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SAVCA
SOUTHERN AFRICAN VENTURE CAPITAL AND PRIVATE EQUITY ASSOCIATION

KPMG and SAVCA

Venture Capital and Private Equity Industry Performance Survey of South Africa covering the 2007 calendar year

May 2008

AUDIT ▪ TAX ▪ ADVISORY

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Foreword

SAVCA

2007, will go down as a great year for private equity in South Africa. This is reflected in an asset class that is achieving growing acceptance amongst the investment community.

The survey shows that:

- Investors want continued exposure to the positive absolute returns and significant portfolio diversification benefits that investment into private equity funds in South Africa offers
- The scale of activity in the industry outperforms most of the major international economies, which bodes well for Government's 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
- Black Economic Empowerment (BEE) remains a major source of activity in the industry. It is worth noting that over R11 billion was invested into black-owned, empowered or influenced businesses during 2007, greater than combined investments from 2004 to 2006
- Given the significant amounts of funds raised from 2005 to 2007, some R32 billion is available for further investment by the industry. 81% of these 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 process

Looking ahead, prospects for the industry remain very positive:

- In the early part of 2008, there has been more fund raising activity in the venture capital portion of the industry. Coupled with announcements by Finance Minister Trevor Manuel, in his February 2008 Budget speech, whereby venture capital investments into high growth high technology businesses can qualify for an upfront tax deduction of 30%, bodes well for further funds and investments
- Despite local and international concerns about disclosure, taxation of carried interest and interest rate deductibility, all of which SAVCA are engaging on with National Treasury, there remains solid local and international support for the asset class by institutional investors that have to be exceptionally vigilant on their investments given the beneficiaries that they invest for
- More and more global investors and private equity firms are looking to access opportunities in emerging markets. It is easy to understand why they seek these opportunities via private equity in South Africa, as today, South Africa is one of the most sophisticated and promising markets globally

These are all positive signs for the industry and the country and it is fitting, that this industry performance survey, an annual publication, indicates a trend towards greater sharing of information and analysis. It has become the definitive industry publication, widely used locally and internationally by industry participants and stakeholders, policymakers, academics, students, 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 the industry.

I would like to thank the association's members for participating in the survey, with particular thanks to the teams from KPMG and SAVCA for their considerable efforts in producing this outstanding body of work. Your efforts are much appreciated.

J-P Fourie
Executive Officer
SAVCA

KPMG

KPMG is proud to have collaborated with SAVCA for the ninth consecutive year to produce the 2007 Private Equity Survey.

Private equity has taken its rightful place as a significant asset class in 2007 with a wave of multibillion rand deals. Private equity in South Africa now makes up 10% of all merger and acquisition (M&A) transactions, up from 4.2% last year (assuming a debt to equity ratio of 50:50).

Much has been written about the perception of the private equity industry as asset strippers and shedders of jobs. This is far from the truth as borne out by many international surveys including an independent survey commissioned by the World Economic Forum. In South Africa, private equity funds under management comprised 2.8% of Gross Domestic Product (GDP), up from 1.7% in 2006, and above the global average of 2.1%. The private equity industry is a significant employer and continually attracts interest from the large pension funds, given the consistent enhanced returns it delivers over listed equities, bonds and money market assets.

BEE has benefited from private equity as it has entrenched the BEE ownership component within the private equity portfolio companies. Capital market efficiencies have been maintained through the delisting, attempted delistings and re-listing of private equity transactions.

The significant fund raising activity seen in 2007 and record level of undrawn commitments should see continued investment activity in South Africa in 2008 and beyond. The credit crunch experienced in the more mature markets overseas and the related expected pressure on private equity returns will also promote increased interest in the more lucrative emerging markets including South Africa. Local traditional debt providers and mezzanine funds will be required to step into the credit gap.

South Africa remains an attractive destination for private equity given its low debt to equity ratio of 7% compared to Europe's 45% and 32% in the United States (US). Some overseas private equity fund managers have recognised this and have invested directly into the local market for the first time.

KPMG would like to thank all the participants in the survey and those of whom KPMG has engaged with in their fund raising and investing endeavours through our specialist Private Equity Group.

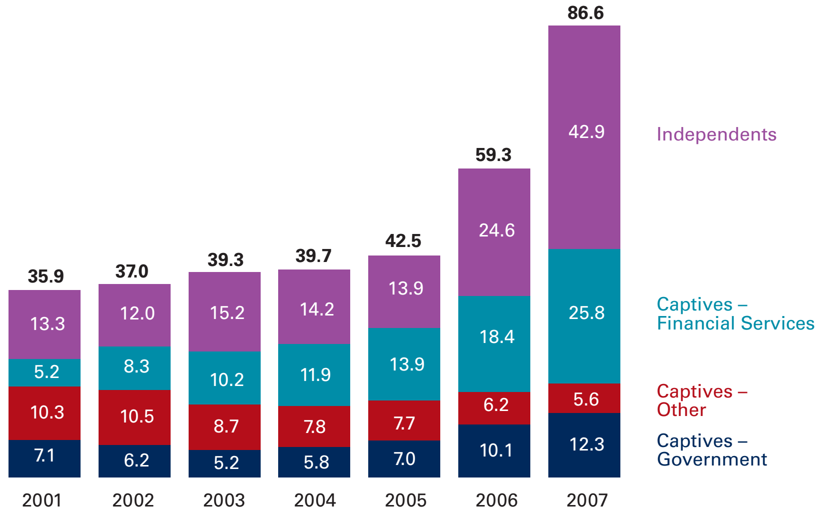
A special word of thanks to SAVCA, specifically Executive Officer J-P Fourie, and the survey sub-committee who played a critical role in compiling this survey. I would also like to thank the Private Equity Markets team at KPMG for their tireless efforts in producing this survey.

Warren Watkins
Director, KPMG
Head of Private Equity

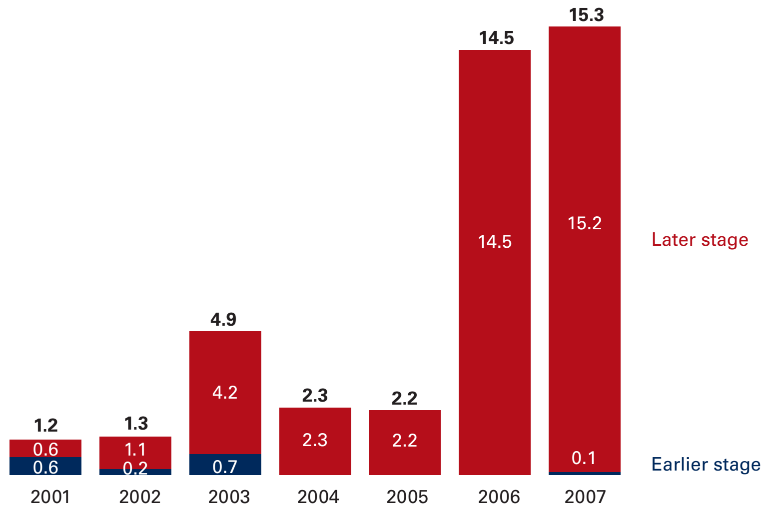
Highlights

- South Africa's private equity industry boasts R86.6 billion in funds under management at 31 December 2007, an increase of 46% from R59.3 billion at 31 December 2006
- At 31 December 2007, funds under management were 2.8% of GDP, up from 1.7% in 2006. Funds under management have had a compound annual growth rate of 14% since 1999 when this survey began
- Independents have increased their total funds under management by 74% from R24.6 billion at the end of 2006 to R42.9 billion at the end of 2007
- Captives – Government and fund managers that are black-owned, empowered or influenced had R59.7 billion of funds under management at 31 December 2007, an increase of 35% from the R44.3 billion at the end of 2006. 69% of funds under management are thus at least black-influenced or are classified as Captives – Government (2006: 75%)
- R15.3 billion was raised during 2007, surpassing the record R14.5 billion of funds that were raised during 2006
- 64% of funds raised during 2007 were from US sources, which also contributed 39% of funds raised during 2006. The US is now the highest contributor of all funds raised to date and not yet returned to investors (US: 34%, South Africa: 32% and UK: 27%).
- R31.7 billion in undrawn commitments at the end of 2007 is available for future investments. This represents an increase of 25% from the R25.3 billion of undrawn commitments at the end of 2006
- Investment activity is up 270% from R6.9 billion during 2006 to R25.5 billion during 2007. This includes the Bain Capital buy-out of Edcon for an equity value of around R8.7 billion
- Private equity investment activity (equity cheque only) was 5% of total South African M&A activity (measured in terms of deal size ie debt and equity) in 2007. This increases to 10% assuming a debt to equity ratio of 50:50
- South African private equity investment activity achieves 11th place in the 2007 global rankings, its highest ever position
- Investments in entities that are black-owned, empowered or influenced is up 147% from R4.7 billion during 2006 to R11.6 billion during 2007
- This survey includes South Africa's three independent mezzanine funds for the first time

