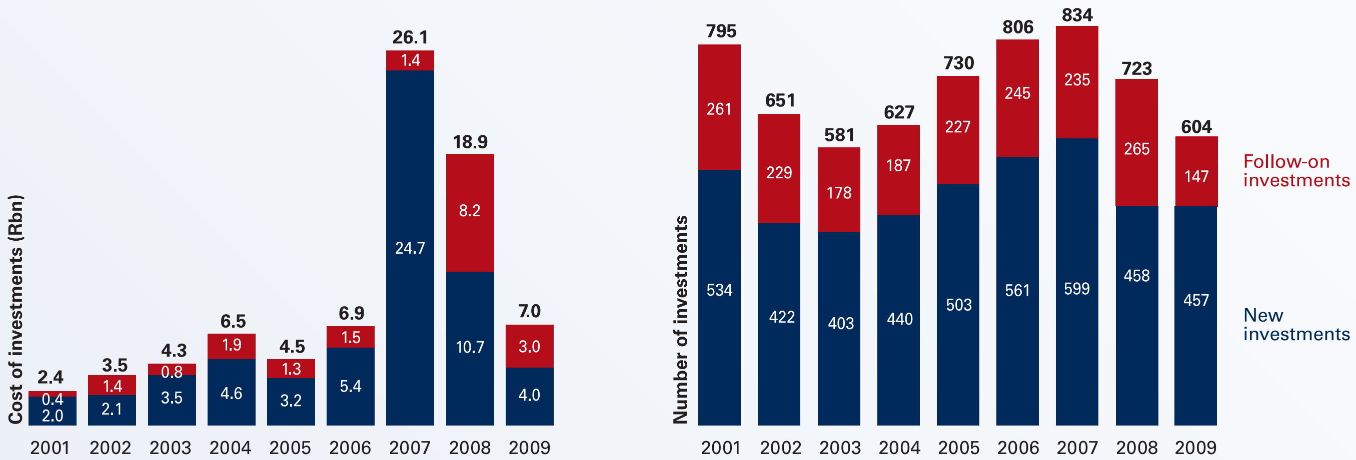
The figure above indicates that South Africa has not always tracked the international trend when it comes to fund raising activity. Using 1999 as a base year, by 2005, South Africa was falling considerably behind the pace of fund raising of the rest of the world. In 2006, South Africa's fund raising trend-line jumped ahead of certain other regions and this was maintained in 2007. In 2008 and 2009, South Africa showed a meaningful decline in fundraising activity. Globally and in all regions for 2009, fund raising activity decreased significantly.

[1] Data sourced from Zephyr – a BvD Product

Investment activity

Reported private equity investments decreased by 63.0% from R18.9 billion during 2008 to R7.0 billion during 2009. The total number of investments also decreased by 119, from 723 to 604 during the same period, representing a 16.5% decrease.

Figure 19: Cost and number of investments made during the year, analysed by new and follow on investments[1]



The significant decrease of 63.0% in private equity investment activity in value terms, was not unexpected given the overall decrease in South African Merger and Acquisition activity for 2009 (43.0%)[1]. Note that private equity investment activity is based on the equity cheque from private equity funds, whilst South African M&A is reported on the total deal size (i.e. equity plus debt).

With current capital market conditions paired with restricted credit markets, we have not seen the 'jumbo' deals (locally and internationally) that we saw as in 2007. In 2009 we have seen a reduction in the value and the number of investments when compared to 2008. The 2009 levels have fallen to those last seen in 2006.

In 2008, follow-on deals make up a much larger number and value of the investments completed when compared to prior years. This trend continued in 2009.

The overall average investment deal size has decreased from R26.2 million for the 2008 year to R11.5 million during 2009. New investments' average deal size decreased from R23.4 million during 2008 to R8.8 million during 2009 while follow-on investments average deal size decreased from R31.0 million during 2008 to R19.9 million during 2009.

1 The investment activity for 2005 reported in this survey excludes the acquisition of Waco for R5.4 billion (before accounting for net debt, that is, enterprise value) by CCMP Capital Asia, JP Morgan Partners Global Fund and management. The investment was not included in the survey since the private equity acquirers do not have a local office and the majority of Waco's revenue is also generated offshore. For the 2008 year we have also excluded two investments, due to the lack of information on these investments other than enterprise value. These were the acquisition by Denham Capital of shares in an SA-based energy firm, Bio Therm Energy, with a transaction value of R1.5bn and the acquisition of a significant shareholding in Medi-Clinic Corporation by European based private equity fund, Lehman Brothers Merchant Bank, with a transaction value of R1.3bn.*

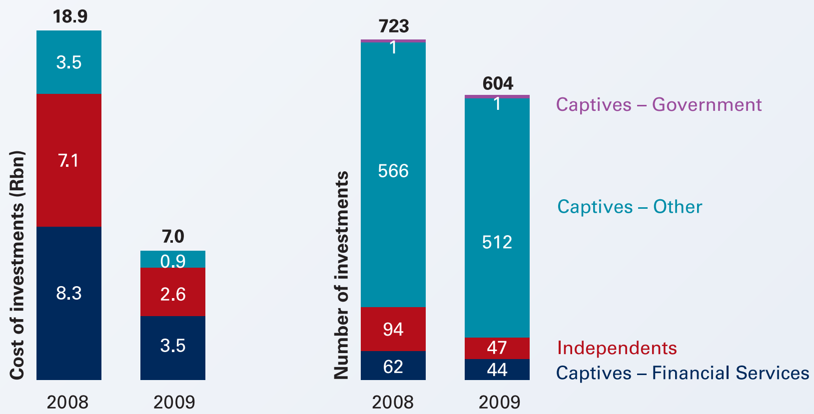
* Major private equity transactions (2009) as reported by Mergers & Acquisitions: A Review of Activity for the Year 2009 (Ernst & Young)

In terms of the number of reported investments, Business Partners, classified as Captives-Other, was again by far the most active investor in the South African private equity market, contributing 499 (83%) of the total number of reported investments made during 2009 (2008: 549, 76%), although only R563.5 million / 8% in terms of the cost of total investments made during 2009 (2008: R888.4 million / 5%). Business Partners' average deal size was R1.1 million in 2009 compared to R1.6 million in 2008.

If Business Partners' investments are excluded, the total average deal size during 2009 decreases to R60.8 million (2008: R103.7 million), new investments' average deal size during 2009 decreases to R83.2 million (2008: R102.3 million) and follow-on investments average deal size during 2009 decreases to R45.4 million (2008: R105.6 million).

Captives-Financial Services and Independents dominated investment activity by value during 2009. By number, Captives-Other has the largest number of deals, as this category includes investments made by Business Partners.

Figure 20: Cost and number of investments made during the year, analysed by type of fund manager

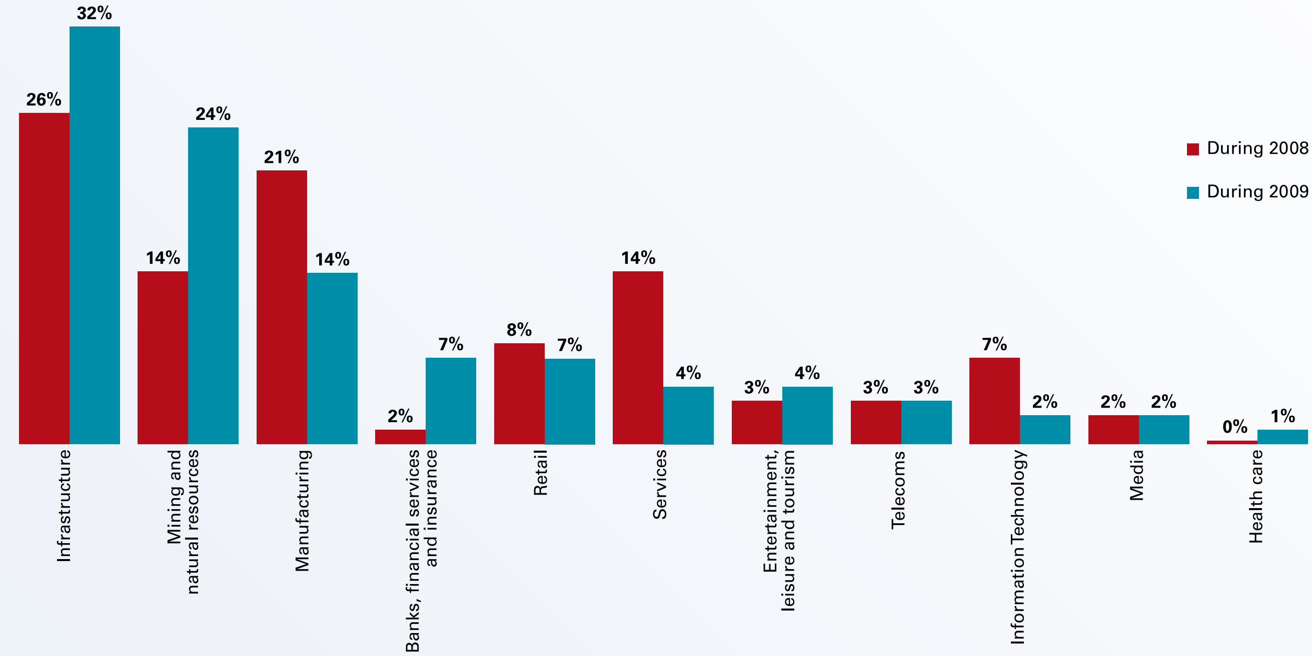


Of the investments made during 2009 classified into sectors, 32.0% were in the infrastructure sector, 24.0% in the mining and natural resources sector and 21.0% in the manufacturing sector.