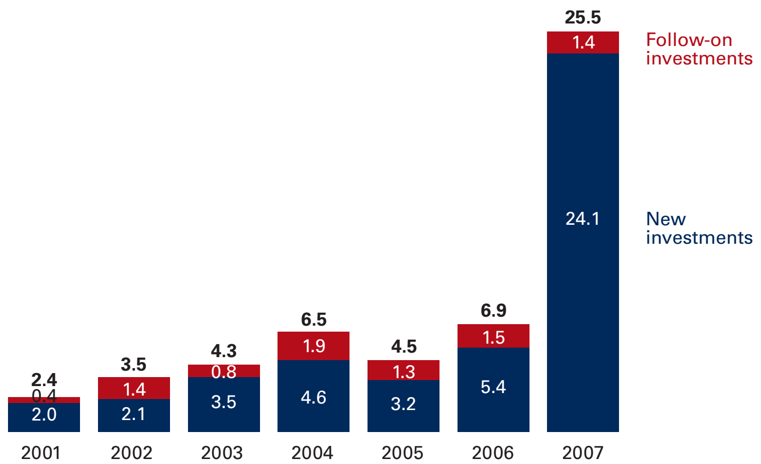
Composition of total funds under management at year end (Rbn)



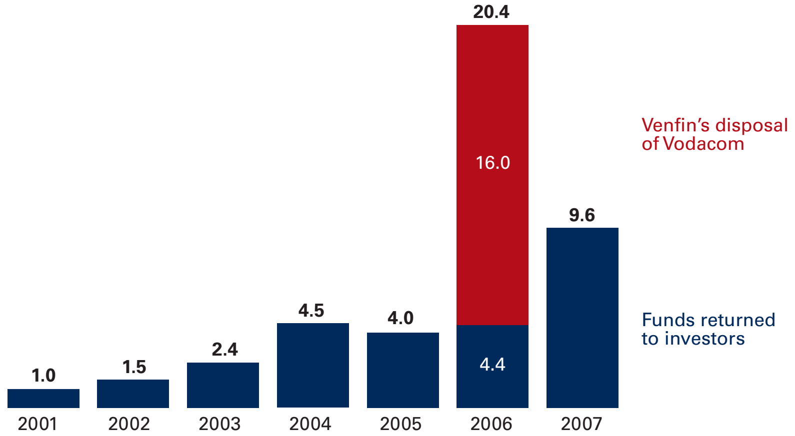
Funds raised during the year, analysed by fund stage (Rbn)



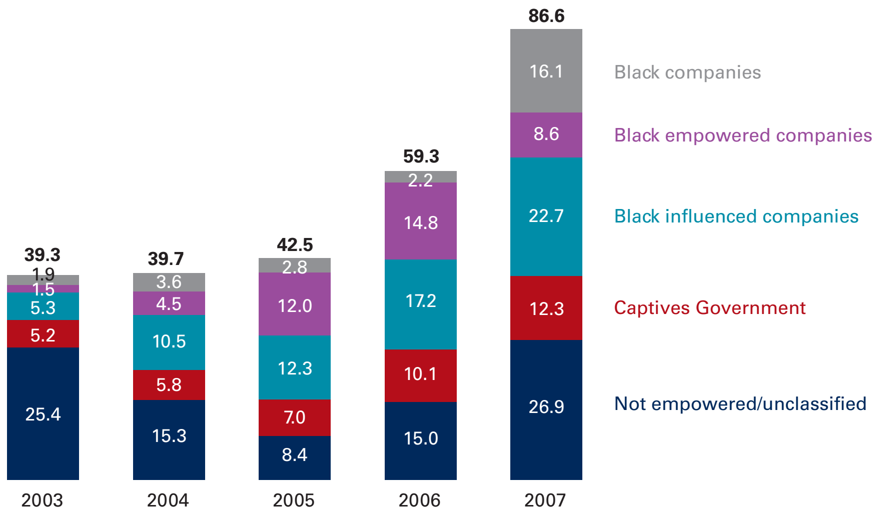
Cost of investments made during the year, analysed by new and follow-on investments (Rbn)



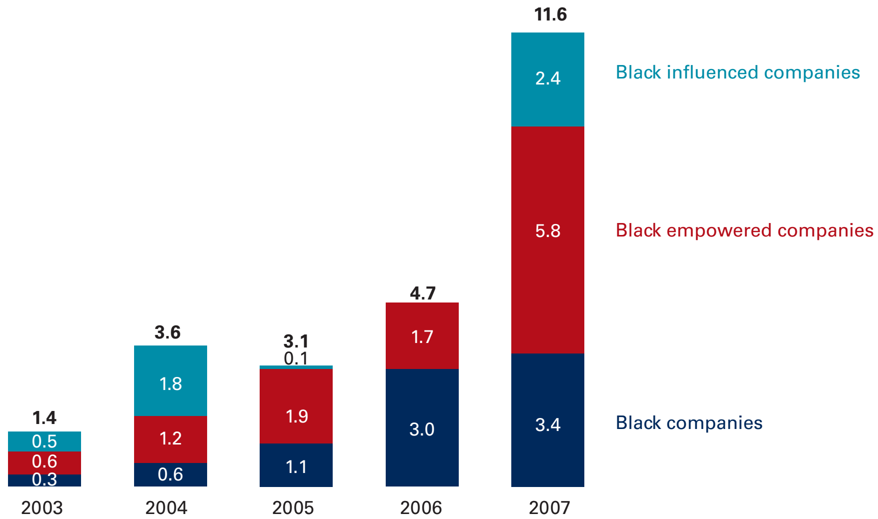
Funds returned to investors during the year (Rbn)



Funds under management by BEE 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 2008 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 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) and the provision of such capital (equity or quasi equity) primarily to unlisted companies; and
- Employ professionals – dedicated to the management of and investments made using such capital; and
- Generate returns – mainly through medium to long-term returns on investment and / or social development returns; or
- Be a member of SAVCA.

Investments should be included if:

- They are managed from South Africa, irrespective of the country in which the investment's revenue is generated; or
- They are managed outside of South Africa, where the majority (>50%) of that investment's revenue is generated in South Africa.

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 entities that indicated that they would consider participating in the survey. 40 of them (representing 59 funds) at least partially completed the questionnaire. In addition, alternative sources were used to obtain information on a further eight private equity firms, representing eight 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.

With the possible exception of the Public Investment Corporation's (PIC) Isibaya Fund, we are confident that the non-participants do not materially affect the results of this survey and we believe that we present a fair reflection of the state of South Africa's private equity industry.

International data has been sourced from various sources, including:

- Preqin 2007 Private Equity Review
- EMPEA press release of 29 February 2008
- Dealogic MBO investment review for 2007
- PwC 3i Global Private Equity 2006 Survey (relating to the 2005 calendar year and the first half of 2006)
- EVCA/Thomson Financial/PwC (extracts from the EVCA 2007 Yearbook for 2006 data and preliminary data for 2007 as announced on 13 March 2008)
- Central and Eastern European data: Central and Eastern Europe Statistics 2006 – EVCA Special Paper October 2007
- Israeli data: MoneyTree Survey prepared by Kesselman & Kesselman PwC (Q4 2007 survey)
- Other sources specifically included in the footnotes

In compiling the information for this survey, KPMG has worked closely with a SAVCA sub-committee, 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, to developing new technologies and products to grow and remain competitive, to 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 (national competitiveness) 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 into 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, particularly in the context of policies such as BEE, that address economic imbalances of the past, and the promotion of entrepreneurial initiatives, and positions South Africa to compete successfully into the future.

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

As we will see 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

Private equity can be broadly classified 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 has 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.

2006 and 2007 were years of heightened investment, fund raising and exit activity in the South African industry coupled with large amounts of international interest in fund raising and acquisition of private equity portfolio companies.

The global private equity market is still dominated by US-focused funds. 57% of all global private equity funds raised from 2004 to 2007 were raised by US-focused funds, with European-focused funds second with 30%. Other regions are small in global terms, but have been steadily increasing in size over the last few years[1].

Globally, the industry declined sharply after the 'bubble-burst' of the early 2000's but steadily recovered with 2006 posting unprecedented levels across most measurement criteria. The private equity industry was unable to completely avoid the impact of the global credit crunch of 2007 as levels were only marginally up on 2006:

- Global fundraising activity increased slightly from \$516 billion during 2006 to \$518 billion during 2007[1]
- Global buy-out activity increased from \$663 billion during 2006 to \$721 billion during 2007[1]

Taxation, regulation and disclosure

Recent forays by major international private equity funds into other markets and increases in the quantum of private equity deals, previously referred to as 'mega deals', now 'jumbo deals', has caused some anxiety amongst regulators and stakeholders. The extent of these activities has placed a spotlight on the regulation, disclosure and taxation of the industry both locally and internationally. These issues are mainly around systemic risk to the banking system and possible impacts on the fiscus. These concerns are not unique to South Africa or emerging markets and the industry continues to engage with stakeholders on the structures and procedures used by private equity funds.

[1] Sourced from Preqin

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 or investments relative to a benchmark. Captive fund managers do not usually charge a management fee.

In line with recent trends in 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 has confirmed that they are following the Barclays Private Equity model by moving into a semi-captive structure later this year.

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 BEE-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 boasts total funds under management of R86.6 billion (inclusive of undrawn commitments of R31.7 billion). This is a R27.3 billion (46%) increase from funds under management at 31 December 2006 of R59.3[2] billion (inclusive of R25.3 billion undrawn commitments). The industry has now achieved a compound annual growth rate of 14% of total funds under management since 1999 when this survey began.

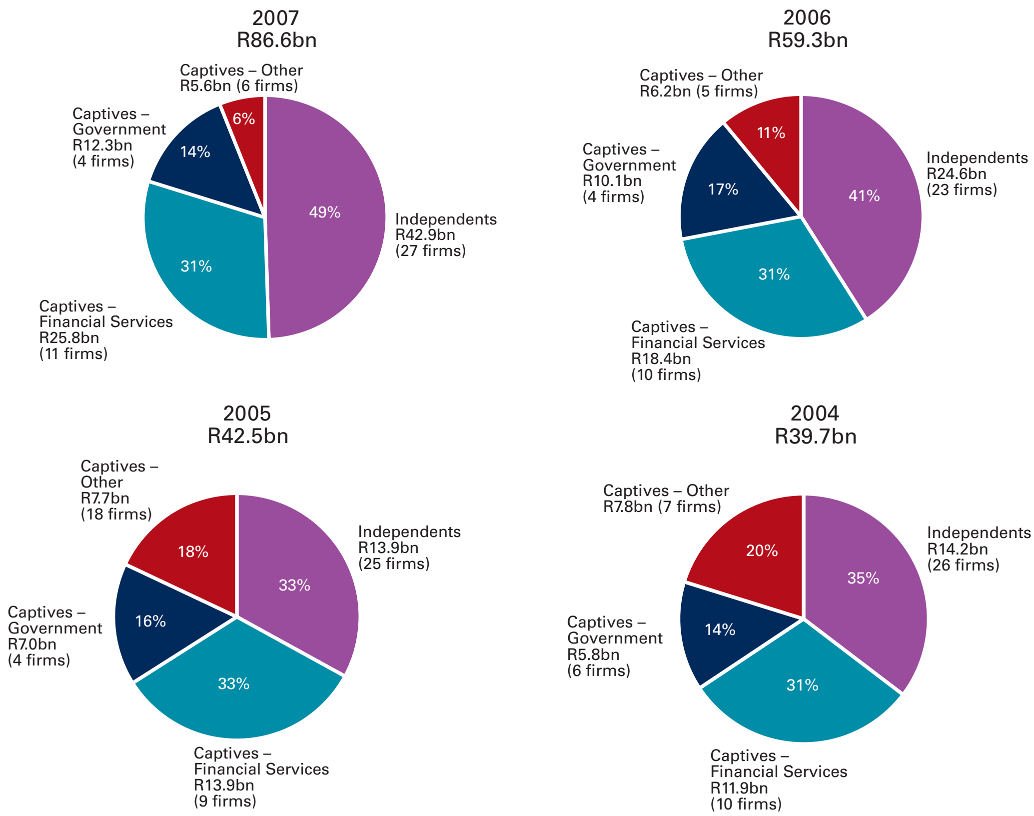
Independents have had the largest growth in total funds under management with an increase of R18.3 billion from R24.6 billion at 31 December 2006 to R42.9 billion at 31 December 2007. This 74% increase is as a result of some significant fund raising activity during 2007.

Captives – Financial Services' total funds under management increased by R7.4 billion from R18.4 billion at 31 December 2006 to R25.8 billion at 31 December 2007. This 40% increase reflects the continued private equity investment allocations by financial services groups to meet their BEE obligations under the Financial Services Charter (FSC).

Funds under management by Captives – Government increased by R2.2 billion from R10.1 billion at 31 December 2006 to R12.3 billion at 31 December 2007 (22% increase). Funds under management by Captives – Other decreased by R595 million from R6.2 billion at 31 December 2006 to R5.6 billion at 31 December 2007 (10% decrease).

[2] Although our 2006 survey reported total funds under management of R56.2 billion at 31 December 2006, the 2006 results now include certain private equity and mezzanine debt funds which were excluded last year and vice versa. The restatement of comparative data by certain participants has also contributed to the restatement. In analysing the research it is important to note that, in most cases, only comparative 2006 information has been restated (ie not pre-2006 information).

Figure 2: Total funds under management



Fund raising activity of R15.3 billion during 2007 was again extremely strong, exceeding last year's all time record. Activity was dominated by the R9.8 billion raised by Pamodzi Resources Fund Advisors.

Investment activity of R25.5 billion during 2007 was at unprecedented levels with as much investment during the year as in the previous five years combined. This dramatic increase reflects the Edcon buy-out (R27 billion deal value, R8.7 billion private equity contribution) and a number of other high profile public-to-private transactions. These aspects are discussed in further detail in the Fund raising activity and Investment activity sections of this survey.

At 31 December 2007, the split between captive funds and independent funds is now almost even, with captive funds accounting for approximately 51% of the total funds under management (2006: 59%).

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

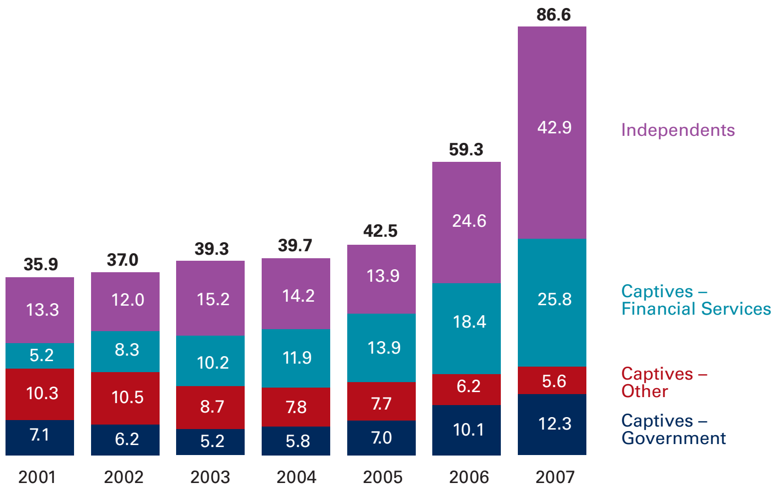
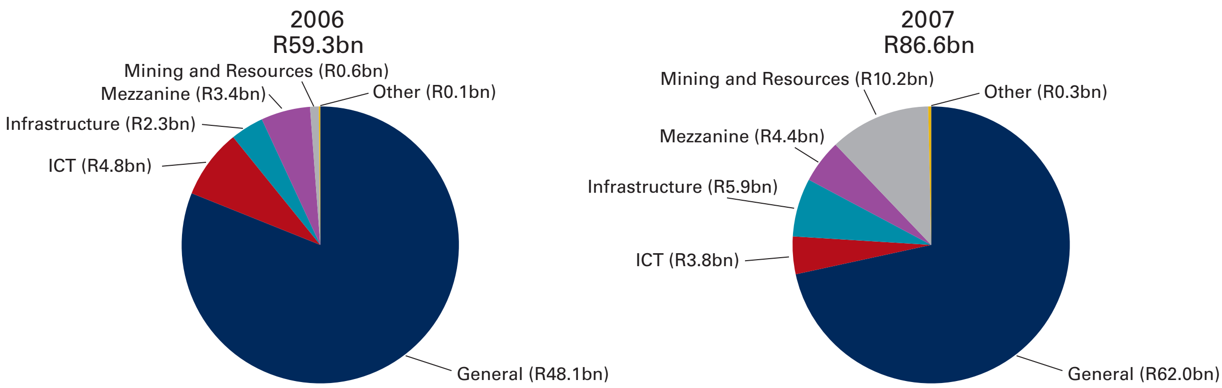


Figure 4: Composition of total funds under management at year end by the focus of the fund



For the first time we are able to analyse funds under management in terms of the focus of the fund. With 72%, General funds still dominate at 31 December 2007, however, this has decreased from 81% at 31 December 2006.

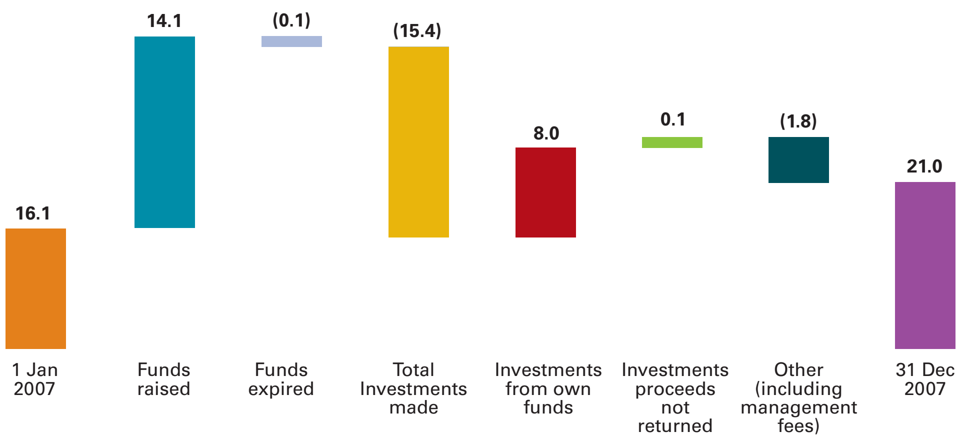
Mining and resources is the biggest gainer from 1% at 31 December 2006 to 12% at 31 December 2007. This reflects the emergence of the resources and resources-related focus of Pamodzi Resources Fund I.

Encouraging developments for South Africa are the coming-of-age and significance of the independent mezzanine funds and the increase of the infrastructure-focused funds.