Reflecting the South African Government's increases in infrastructure spending over the years, investments into infrastructure continued their increase from 26.0% in 2008 to 32.0% in 2009.

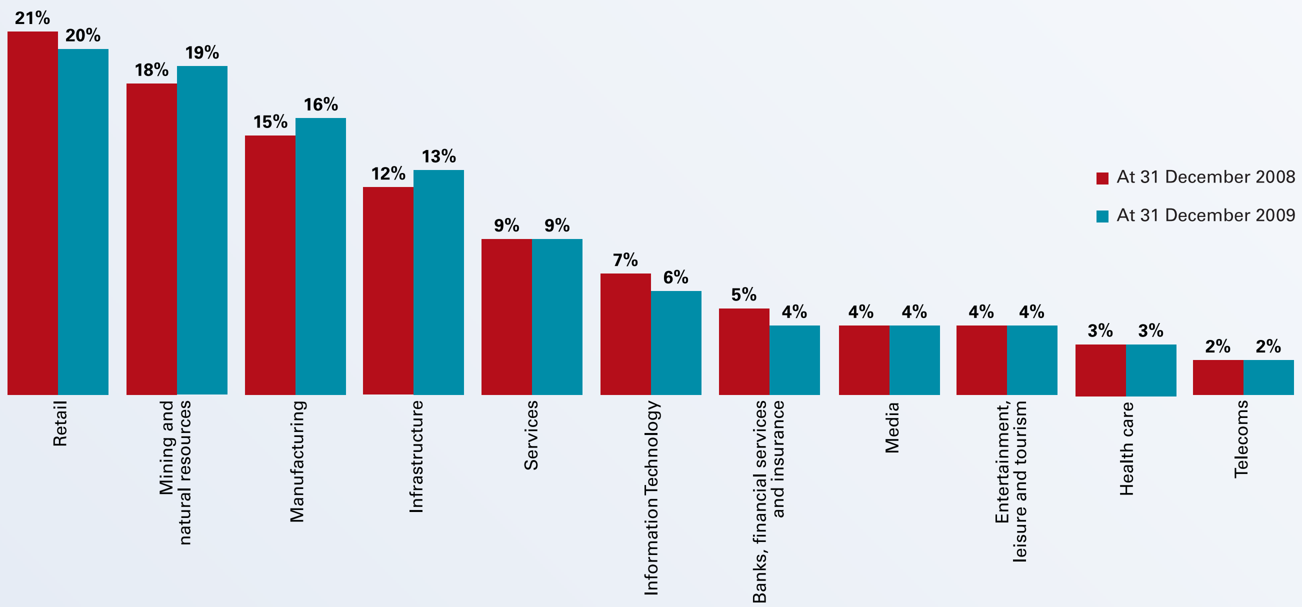
The share of investments into mining and natural resources rose from 14.0% in 2008 to 24.0% in 2009. This is primarily as a result of Pamodzi Reserve Fund 1 and First Reserve's investment in Rand Uranium.

Figure 21: Investments made during the year, analysed by sector[1]



Due to some large retail deals in 2007 and 2008 (House of Busby, Tiger Automotive, Edcon etc) on a cumulative basis the retail sector still represents 20.0% of funds invested as at 31 December 2009. Mining and natural resources comprises 19.0% of all unrealized investments at 31 December 2009, with Manufacturing making up 16.0% and Infrastructure 13.0%.

Figure 22: Unrealised investment portfolio at year end, analysed by sector[2]



1 8% (R0.6 billion) of investments made during 2009 were classified in the other sector category or not classified at all (2008:13% / R2.4 billion). These have been excluded from the analysis shown.

2 14% (R10.0 billion) of the unrealised investment portfolio at 31 December 2009 was classified in the other sector category or not classified at all (2008: 14% / R9.6 billion). These have been excluded from the analysis shown.

The cost of investments into seed, start-up and early stage entities contributed only 4% of unrealised investments at 31 December 2009 (2008: 6%). This represented 23% of the number of investments at 31 December 2009 (2008: 25.0%), which is indicative of the proportionally larger transaction values for the later stage types of deals.

Buy-outs as a proportion of investments made, decreased significantly from 41% during 2008 to 13% during 2009, reflecting the significant decrease in buy-out activity in 2009.

Figure 23: Analysis of investments by stage based on cost of investments[1]

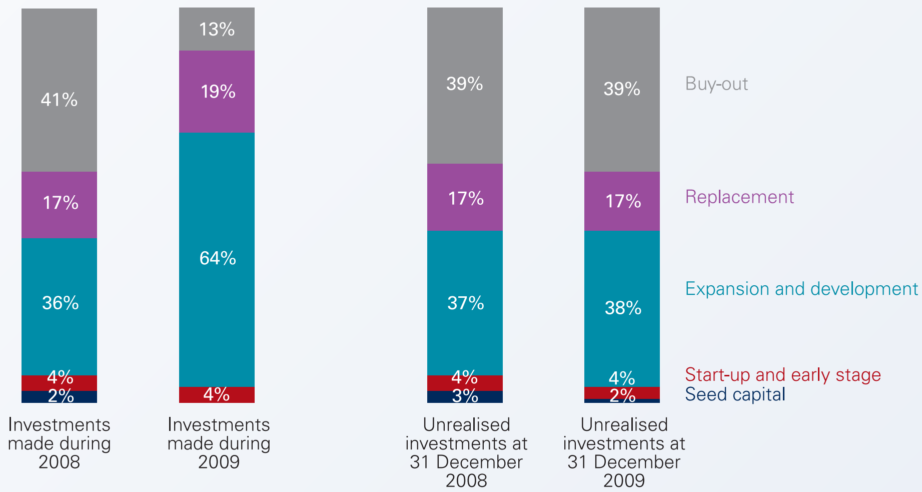
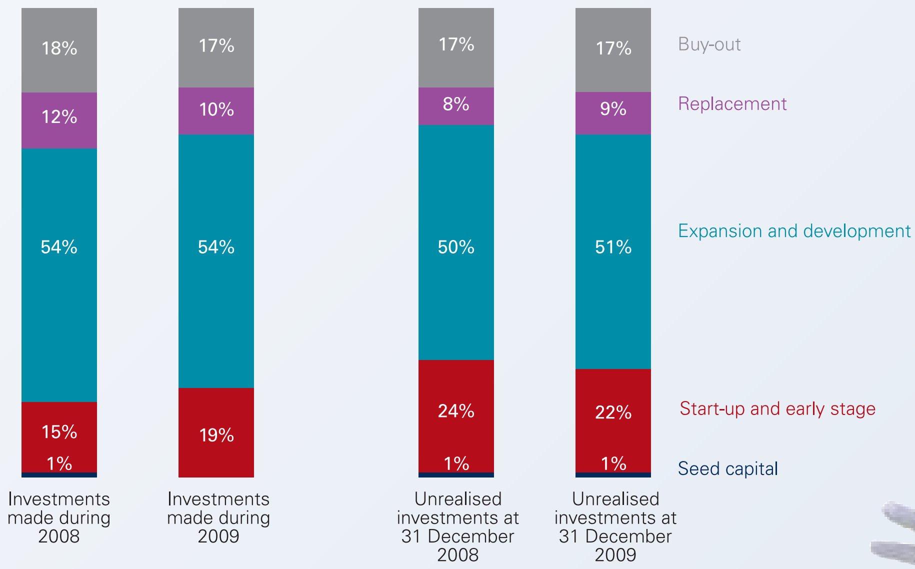


Figure 24: Analysis of investments by stage based on number of investments[1]



[1] Investments not classified by stage have been excluded.

We note an increasing tendency of South African fund managers raising capital with a mandate to invest outside of South Africa, mainly into sub-Saharan Africa. This perhaps reflects the better acceptance of the region as a viable investment opportunity and a degree of relaxation of exchange controls in South Africa. There are still, however, regulatory concerns that pertain to certain tax and exchange control regulations which impacts on the ability of our local Fund Managers to create value both in South Africa and the broader sub-Saharan Africa region. In addition, these regulations hamper the country's ability to attract foreign direct investment and retain and benefit from existing human capital. SAVCA is currently engaging with both the South African Reserve Bank and National Treasury on these matters.

The figure below provides an analysis of the Top 10 largest reported private equity transactions in 2009.

Figure 25: The ten largest disclosed private equity transactions reported during 2009 based on total funding raised

Name of investment	Equity provider/s	Debt provider/s	Total funding raised (Rm)	Type of investment	PE Fund's equity interest	Part of syndication	BEE ownership (post deal)
Rand Uranium	Pamodzi Reserve Fund 1 and First Reserve	N/A	R 1 945	Later stage expansion capital	60%	Yes	Black company
Alexander Forbes	OTPP, Ethos, Actis	None	R 1 850	Replacement capital	50.1%	Yes	Black influenced company
INM Outdoor (now Continental Outdoor Media)	RMB Corvest, Helios Investment Partners, CVCI, MSG Afrika Investment Holdings	Investec Bank Limited	R 1 100	LBO	100%	Yes	Black empowered company
Kwikspace Modular Buildings Limited	Absa Capital Private Equity, Vantage Capital	Investec Bank Limited	R 750	LBO	89%	Yes	Black empowered company
Erbacon Investment Holdings Ltd	Medu Capital Fund II	N/A	R 516	Replacement capital	29.26%	No	Black empowered company
Brandcorp/Renttech	Ethos	Absa Capital	R 225	Follow on acquisition	Controlling interest	No	Black influenced company
Ciba Packaging	Leaf Capital, Clearwater Capital	Grindrod Bank	R 224	LBO	80%	Yes	Black empowered company
Africa Direct (now Table Charm)	RMB Corvest	RMB Private Bank	R 200	MBO	35%	No	Not empowered
Buildworks Group Limited	Kingdom Zephyr	N/A	R 194	Growth capital	Growth equity	No	Black influenced company
Vergenoeg Mining Company (Pty) Ltd	Medu Capital Fund II	N/A	R 110	Replacement capital	15%	No	Black influenced company

The figure below provides an analysis of the Top 10 largest reported private equity transactions in 2008.

Figure 26: The ten largest private equity transactions reported during 2008 based on total funding raised

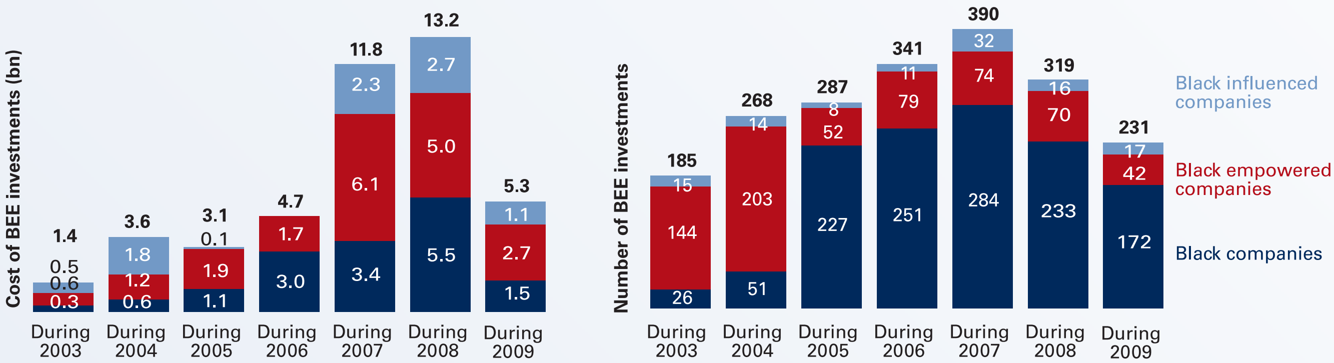
Name of investment	Equity provider/s	Debt provider/s	Total funding raised (Rm)	Type of investment	PE Fund's equity interest	Part of syndication	BEE ownership (post deal)
Actom	Actis, Old Mutual Private Equity, Tiso, Kagiso	Nedbank	R 5 160	LBO	55%	Yes	Black Influenced
The New Reclamation Group	Old Mutual, Capitalworks		R 4 638	Later stage expansion capital	19.91%	Yes	Black empowered company
Idwala	Ethos, Old Mutual Private Equity, Tiso Group	Mezzanine Partners, RMB, Nedbank Capital	R 2 937	LBO	Controlling interest	Yes	Black empowered company
Enviroserv Holdings Limited	Absa Capital Private Equity	Investec Bank Limited	R 2 201	MBO	40%	No	Black influenced company
Tourvest Group (Pty) Ltd	Old Mutual		R 2 072	LBO	31%	Yes	Black empowered company
House of Busby	Ethos, Sphere Fund I	Absa Capital	R 1 319	LBO	Controlling interest	No	Black influenced company
Tiger Automotive	Ethos	Absa Capital	R 1 032	LBO	Controlling interest	No	Not empowered
Liberty Star Consumer Holdings (Pty) Ltd	Lereko Metier Capital Growth	Nedbank Capital, Standard Bank	R 696	Replacement capital	85%		No
Capital Africa Steel (Pty) Ltd	Brait, WBHO	None	R 493	Expansion capital	40%	Yes	Black influenced
Astrapak Ltd	Lereko Metier Capital Growth Fund		R 390	PIPE	29%	No	Black empowered company

During 2008 there was an acquisition by Denham Capital of shares in a South Africa-based energy firm, BioTherm Energy (transaction value: R1.5 billion), and there was an acquisition of a significant shareholding in Medi-Clinic Corporation by European based PE fund, Lehman Brothers Merchant Bank (transaction value: R1.3 billion). Although these transactions involved private equity funds they have been excluded from the top 10 list above and the data reported in this survey as these funds were not participants in the 2008 survey and the transaction details were not made public.

Analysis of BEE investments

The cost of investment into entities that are at least black influenced companies in 2009 was R5.3 billion, a decrease of 59.9% from 2008 levels. The number of BEE investments decreased from 319 during 2008 to 231 during 2009. However, these levels of activity, when compared to M&A activity in South Africa and the total investment activity for private equity (2009: R7.0 billion) reflects that private equity BEE investments are an increasingly important element of the South African economy. 75% of all private equity investments in 2009 were into entities that are at least black influenced.

Figure 27: Cost and number of BEE investments made during the year (excluding Captives – Government)



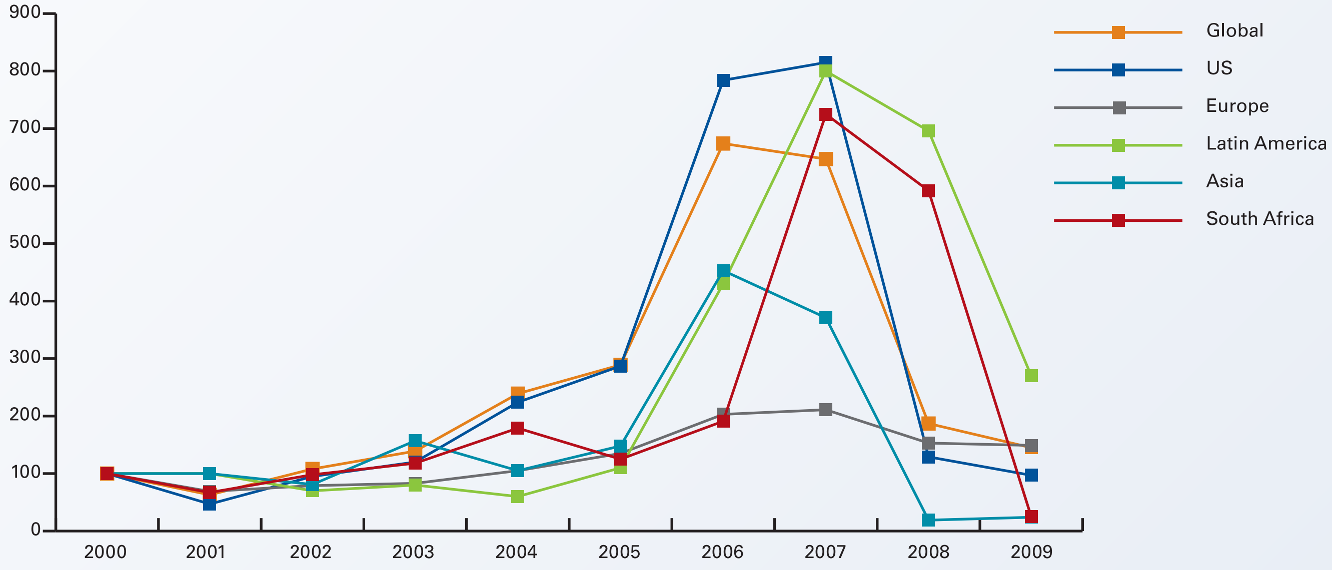
The average black economic empowerment deal size in 2009 was R22.9 million compared to R41.4 million during 2008. These are investments into black owned, empowered or influenced companies.