The following figures show that total undrawn commitments at 31 December 2007 are R31.7 billion (2006: R25.3 billion), of which R21 billion (2006: R16.1 billion) reflects the undrawn commitments of third party raised funds committed to independent fund managers.

'Investments from own funds' in Figure 5 relates mainly (R7.8 billion) to Bain Capital's investment in Edcon.

Figure 5: Roll-forward of undrawn commitments from third parties to Independents (Rbn)



Following the trend of the past few years, undrawn commitments increased to R31.7 billion. This again bodes well for seekers of capital. 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. Since 31 December 2007, the credit crunch has significantly curtailed global private equity investing activity. South Africa has been somewhat insulated from its impact, but deal flow and debt capacity is muted.

Figure 6: Total funds under management at year end, split by undrawn commitments and investments (Rbn)[3]

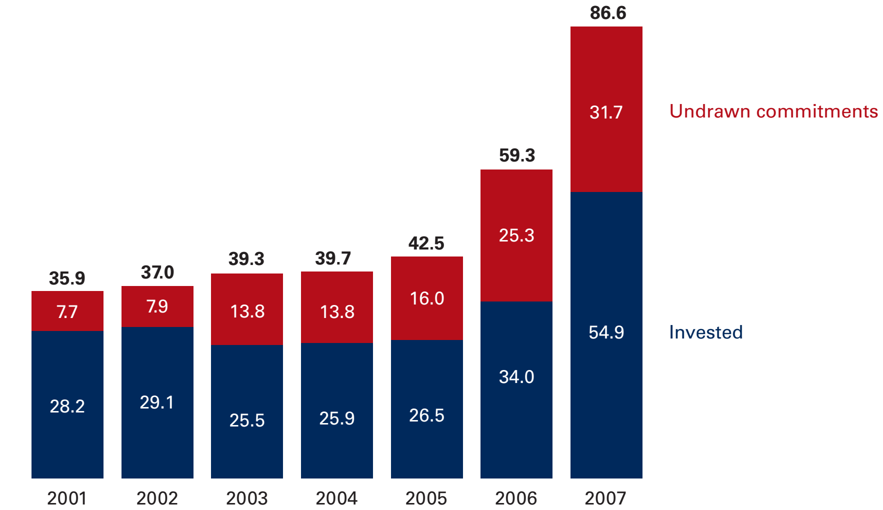
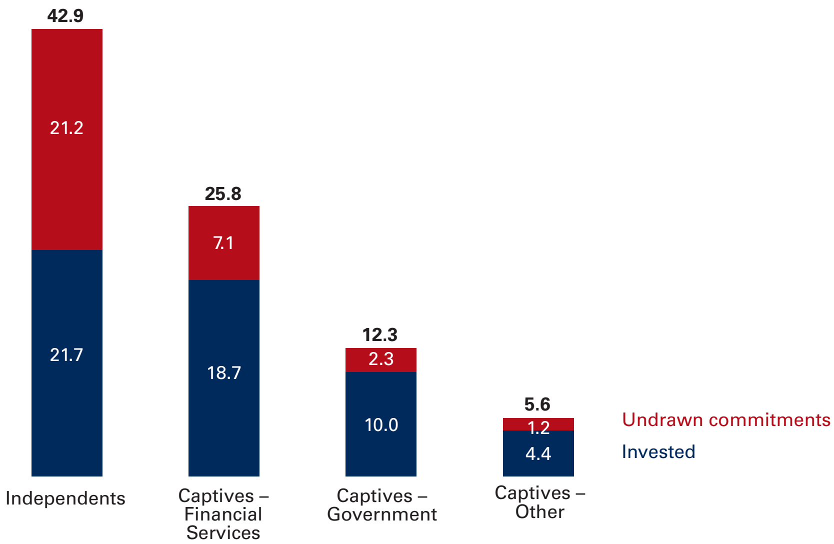


Figure 7: Total funds under management at 31 December 2007, split by undrawn commitments and investments (Rbn)[4]



The level of undrawn commitments at the end of 2007 should be seen in the context of the high level of fund raising activity during 2006 and 2007. This reflects the length of time involved in identifying opportunities and ultimately investing funds.

Participants in this survey have indicated that 95% of undrawn commitments at 31 December 2007 can be invested in new and/or follow-on investments (2006: 90%).

[3] Captive funds, and specifically Captives – Financial Services, generally have no fixed commitments, 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 unrealised investments without including the pool of available funds as undrawn commitments.

[4] Undrawn commitments at 31 December 2007 of Independents include R21.0 billion raised from third parties and R194 million of their own funds.

Analysis of total BEE funds under management

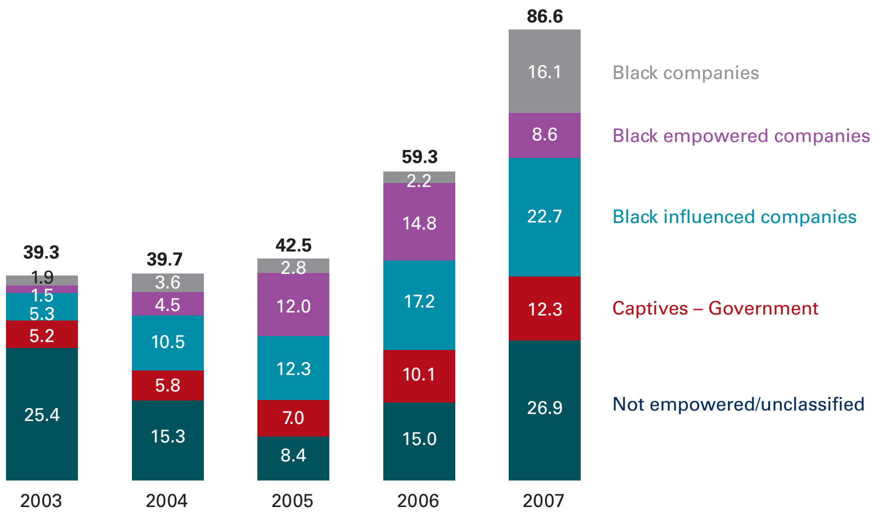
Captives – Government and fund managers that are themselves black-owned, empowered or influenced (that is, have at least 5% black ownership) had R59.7 billion of funds under management at 31 December 2007, an increase of 35% (2006: R44.3 billion). 69% of total funds under management are thus at least black-influenced or are classified as Captives – Government (2006: 75%).

Using an alternative measure, whereby Captives – Government are excluded, fund mangers that are black-owned, empowered or influenced increased by 39% from R34.2 billion at the end of 2006 to R47.4 billion at the end of 2007. This represents 64% of total funds under management, a slight decline from the 70% at the end of 2006.

The decline in both measures is largely due to the impact of the Bain Capital-led Edcon buy-out having only a limited BEE ownership component.

It must be noted that where participants did not return a completed questionnaire, and we were able 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: Funds under management by BEE fund managers at year end (Rbn)



R25.8 billion of the funds under the management of at least black-influenced companies and Captives – Government at 31 December 2007 (2006: R20.2 billion) remained undrawn at the year-end.

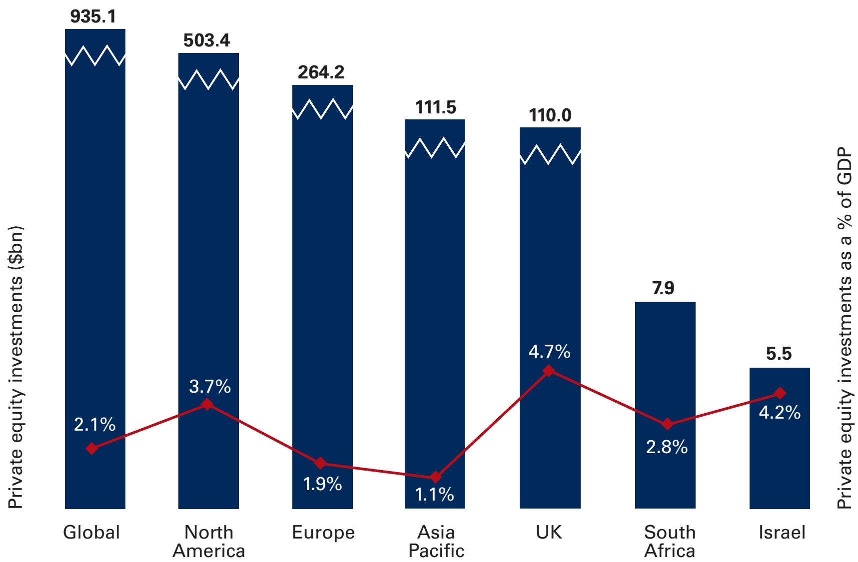
The BEE Codes have provided clarity as to the criteria that a private equity fund and fund mangers must meet for a company to treat ownership arising from a private equity fund as if ownership were held by black people. This greater clarity around the BEE Codes as well as the significant amount of undrawn capital referred to above, shows that the industry is well poised to further increase its contribution to this vital socio-economic process.

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. These include Israel which is often sighted as having implemented a successful private equity model.

In terms of total funds under management relative to GDP, for the first time, South Africa's private equity industry at 2.8% is higher than the global average of 2.1%, the European average of 1.9% and the 1.1% for Asia Pacific. It is still some way off that of North America (3.7%), UK (4.7%) and Israel (4.2%).