Global investment activity

Global investment activity declined in 2001 but recovered steadily from 2002 until 2005. Investment activity then rapidly increased in 2006 and 2007. In 2008 there was a sharp drop off in investment activity, which has continued in 2009.

South Africa has grown investment activity year-on-year since 2001. Following the decline in 2005, there was a strong rebound in 2006. As reported in this survey, 2007 was a record year for investment activity in South Africa. In 2008, investment activity in South Africa showed a decline although the decline was less than the decline shown by the global and US trend. In 2009, South Africa's decline was significant in comparison to most other markets.

Figure 28: Global and South African investment activity during the year (2000 = 100)[1]

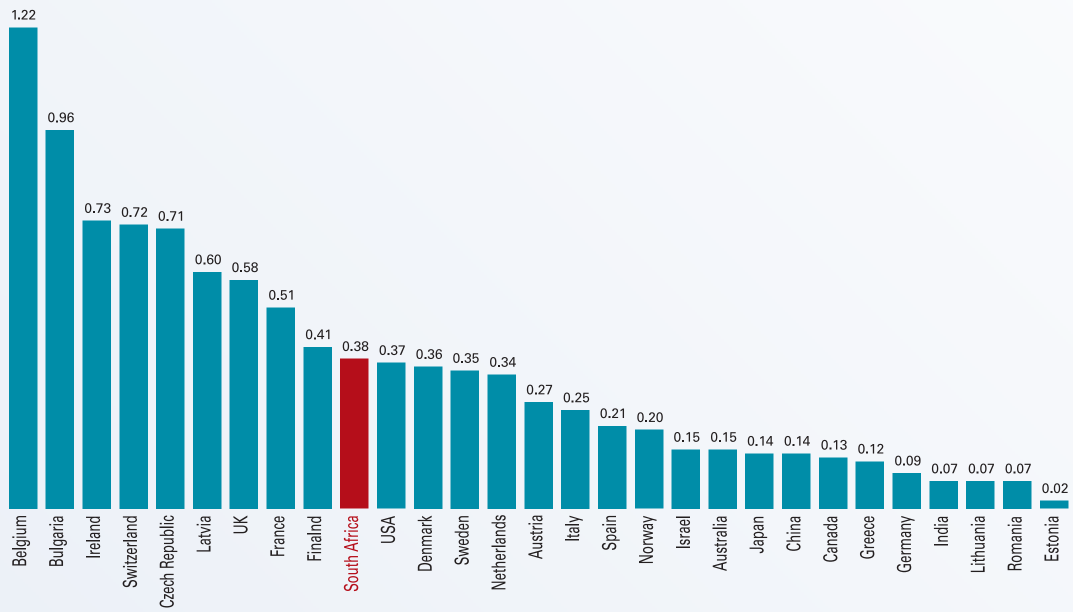


[1] Data sourced from Zephyr – a BvD product

South African private equity investments made during 2009 as a % of GDP decreased from 0.93% in 2008 to 0.38% in 2009. This is marginally higher than the 0.37% recorded in the US during 2009 (0.71:2008).

South African investments as a % of GDP's global ranking is 10th in 2009 down from 6th in 2008. It is worth noting that South Africa is ranked above India and China.

Figure 29: Global investment activity during the year as a percentage of GDP (%)[1]



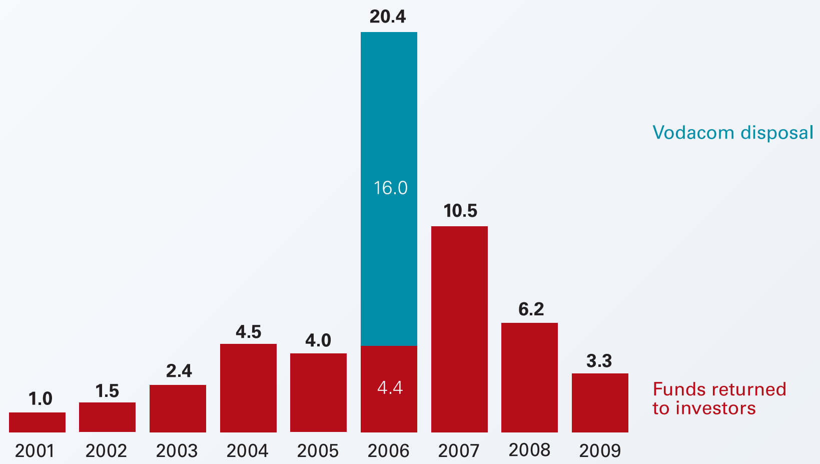
[1] Sourced from Zephyr – a BvD product, Statistics South Africa, CIA World Factbook

Exits

Total funds returned to investors

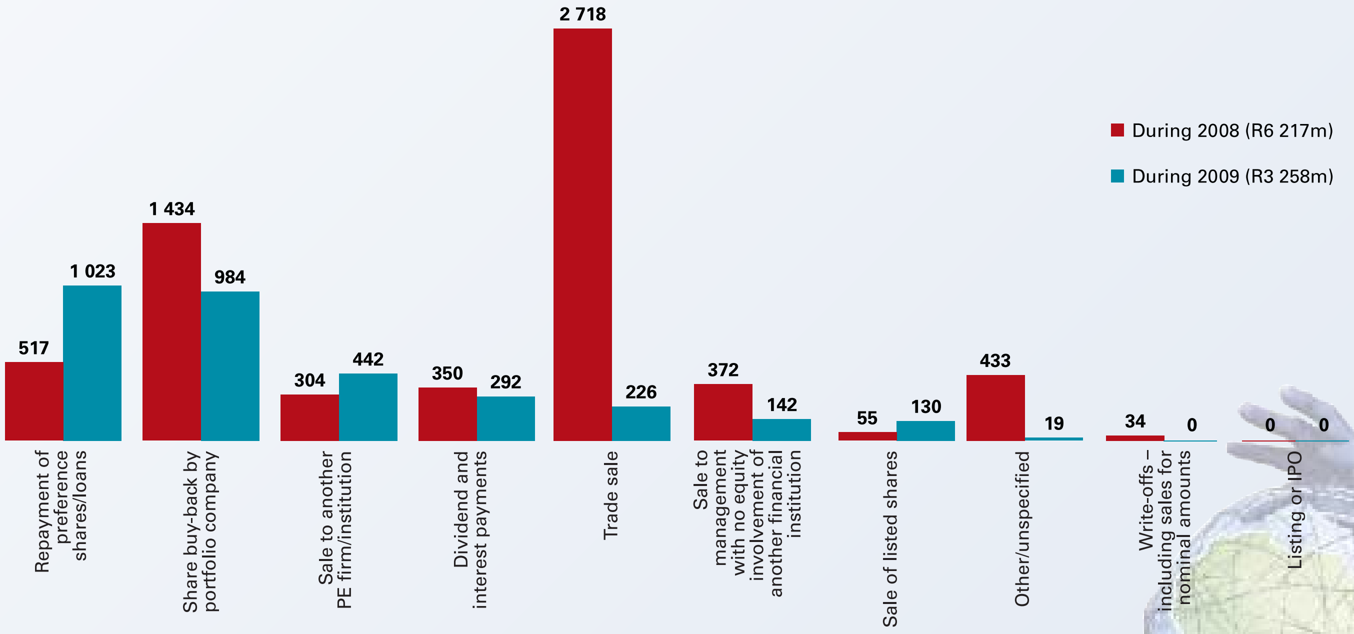
Funds returned to investors decreased by R2.9 billion from R6.2 billion during 2008 to R3.3 billion during 2009.

Figure 30: Funds returned to investors during the year (Rbn)



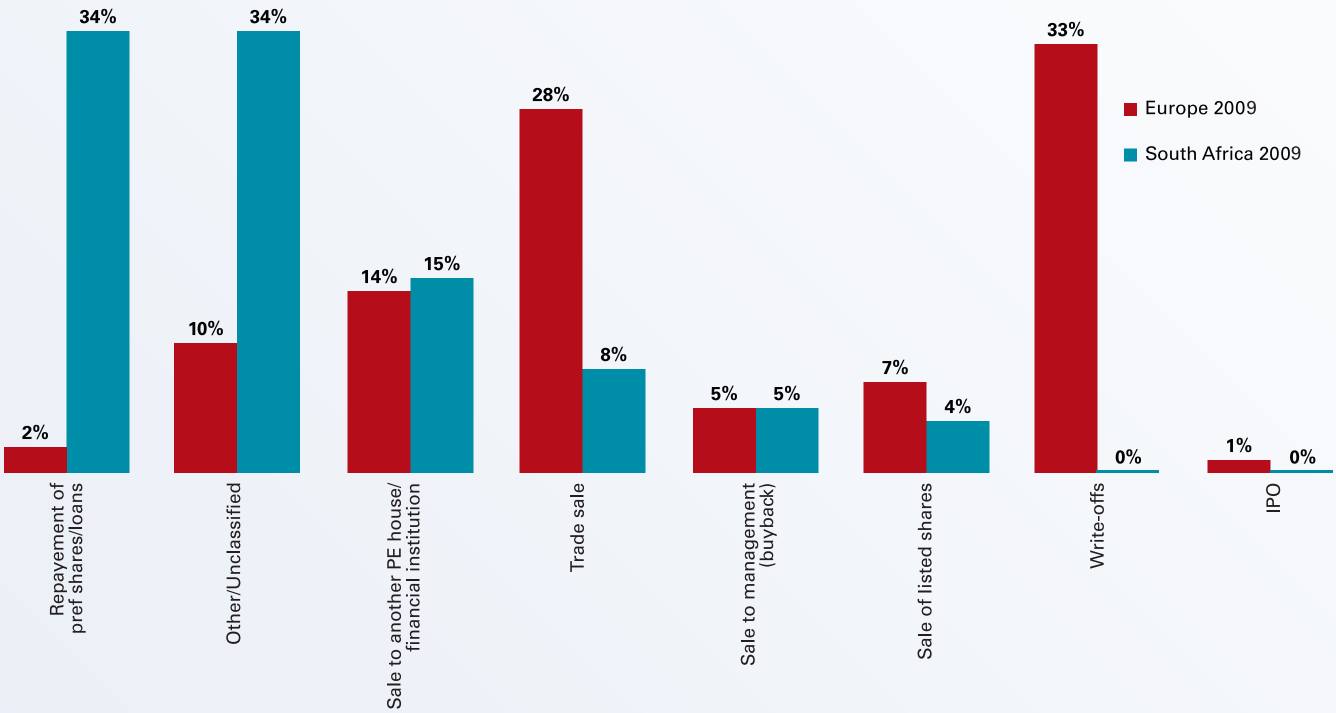
The analysis of funds returned to investors during 2008 and 2009 is shown below. It is interesting to note that the Repayment of preference shares/loans was the preferred method of returning funds to investors in 2009. In 2008 the preferred method was Trade Sales, but this has significantly reduced, which reflects the current market sentiments. There were no exits via listings or IPOs in 2008 or 2009.

Figure 31: Analysis of funds returned to investors during the year (Rm)



The comparison of South African and European divestments at cost is shown below.

Figure 32: Analysis of exits based on cost: South Africa compared to Europe[1]

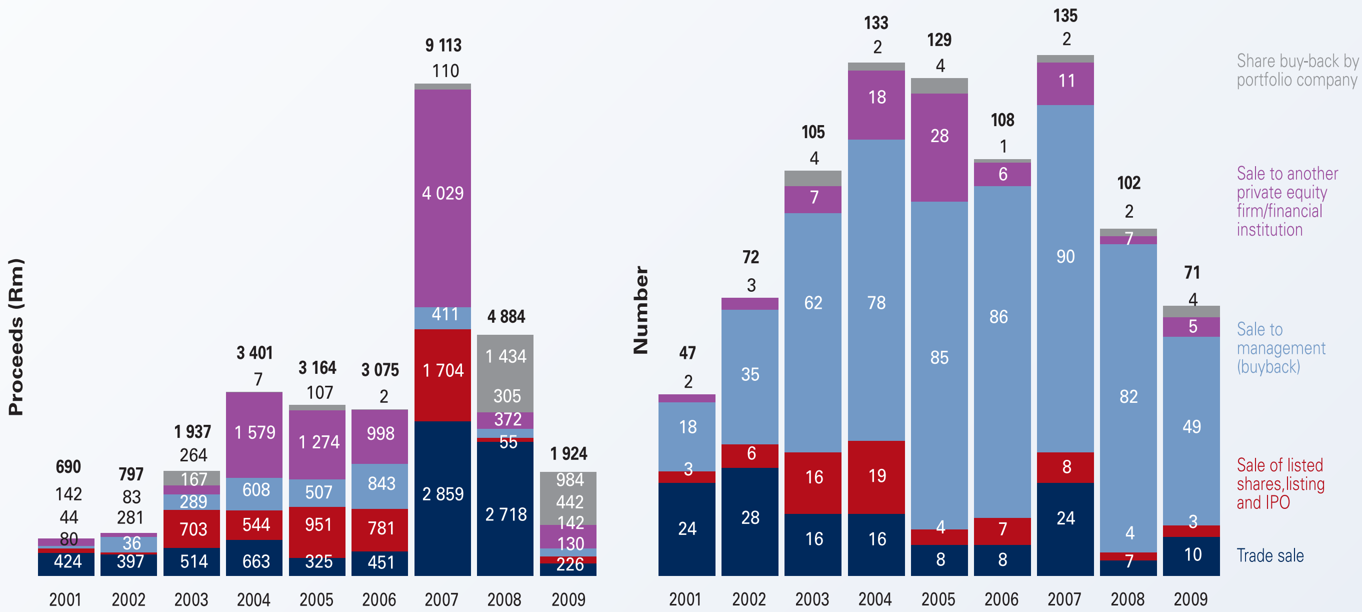


[1] Source – EVCA

Disposals

The value of disposal proceeds decreased to R1.9 billion in 2009 from R4.2 billion during 2008. The share buy-back by portfolio companies was again the option which attracted the most transactions in 2008 and 2009.

Figure 33: Analysis of disposals during the year based on proceeds (excludes Vodacom disposal during 2006)



The average proceeds per disposal have decreased from R47.9 million in 2008 to R27.1 million in 2009.

[1] Disposal proceeds exclude the proceeds on the repayment of preference shares/loans, proceeds from disposals for a nominal amount and dividend and interest payments.

Figure 34 shows that the reported profit (proceeds less cost of investment) on dispposals of R929 million during 2009 was substantially lower than the R3.8 billion during 2008.

The implied times money back multiple during 2009 was 1.9 times, significantly lower than the 4.7 times reported for 2008 disposals.

Figure 34: Disposal profits during 2009 (Rm)

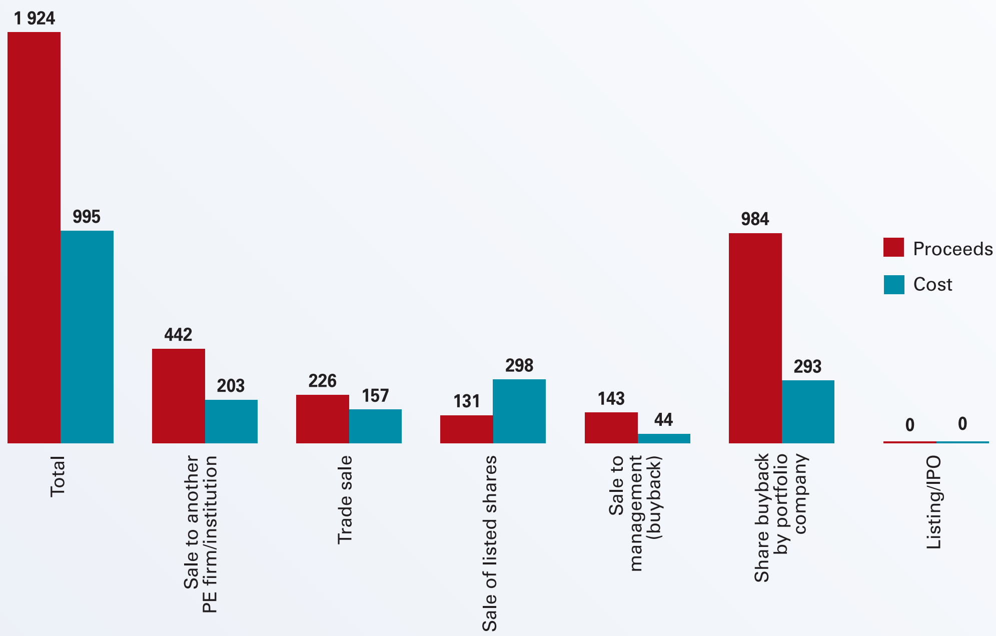
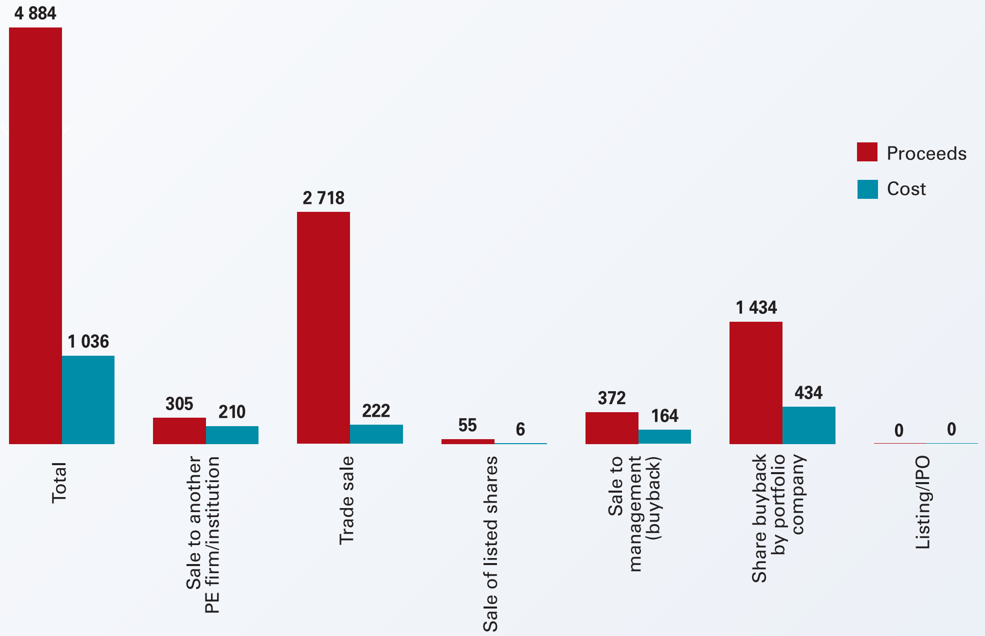