Figure 9: Size of international private equity markets (US$bn) relative to GDP[5]



[5] Based on funds under management for South Africa at 31 December 2007 and at 31 December 2006 for Europe and the UK as reported by EVCA/Thomson Financial/PwC and converted at €1=US$1.25. Global, North America and Asia Pacific are based on cumulative investments at cost made from 2000 to 2005 as reported by the PwC 3i Global Private Equity survey (covering the 2005 calendar year). Israel is based on cumulative investments at cost made from 2000 to 2007 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=R6.99. GDP for South Africa was sourced from Statistics South Africa (estimate at March 2008). Israeli and UK GDP as reported by The World Bank development indicators. Global, North American, European and Asia Pacific GDP as reported in the PwC 3i Global Private Equity survey.

In 2007, South Africa achieved 11th place in the global rankings of private equity investment activity, its highest ever position.

This is an encouraging performance, given South Africa's 2006 ranking of 17th, which was partially supported by a strengthening rand.

Figure 10: Country ranking – Investment activity (US$bn)[6]

	Country	Investments		Country	Investments		Country	Investments
1	US	440.8	**11**	**South Africa**	**3.7**	21	Israel	0.6
2	UK	51.2	12	Spain	3.5	22	Norway	0.6
3	France	12.6	13	Netherlands	3.0	23	Indonesia*	0.6
4	Japan*	8.0	14	Australia*	2.3	24	Denmark	0.5
5	China*	7.4	15	Korea*	2.1	25	Poland	0.4
6	Sweden	5.3	16	Brazil	1.3	26	Finland	0.3
7	India	5.0	17	Canada*	1.2	27	Russia*	0.2
8	Singapore*	4.4	18	Belgium	1.2	28	Portugal	0.2
9	Germany	4.4	19	Switzerland	1.0	29	Austria	0.2
10	Italy	4.3	20	New Zealand*	0.8	30	Ireland	0.1

South Africa remained in the global Top 20 in terms of fund raising activity.

Figure 11: Country ranking – Fund raising activity (US$bn)[7]

	Country	Investments		Country	Investments		Country	Investments
1	US	368.4	10	India	4.5	19	Japan	2.0
2	UK	72.7	11	Canada	4.5	20	Brazil	1.4
3	Australia	18.4	12	Spain	3.9	21	Norway	1.4
4	France	13.1	13	Italy	3.4	22	Turkey	1.1
5	Switzerland	7.1	14	Netherlands	3.0	23	Israel	1.1
6	Germany	6.0	15	Singapore	2.9	24	Malaysia	1.0
7	Hong Kong	5.8	16	Russia	2.3	25	Denmark	1.0
8	China	4.8	17	Finland	2.3			
9	Sweden	4.7	**18**	**South Africa**	**2.2**			

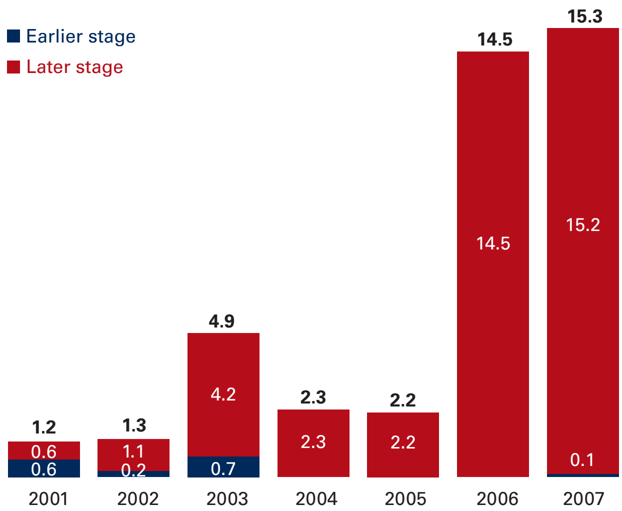
[6] 2007 figures for US, South Africa and Israel, 2006 for all others unless otherwise indicated by an * which indicates 2005. US dollars converted to South African rands using the average spot rate for 2007 of US$1=R6.99, and €1=US$1.25, as applicable. Investment activity was based on data reported in the PwC 3i Global Private Equity survey, EVCA/Thomson/PwC European Survey, Preqin Survey or EMPEA Survey.

[7] 2007 for all countries as reported by Preqin (except South Africa). South African rands using the average spot rate for 2007 of US$1=R6.99.

Fund raising activity

The figure below highlights the increase in the amount of funds raised from R14.5 billion during 2006 to R15.3 billion during 2007 (6% increase). Almost all the fund raising activity of 2007 was by later stage funds.

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



The majority of reported fund raising activity during 2006 and 2007 was, as expected, by Independents (R14.1 billion). Captives – Financial Services also reported raising R1.2 billion of third party funding during 2007.

The major fund raisers for 2007, all of which were Independents, were Lereko Metier Capital Growth Fund Managers, Medu Capital, Molash Capital, OMIGSA, Pamodzi Resources Fund Advisors and Vantage Capital Fund Managers. The major fund raisers of 2006 included Actis Africa, Brait Private Equity, Ethos Private Equity, Sasfin Private Equity Fund Managers, Sphere Private Equity and Treacle Private Equity.

In September 2007 Pamodzi Investment Holdings announced the launch of South Africa's largest ever private equity fund Pamodzi Resources Fund I. This US$1.3 billion (R9.8 billion) fund is the first large-scale resources and resources-related fund in South Africa. The fund will be managed by Pamodzi Resources Fund Advisors (which they indicate is fully compliant in terms of the BEE Codes), and will invest in mining assets in sub-Saharan Africa.

73% of all third party funds raised during 2007 were from private equity funds of funds (reflecting the source of funding of Pamodzi Resources Fund I). This represented a major swing from 2006 when funds raised from private equity funds of funds were only 8%. The next largest categories were insurance companies (11%), followed by pension and endowment companies (5%) and banks (5%).

Figure 13: Sources of third party funds raised during 2007 (R15 334m)

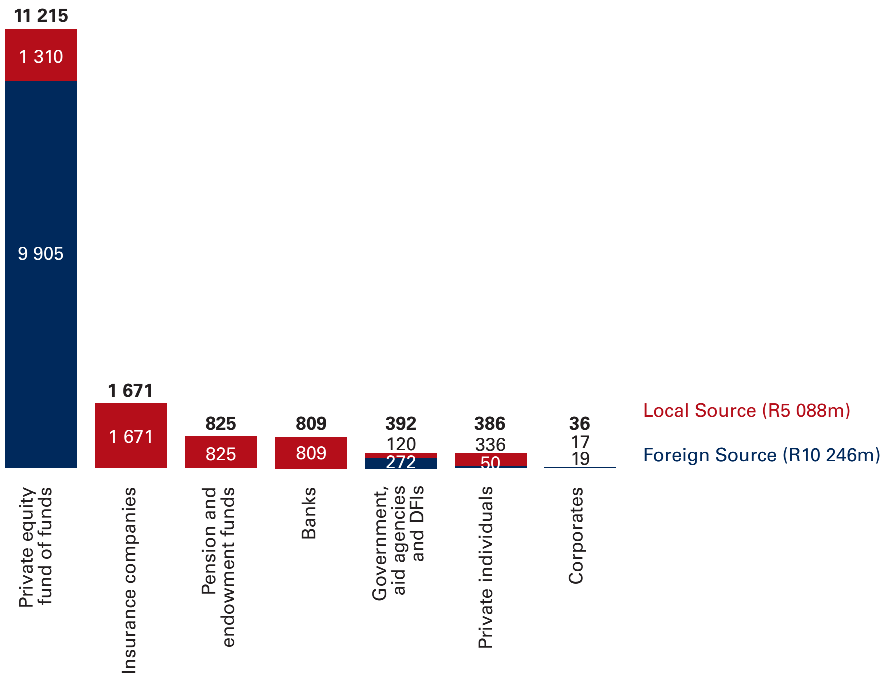
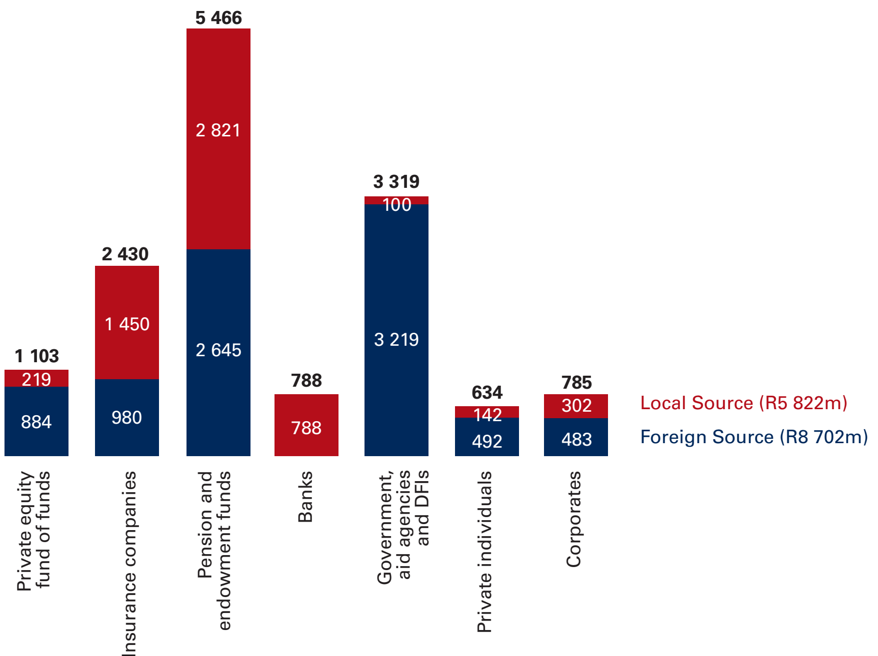
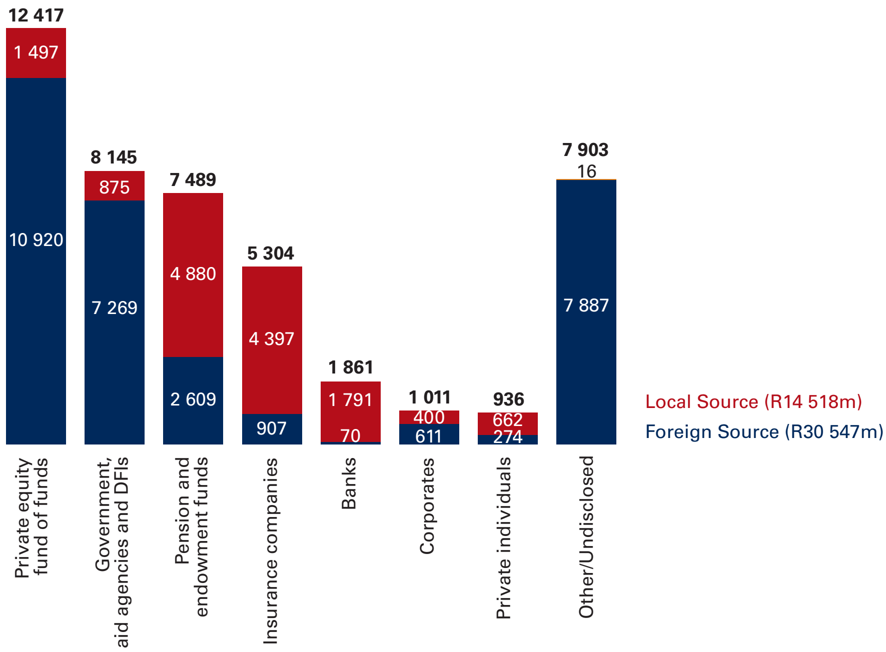