Figure 35: Disposal profits during 2008 (Rm)



Write-offs

48 investments were written off during 2009, inclusive of sales for nominal amounts (2008: 45 investments). The net loss on these investments (cost less proceeds) was R79.9 million in 2009, up from R31.4 million during 2008.

Cancelled/expired funds

R115.3 million (2008: R86.6 million) of committed but undrawn funds at 1 January 2009 were cancelled and/or expired during 2008 and are thus no longer available for investment by the fund manager.

Performance

Background

Consistently measuring the performance of private equity funds can be difficult as private equity investments' valuations are, by their very nature, highly subjective. The overriding principle of the International Private Equity and Venture Capital Valuation Guidelines is to show a fair valuation of investments to the investor. These guidelines were released during 2005 and adopted by the majority of global private equity associations, including SAVCA and EVCA.

In reviewing the IRRs reported in this survey, a number of issues should be considered:

- The IRRs reported reflect the consolidated/aggregated returns achieved by fund managers. The reported IRRs are thus not by fund where a fund manager manages more than one fund.
- The IRRs reported for South Africa are gross IRRs and therefore reflect returns prior to the payment of expenses such as management fees and carried interest.
- When assessing the performance of private equity, it is important to focus on long-term returns. Initial results over the first two or three years of a fund can be misleading if viewed in isolation. A high short-term IRR can be achieved through a few attractive divestitures, while low rates may result from new funds only just beginning their investment activity. Any consideration of returns over the short-term must be done in combination with scrutiny of the general level of investment and divestiture activity.
- Captive funds generally do not calculate and/or report IRRs. Their fee structures are not usually linked to the achievement of prescribed IRRs. Most of the funds that reported IRRs were, therefore, independent private equity funds.

South Africa

IRR

Figures 36 and 37 present the total IRRs for realised and unrealised investments, while Figure 38 and 39 presents the IRR for realised investments only. Whilst the total IRR presents the total return of the fund since inception, including unrealised investments, the realised only IRR presents the returns of funds deployed and subsequently realised and returned to investors. This presents a less subjective picture of fund returns, although excluding the negative effect of investments that are difficult to exit.

The 2009 results in the figure below include the IRR levels for 45 respondents (2008: 44), managing R71.98 billion at 31 December 2009 (67.0% of total funds under management) (2008: R63 billion / 67.8%). Included is the response from 25 independents (2008: 24) managing 28.5% of the funds under management by independent fund managers at 31 December 2009 (2008: 20%).

Figure 36: Total gross IRR since fund inception – Only independents (realised and unrealised portfolio)

	0 – 5 years included in IRR calculation		5 – 10 years included in IRR calculation		> 10 years included in IRR calculation	
IRR	2009 No. of respondents	2008 No. of respondents	2009 No. of respondents	2008 No. of respondents	2009 No. of respondents	2008 No. of respondents
Below 10%	8	8	1	1	–	–
10% – 19.9%	3	1	1	2	–	–
20% – 29.9%	3	3	1	1	2	–
30% – 39.9%	–	–	2	2	1	1
> 40%	2	2	1	2	–	1

Figure 37: Total gross IRR since inception – Only captives (realised and unrealised portfolio)

	0 – 5 years included in IRR calculation		5 – 10 years included in IRR calculation		> 10 years included in IRR calculation	
IRR	2008 No. of respondents	2007 No. of respondents	2008 No. of respondents	2007 No. of respondents	2008 No. of respondents	2007 No. of respondents
Below 10%	5	4	1	–	1	1
10% – 19.9%	3	2	1	2	–	–
20% – 29.9%	1	2	1	1	2	2
30% – 39.9%	1	–	2	1	1	1
> 40%	1	3	–	1	–	–

The 2009 results in the figure below include the realised IRR levels for 31 respondents (2008: 27), managing R44.3 billion / 42% of total funds under management at 31 December 2009 (2008: R49 billion / 45%). Included are the responses from 16 independents (2008: 13) managing R14.5 billion / 14% of the funds under management by independent fund managers at 31 December 2009 (2008: R14.8 billion / 13%).

Figure 38: Total realised gross IRR since fund inception – Only independents (excludes unrealised portfolio)

	0 – 5 years included in IRR calculation		5 – 10 years included in IRR calculation		> 10 years included in IRR calculation	
IRR	2009 No. of respondents	2008 No. of respondents	2009 No. of respondents	2008 No. of respondents	2009 No. of respondents	2008 No. of respondents
Below 10%	4	2	–	1	–	–
10% – 19.9%	1	1	1	–	–	–
20% – 29.9%	1	2	3	1	1	–
30% – 39.9%	1	1	1	–	1	–
> 40%	1	3	1	1	–	1

Figure 39: Total realised gross IRR since fund inception – Only captives (excludes unrealised portfolio)

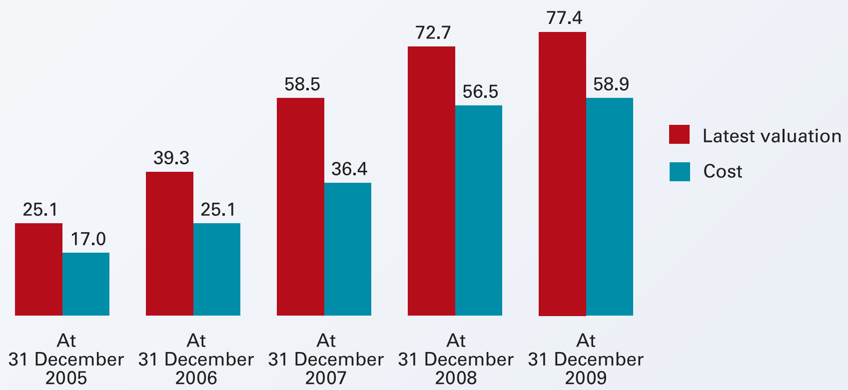
	0 – 5 years included in IRR calculation		5 – 10 years included in IRR calculation		> 10 years included in IRR calculation	
IRR	2009 No. of respondents	2008 No. of respondents	2009 No. of respondents	2008 No. of respondents	2009 No. of respondents	2008 No. of respondents
Below 10%	2	2	–	–	1	1
10% – 19.9%	–	–	2	1	–	–
20% – 29.9%	1	1	2	3	1	1
30% – 39.9%	–	–	–	–	2	2
> 40%	3	2	1	1	–	–

[1] Gross IRRs, before management fees and carried interest, are reported for South Africa while net returns are shown for Europe and the US.

Investments at latest valuation

The disclosed valuation of investments made at a cost of R58.9 billion was shown to be R77.4 billion at 31 December 2009. This represents 80.0% of all unrealised investments at 31 December 2009 (2008: R56.5 billion / 82.1%). This dataset is not complete because for some investments, either the latest valuation was not provided or the respondents indicated that investments are valued on a cost basis. On the investments, with disclosed valuations, the 2009 implied times money back multiple is 1.3 (2008: 1.3).

Figure 40: Unrealised investments at year end – cost compared to valuation (Rbn)



US and Europe

Internationally, net returns[1] achieved by private equity investments have outperformed public equity markets over the medium and long-term. The returns for various investment horizons for the US and Europe are shown below.

	US at 31 December 2008[2]				Europe at 31 December 2008[3]			
	3 Year %	5 Year %	10 Year %	20 Year %	3 Year %	5 Year %	10 Year %	20 Year %
Early stage	-1.0	0.9	-0.3	23.0	-5.2	-1.0	-3.7	-15.1
Development	–	–	–	–	0.8	3.4	1.4	7.0
Balanced	0.9	6.8	2.3	15.0	-2.8	1.7	1.3	2.2
Later stage	5.6	7.6	1.7	15.0	–	–	–	–
All venture capital	**0.9**	**4.3**	**1.1**	**17.7**	**-3.2**	**0.7**	**-1.9**	**1.5**
All Buy-outs	**-0.3**	**5.3**	**4.6**	**8.9**	**-4.6**	**7.9**	**7.9**	**11.3**
All private equity	**0.8**	**5.5**	**4.0**	**11.2**	**-4.3**	**6.1**	**5.2**	**8.7**
NASDAQ	-2.7	0.8	-5.6	8.9				
S&P500	-8.1	-1.6	-2.7	6.3				

US[4]

According to Thomson Reuters and the National Venture Capital Association (NVCA). US private equity performance showed positive returns across all investment horizons five years and longer for the period ending 31 December 2009

US private equity performance showed positive returns across all investment horizons five years and turned firmly positive in the one-year time horizon for the period ending December 31, 2009, according to Thomson Reuters. With improving stability in the broader capital markets and a return for venture capital and private equity IPO and M&A exits, near-term horizon returns saw marked improvements over last quarter. The 10-year time horizon demonstrated weakening trends from last quarter and a year ago as the effects of the technology downturn are evidenced in fund performance. One year returns, which are most affected by the current market environment, moved in a positive direction registering a 15.3 percentage point increase from last quarter for venture capital funds (-10.7%) and just over 20 percentage point increase for buyout funds (-9.6%). Longer-term time horizons held strongly positive for venture capital funds with a slight increase from the third quarter return in the 20-year time horizon to 17.7% compared to 17.0% a year ago. In the buyouts category, small and medium buyout funds in the longer term time horizons continued to drive performance, with double-digit performance figures. Overall, venture capital and buyout fund returns across most time horizons continued to outperform US public market indices, NASDAQ and the S&P 500, through December 31 2009.

1 Gross IRRs, before management fees and carried interest, are reported for South Africa while net returns are shown for Europe and the US
2 NVCA and Thomson Financial - press release of 5 May 2010
3 EVCA and Thomson Financial – Preliminary Performance Figures March 2010.
4 All US information is from NVCA and Thomson Financial (now called Thomson Reuters) – press release of 5 May 2010.

Europe[1]

According to a press release published by EVCA and Thomson Reuters on 5 May 2010, 2009 was a year of internal diligence and stewardship for the European private equity and venture capital industry, as investors concentrated on supporting existing portfolio of companies against a backdrop of recession and macro-economic uncertainty.

The €21 billion of new equity invested during 2009 represents just 29% of the 2007 figure at the top of the boom. Even so, more than 4,000 companies benefited from private equity investment, just 17% fewer than in 2007. Around half, by both amount and number, were follow-on investments to support existing companies.

A virtual absence of mega buyouts accounts for much of the decline in investments since the boom, with just three investments over the €1 billion transaction value mark during the year. By contrast, the number of growth capital investments increased by 23%, surpassing the number of buyouts. Of all companies receiving private equity finance, just less than half (44%) were early stage companies. Private equity also played an active role in rescuing companies in distress, with an increase of 83% in the number of turnaround investments.

The amount divested at cost by private equity firms was 29% lower than in 2008, which itself was half that of the boom year of 2007. Write-offs, which had been running at very low levels through 2008, increased from a total of €870m in 2008 to €3.2 billion in 2009.

Meanwhile, the cyclicality of the market for new fundraisings reached its lowest ebb, with just 184 funds reaching incremental closings, compared with 316 in 2008 and 338 in 2007. The total amount raised last year - €13 billion – was less than the largest two funds raised in 2008. However, if the outliers that closed at or above €1in 2007-2009 are discounted, the average size of buyout, growth and mezzanine funds that reached final closes in 2009 is in line with the average size of funds closed in the previous two years.

Commenting on the figures Javier Echarri, secretary general of EVCA, said:

"Private equity and venture capital firms spent 2009 ensuring their European portfolio companies could weather the economic storm and march out of recession in fighting spirit. However private equity firms face pressures from both ends of the investment chain as institutional investors struggle to make fresh commitments to new fundraisings. The industry is therefore taking some strain, on the one-hand to patiently support Europe's business, while on the other, waiting for the exit and fundraising cycle to re-engage.

"Even so, in the depths of macro-economic uncertainties not seen for generations, private equity and venture capital firms financed around 2,000 seed and start-up companies, and as many companies again across the core of Europe's middle-market. Meanwhile, the increase in write-offs, albeit from a low base, shows the seriousness of the wider economic situation.

"Europe's policymakers have major financial challenges to manage in the coming years, as budgets are rebalanced and regulations re-set. Today's data shows they can do so in the confidence that the private equity financing market is diligently, responsibly and supportively serving the best interests of Europe's 25,000 private equity-backed companies through difficult days."

1 All European information is from EVCA and Thomson Reuters press release of 10 March 2010, Private equity supports four thousand European companies in 2009.

Private equity investment professionals

The total number of investment professionals employed in the private equity industry decreased from 604 in 2008 to 506 in 2009. Private equity funds in general did not replace their "natural" attrition leavers during 2009.

The figure below illustrates that white males still make up approximately half of all private equity investment professionals (2009: 51.8%; 2008: 45.0%). The second largest category is black males which contributes 16.2% of the total reported numbers at 31 December 2009 (2008: 16.6%).

Indian, coloured and black professionals employed by the private equity industry decreased by 65 during 2009 to 184, (representing a 26.1% decrease). The proportion of these professionals to the total number of professionals decreased slightly from 41.2% at 31 December 2008 to 36% at 31 December 2009.

At December 2009 19.8% of all professionals were females (2008: 18.5 %).

Figure 41: Racial and gender constitution of private equity fund management professionals at the end of 2009 and 2008

	2009						2008					
	White	Indian	Coloured	Black	Not specified	Total	White	Indian	Coloured	Black	Not specified	Total
Male	262	36	17	82	9	406	272	78	20	100	22	492
Female	48	10	7	32	3	100	53	6	4	41	8	112
Total	**310**	**46**	**24**	**114**	**12**	**506**	**325**	**84**	**24**	**141**	**30**	**604**
% Breakdown (% of total)												
Male	51.8%	7.1%	3.4%	16.2%	1.8%	80.2%	45.0%	12.9%	3.3%	16.6%	3.6%	81.5%
Female	9.5%	2.0%	1.4%	6.3%	0.6%	19.8%	8.8%	1.0%	0.7%	6.8%	1.3%	18.5%

Data tables

	Total funds under management at year end	Undrawn commitments at year end	Fund raising activity during the year	Investment activity during the year	Funds returned to investors during the year	Proceeds from disposals during the year
	R billions	R billions		R billions	R billions	R billions
Year ended 31 December 2009						
Early stage funds						
• Independents	2.829	1.969	0.159	0.031	–	–
• Captives – Financial Services	1.049	0.602	–	0.163	–	–
• Captives – Government	–	–	–	–	–	–
• Captives – Other	0.461	0.230	–	0.089	–	–
	4.339	2.801	0.159	0.283	–	–
Later Stage Funds						
• Independents	47.740	21.137	4.955	2.563	1.749	1.137
• Captives – Financial Services	30.304	5.312	0.466	3.283	1.372	0.776
• Captives – Government	14.584	2.140	–	0.042	–	–
• Captives – Other	9.617	1.524	–	0.781	0.137	0.012
	102.246	30.113	5.421	6.669	3.258	1.925
	106.584	**32.914**	**5.580**	**6.952**	**3.258**	**1.925**
Year ended 31 December 2008						
Early stage funds						
• Independents	3.137	2.283	2.068	0.029	0.035	0.035
• Captives – Financial Services	1.323	1.039	–	0.284	–	–
• Captives – Government	–	–	–	–	–	–
• Captives – Other	0.536	0.394	–	0.025	–	–
	4.996	3.716	2.068	0.338	0.035	0.035
Later Stage Funds						
• Independents	50.432	25.688	8.018	7.117	0.734	0.488
• Captives – Financial Services	29.911	6.977	0.518	8.001	4.829	4.154
• Captives – Government	13.951	2.140	–	0.030	–	–
• Captives – Other	9.992	1.990	–	3.445	0.619	0.207
	104.286	36.775	8.536	18.593	6.182	4.849
	109.282	**40.491**	**10.604**	**18.931**	**6.217**	**4.884**