Figure 14: Sources of third party funds raised during 2006 (R14 525m)



28% of third party funds raised and not returned to investors (at 31 December 2007) were from private equity funds of funds followed by governments, aid agencies and DFIs (18%), pension and endowerment funds (17%) and insurance companies (12%). The remaining 25% was from other sources, including third party funds raised by Bain Capital in respect of the Edcon acquisition.

Figure 15: Sources of third party funds raised to 31 December 2007 not yet returned to investors (R45 065m)



There are a number of differences in the pattern of cumulative funds raised from 1 January 1995 to 31 December 2007 between South Africa and Europe.

The relative proportions of funds raised from funds of funds and pension and endowment companies (South Africa: 28% and 17%) are almost a mirror of each other (Europe: 13% and 24%). This is partly explained by the impact of Pamodzi Resources Fund I's source of funding, as previously discussed.

As one would expect, in South Africa there is a large contribution (18%) from governments, aid agencies and DFIs to the local industry whereas in Europe the contribution is smaller (7%).

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: Sources of third party funds raised not yet returned to investors – South Africa compared to Europe[8]

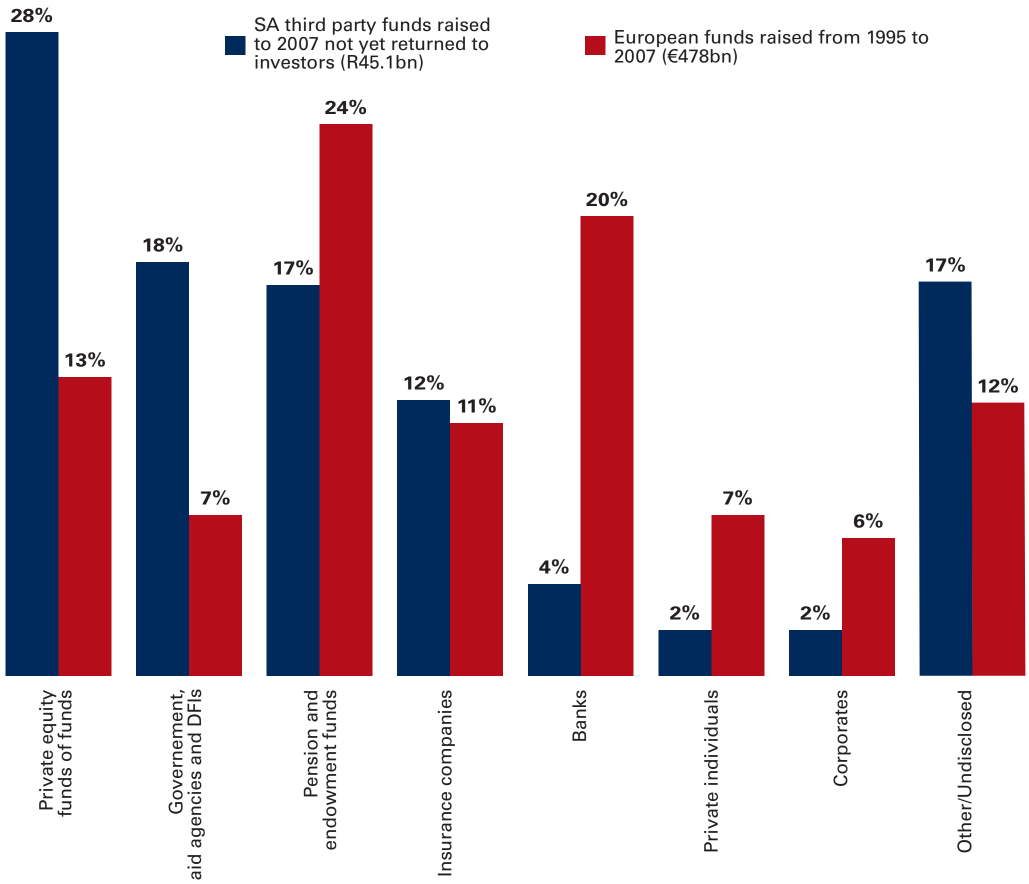
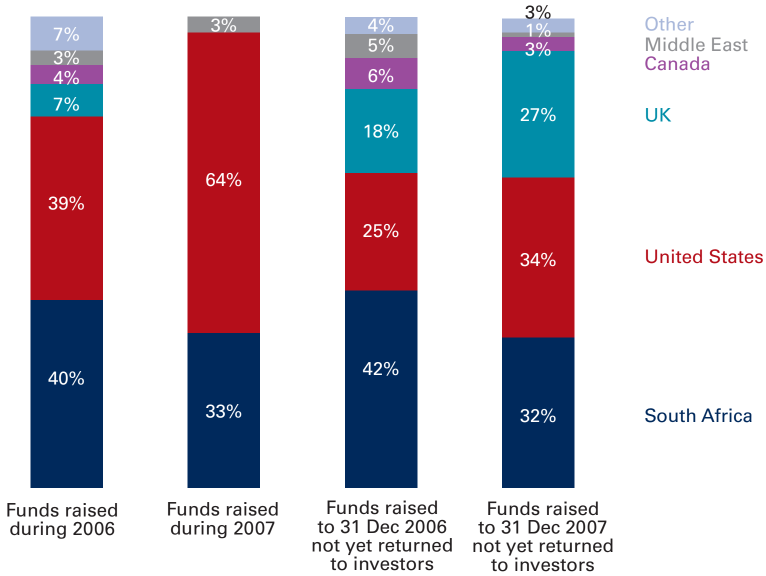


Figure 17: Geographic sources of third party funds raised



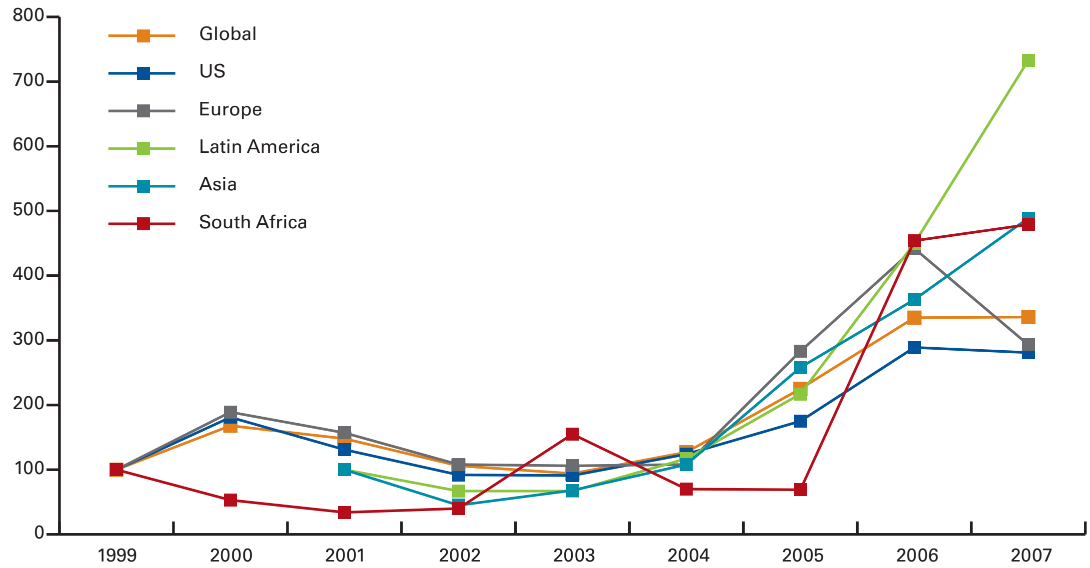
[8] European data sourced from EVCA/Thomson Financial/PwC

The US contributed 64% (2006: 39%) of the record level of funds raised during 2007. South African sources contributed 33%, down from 40% in 2006. If the source of funds raised by Pamodzi Resources Fund I (R9.8 billion all from the US) is excluded from the analysis above, South African sources make up 92% of funds raised during 2007.