Participants

Name	Min investment	Max investment	Contact name	Contact telephone
Absa Capital Private Equity	R250m	R1bn	Wouter Viljoen	011 895 6522
Actis Africa	US$50m	US$250m (market cap up to R10bn)	Patrick Helson	011 778 5900
Aureos South African Advisers	US$2m	10% of Fund size	Ron den Besten	011 884 2066
Brait Private Equity	R5m	R1bn	Kuhle Kunene	011 507 1000
Business Partners	R250 000	R20m	Nazeem Martin	011 713 6600
Capitalworks Investment Partners	R70m	R450m	Chad Smart	011 301 3000
Capricorn Capital Partners	R10m	R150m	Gavin Chadwick	011 666 0700
Collins Private Equity	Nil	R25m	Bruce Chelius	031 208 6266
Development Bank of South Africa (DBSA)	R25m	R700m	Emile du Toit	011 313 3935
Ethos Private Equity	R100m	R800m (deal size R3bn+)	Chelsea Wilkinson	011 328 7400
Freetel Capital	R10m	R50m	Enos Banda	011 263-7900
Glenhove Fund Managers	R5m	Not more than 15% of committed capital in one investment	Alun Frost	011 263 9500
Hasso Platter Ventures Africa	R5m	R33m	Andrea Böhmert	021 880 8740
HBD Venture Capital	R10m	R25m	Keet Van Zyl	021 970 1000
Horizon Equity Partners (Fund III)	R20m	R100m	Richard Flett	011 502 6940
Industrial Development Corporation (IDC)	Depending on nature of funding usually R1m	Dependent on nature of transaction	Call Centre	011 269 3000
Inspired Evolution Investment Management	R10m	R100m plus (with co-investment rights)	Christopher Clarke	021 702 1290
International Housing Solutions	R25m	R250m	Pamela Lamoreaux	011 215 8300
InVenFin	None	None	Brett Commaille	021 888 3355
Investec Principal Investments	EV greater than R150m	No Limit	Peta-Jane Grove	011 286 7341
Kingdom Zephyr	$20m	$60m	Panos Voutyritsas	011 268 6911
Leaf Capital Africa Management	R5m	R28.75m	Paul Leaf-Wright	021 425 2295

* Fund/transaction dependent

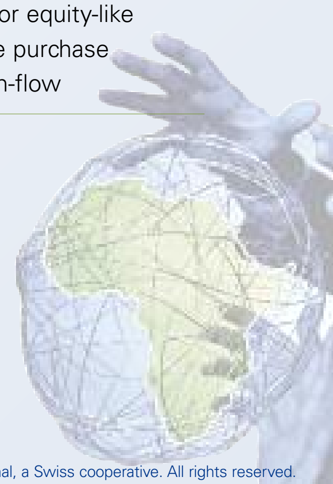
Note: Only those participants in the survey that permitted the disclosure of their participation have been included in the list above

Name	Min investment	Max investment	Contact name	Contact telephone
Lereko Metier Capital Growth Fund Managers	R50m	R750m	Paul Botha	011 268 4055
Medu Capital	R30m	R175m	Nhlanganiso Mkwanazi	011 268 9140
Mezzanine Partners	R50m	R1bn (with co-invest)	Walter Hirzebruch	011 507 1080
Molash Capital	R20m	R100m	Eldon Beinart	011 883 2897
Nedbank Capital Private Equity	R30m	R12m	Dave Stadler	011 295 8316
Old Mutual Investment Group, Alternative Investments	R5m	R500m – higher on approval	Mark Gevers	021 509 3182/6869
Pamodzi Resources Fund Advisors	$150m	$325m	Gerhard Kemp	011 912 7525
Phatisa	R10m	R100m	Stuart Bradley	011 501 4806
RMB Corvest	R10m	R500m	Kerry-Lee Hurst	011 380 8300
Sanlam Private Equity	R100m	R250m	Cora Fernandez	011 778 6610
Sasfin Private Equity Fund Managers	R5m	R50m	Malcolm Segal	011 445 8001
Sphere Private Equity	R10m	R50m	Aadil Carim	011 944 7800
Standard Bank Private Equity	R50m	None	Ross Randal	011 770 8400
Median Fund	R50 000	R2m	Rob Spaull	021 448 5945
Treacle Private Equity	R10m	R90m	Rudolf Pretorius	011 463 7476
Trium Investments	N/A	R20m	Hagen Spaeth	012 803 1039
Vantage Capital Fund Managers (Mezzanine Fund)	R40m	R350m (with co-investment)	Luc Albinski	011 530 100

Glossary

BEE	Black Economic Empowerment BEE, as defined in the Financial Sector Charter, means the economic empowerment of all black people, including women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies The definitions used in this survey for BEE companies are stated below: – 'Black companies' refers to companies that are more than 50% owned and are controlled by black people. Control centres on the authority and power to manage assets, the determination of policies and the direction of business operations. 'Black people' refers to all Africans, Coloureds and Indians who are South African citizens and includes black companies – 'Black-empowered companies' refers to companies that are more than 25% owned by black people (but not more than 50%) and where substantial participation in control is vested in black people – 'Black-influenced companies' refers to companies that are between 5% and 25% owned by black people and with participation in control by black people – 'Not empowered companies' refers to companies that are less than 5% owned by black people
Captive fund	Those funds making investments mainly on behalf of a parent or group, typically an insurance company, bank or institutional asset manager, often from an indeterminate pool of money
Carried interest	This represents a fee enhancement for a private equity fund manager for achieving a benchmark return or hurdle rate. The fee is often set at 20% of the value of returns achieved in excess of the benchmark return

DBSA	Development Bank of Southern Africa
DFIs	Development Finance Institutions
Edcon	Edgars Consolidated Stores Limited
EMPEA	Emerging Markets Private Equity Association
EVCA	European Private Equity and Venture Capital Association
Follow-on investments	Investments into companies where at least one round of funding has already been made
FSC	Financial Services Charter
GDP	Gross Domestic Product
Gross IRR	IRR before the deduction of management fees and carried interest
Gross realised IRR	Gross IRR on the total realised portfolio of investments
Independent fund	Those private equity companies, managers or funds raising and disbursing capital which has been sourced mainly from third party investors
IPO / Listing	When a company's equity is sold to investors via a listing on an exchange
IRR	Internal Rate of Return
KPMG	KPMG Services (Proprietary) Limited
LBO	Leveraged buy-out
M&A	Mergers and acquisitions
MBO	Management buy-out
Mezzanine debt	Debt which ranks behind senior secured debt but ahead of trade credit and shareholders' funds in terms of security. Mezzanine debt is often used in higher leveraged transactions to maximise funding availability from a company's own balance sheet. It may provide for equity-like features such as attached share purchase warrants or participation in cash-flow



OMIGSA	Old Mutual Investment Group of South Africa
OTPP	Ontario Teachers' Pension Plan
NVCA	National Venture Capital Association (US)
PIPE	Private Investment in Public Entity
PwC	PricewaterhouseCoopers
SAVCA	The Southern African Venture Capital and Private Equity Association
Semi-captive fund managers	Semi-captive fund managers can be subsidiaries of: a financial institution, an insurance company or an industrial company, that operate as independent companies. They manage funds in which, although their main shareholder contributes a large part of the capital, a significant share of the capital is raised from third parties
Total funding	Total funds raised by all providers of capital during a transaction. This could include the purchase consideration, funds to pay advisors fees, funds required for immediate working capital requirements, etc. This could be in the form of equity, shareholder loans, senior, mezzanine and junior debt and working capital facilities
Trade sale	Sale of business to a third party, often referred to as M&A and frequently to an acquirer within the industry of the business being sold
UK	United Kingdom
US	United States of America

KPMG Services (Proprietary) Limited
Private Bag 9
Parkview
2122
South Africa
Tel: +27 (0) 11 647 7111
www.kpmg.co.za

SAVCA
PO Box 1140
Houghton
2041
South Africa
Tel: +27 (0) 11 268 0041
www.savca.co.za

Maximising opportunities and addressing challenges	**doesn't depend on knowing the answer.**	**It depends on knowing who to ask.**	**Ask your Advisor**

In a contemporary business environment, KPMG's Advisory team uses their specialist skills, multi-disciplinary approach and in-depth knowledge to help organisations maximise their opportunities and address challenges.

For more information, please contact Warren Watkins (Head of Private Equity Markets Africa) on +27 (0)11 647 7128 or email warren.watkins@kpmg.co.za

visit www.kpmg.co.za

Ask your Advisor

KPMG

AUDIT ▪ TAX ▪ ADVISORY