The significant funds raised from US sources during 2006 and 2007 have resulted in the US overtaking South Africa as the main source of fund raising to date.

When fund raising overseas, it is vital that local fund managers are able to demonstrate local support. With a 32% contribution, 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)[9]



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.

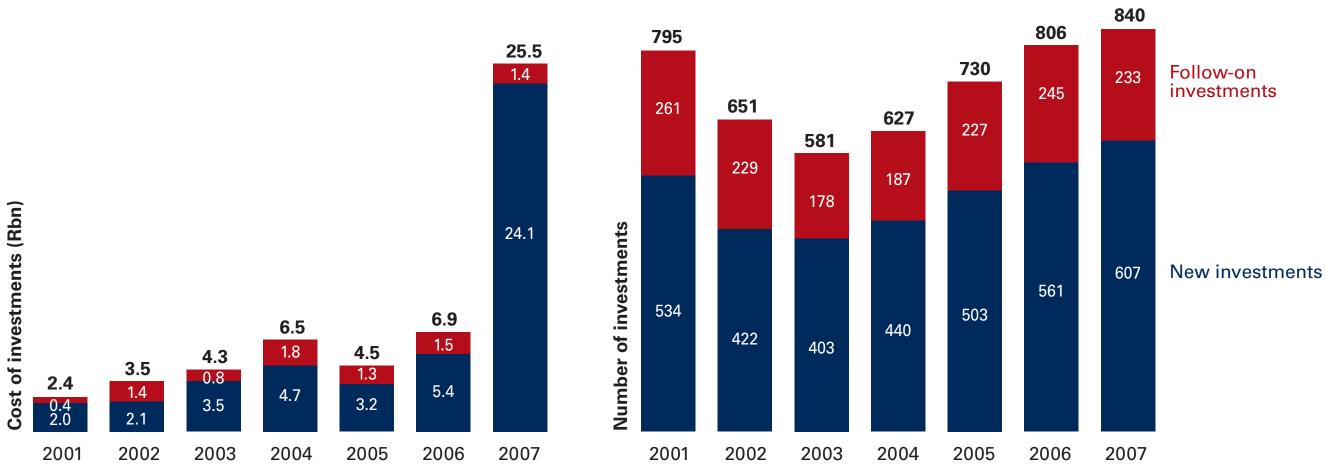
Except for in South Africa, there was a global peak in fund raising activity in 2000. Tracking the global economy, which was dragged down by the bursting of the dot-com bubble and the Asian crisis, there was a declining trend in private equity fund raising between 2000 and 2003. Since then, global fund raising increased rapidly and substantially, especially during 2005 and 2006 before levelling off in 2007. Data indicates that $518 billion was raised globally during 2007, a slight increase on the already strong 2006 figure[10].

[9] Sourced from EVCA/Thomson Financial/PwC, Preqin and PwC 3i
[10] Sourced from Preqin

Investment activity

Reported private equity investments increased by 270% from R6.9 billion during 2006 to R25.5 billion during 2007. The total number of investments increased by 34, from 806 to 840 during the same period, representing a 4% increase.

Figure 19: Cost and number of investments made during the year, analysed by new and follow on investments[11]



The significant increase of 270% in private equity investment activity, is especially positive when measured against total M&A activity in South Africa during 2007, which increased by 81% from R284 billion during 2006 to R514 billion during 2007[12]. In addition, it is pleasing to note that private equity investment activity during 2007 was nearly 5% of the total South African M&A activity (2006: 2.1%). We caution that private equity investment activity is based on the equity cheque from private equity funds, whilst South African M&A activity is based on total deal size (ie equity plus debt). Assuming a debt to equity ratio of 50:50, private equity activity is estimated at 10% of total South African M&A activity. This contribution is still substantially lower than the 20%[13] contribution that global private equity investment activity made to 2007 total worldwide M&A activity during 2007 (2006: 17%).

Internationally and locally, 2007 was a year of 'jumbo' deals, such as Bain Capital's Edcon buy-out, Actis and Ethos' Alexander Forbes Limited buy-out, Brait, OMIGSA and Sanlam's buy-out of Consol Limited and Brait and the MIC's Primedia Limited buy-out. With current capital market conditions balanced with the tightness of credit markets, it is unlikely that deals of this magnitude will be undertaken (locally and internationally) in the short to medium-term.

As mentioned many 'jumbo' deals were concluded in 2007 but like international markets a number of large deals were announced but not successfully concluded, such as Shoprite Holdings Limited, Iliad Africa Limited and Gold Reef Resorts Limited.

[11] The investment activity for 2005 reported in this survey excludes the acquisition of Waco for R5.4 billion (before accounting for net debt i.e. 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 off-shore.

[12] Total M&A activity (publicly announced deals during 2007 calendar year) as reported by Mergers & Acquisitions: A Review of Activity for the Year 2007 (Ernst & Young)

[13] World Economic Forum, Thomson Financial

Overall average investment deal size increased from R9 million for the 2006 year to R30 million during 2007. New investments' average deal size increased from R10 million to R40 million while follow-on investments average deal size remained constant at R6 million.

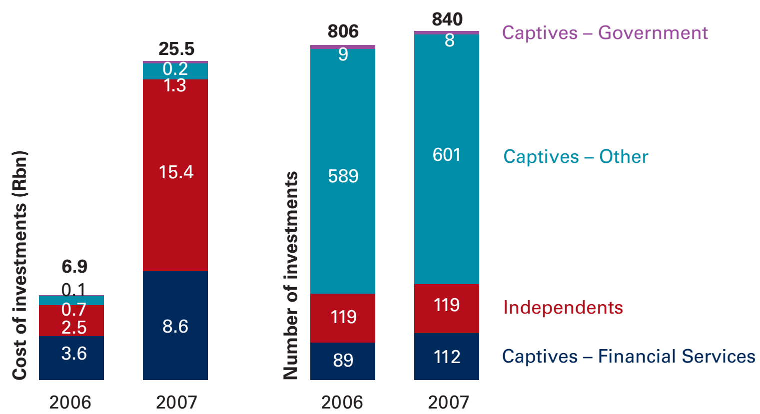
In terms of the number of reported investments, Business Partners (previously The Small Business Development Corporation), classified as Captives – Other was again by far the most active investor player in the South African private equity market, contributing 577 (69%) of the total number of reported investments made during 2007 (2006: 578, 72%), although only 3% in terms of the cost of total investments made during 2007 (2006: 9%). Business Partners' average deal size remained constant at just over R1 million.

If Business Partners' investments are excluded, the total average deal size increases to R95 million (2006: R28 million), new investments' average deal size increases to R123 million (2006: R31 million) and follow-on investments average deal size increases to R17 million (2006: R20 million).

If the Edcon transaction is also excluded, which given its size potentially distorts the figures above, the total average deal size is R62 million and new investments' average deal size is R78 million.

Independents and later stage focused funds dominated investment activity during 2007.

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

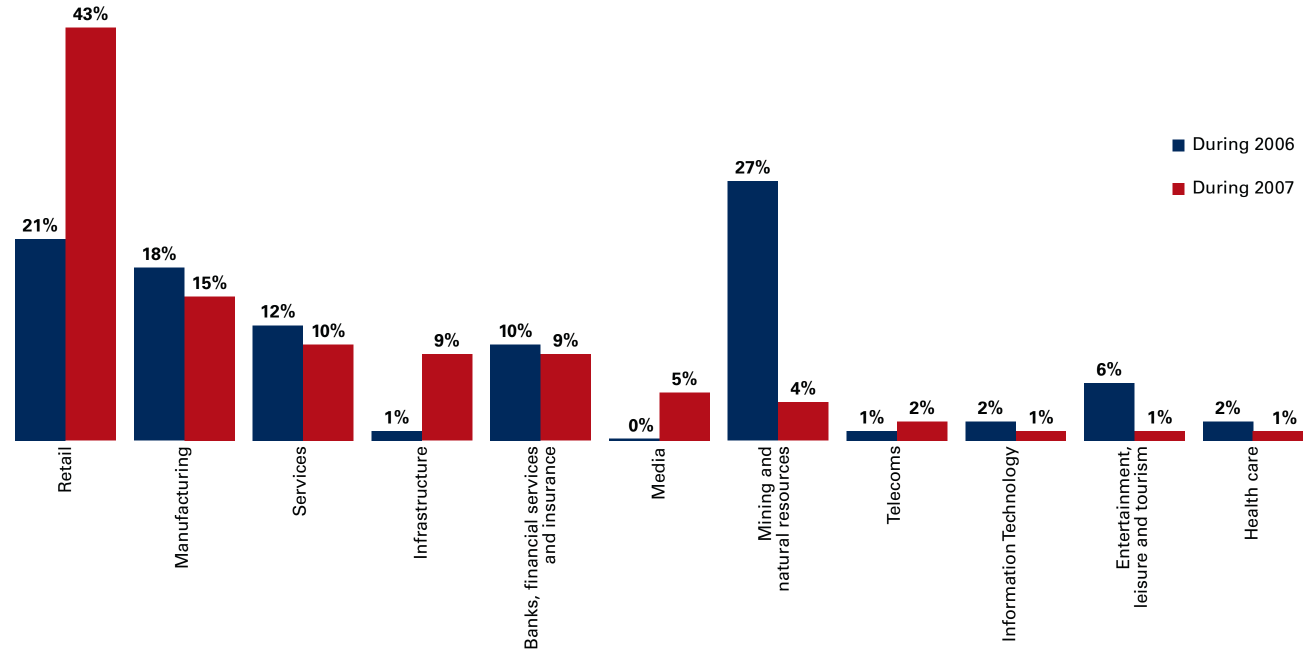


Of the investments made during 2007 classified into sectors, 43% were in the retail sector, 15% in the manufacturing sector and 10% in the services sector.

The retail sector more than doubled its share from 21% in 2006 to 43% in 2007, on the back of a number of large buy-outs including Edcon and Brandcorp Limited. Reflecting the South African Government's ramp-up in infrastructure spend, investments into infrastructure jumped from only 1% in 2006 to 9% in 2007.

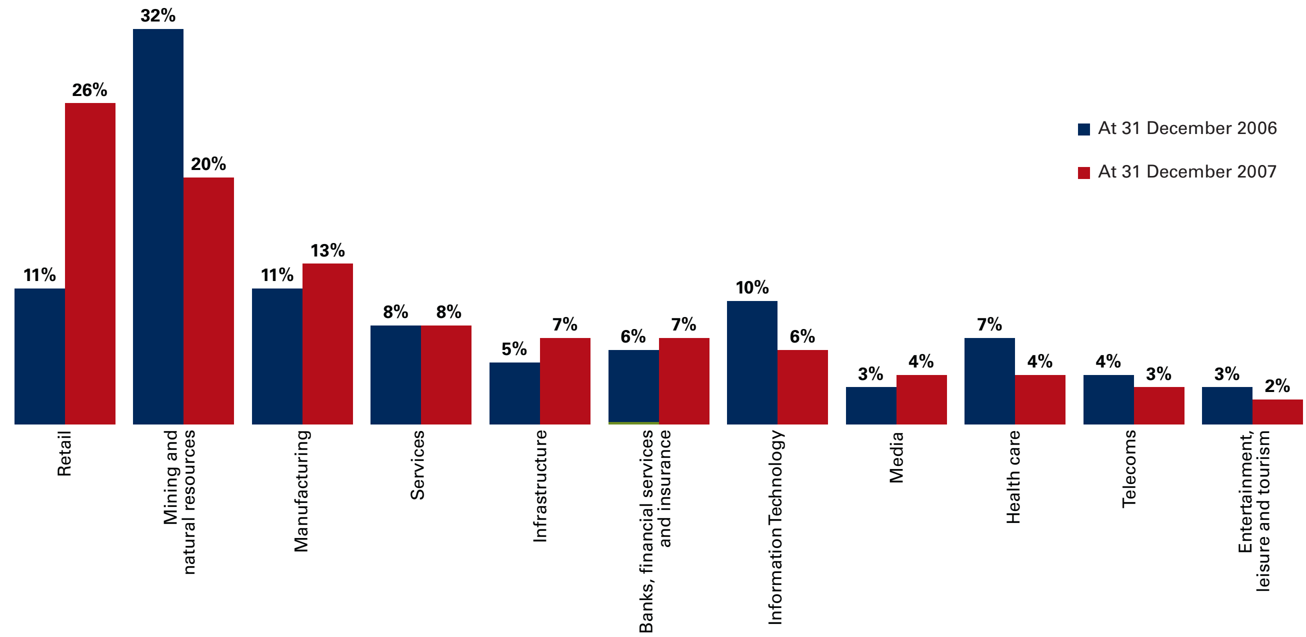
Somewhat surprisingly, given the commodities boom, the share of investments into mining and natural resources fell from 27% in 2006 to only 4% in 2007. With R9.8 billion available for this category of investment, Pamodzi Resources Fund I may reverse this trend.

Figure 21: Investments made during the year, analysed by sector[14]



Driven in large part by the Edcon buy-out, the retail sector overtook mining and natural resources as the dominant recipient of private equity funding across all types of funds. It comprises 26% of all unrealised investments at 31 December 2007.

Figure 22: Unrealised investment portfolio at year end, analysed by sector[15]



[14] 13% (R3.4 billion) of investments made during 2007 were classified in the other sector category or not classified at all (2006: 18% / R1.2 billion). These have been excluded from the analysis shown.

[15] 18% (R10 billion) of the unrealised investment portfolio at 31 December 2007 was classified in the other sector category or not classified at all (2006: 25% / R8.5 billion). These have been excluded from the analysis shown.

Given the move away from the dominance of the mining sector in the overall economy, local fund managers unsurprisingly now see opportunities in many sectors. However, with the significant pressures on the local consumer leading to a possible downturn in the retail sector and the impact of Pamodzi Resources Fund I, we may see a swing back to the mining and natural resources category.

The cost of investments into seed, start-up and early stage entities contributed only 6% of unrealised investments at 31 December 2007 (2006: 11%). This represented 24% (2006: 43%) of the number of investments 31 December 2007, which is indicative of the proportionally larger transaction values for the later stage types of deals and the impact of Business Partners' average transaction size.

Buy-outs as a proportion of the cost of investments made increased from 38% in 2006 to 63% in 2007, reflecting the activity during the year.

Figure 23: Analysis of investments by stage based on cost of investments[16]

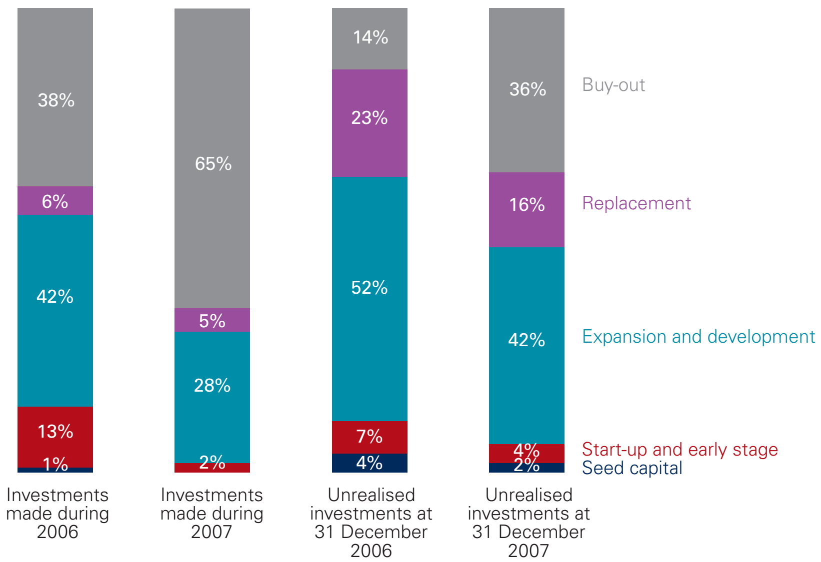
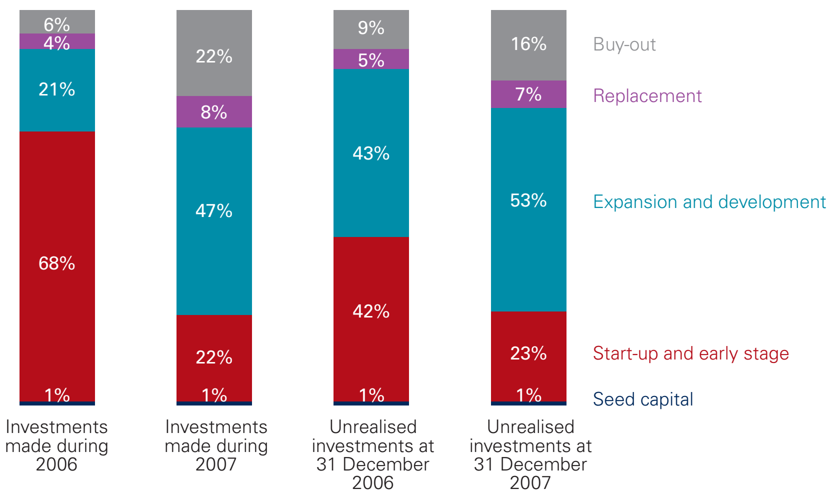


Figure 24: Analysis of investments by stage based on number of investments

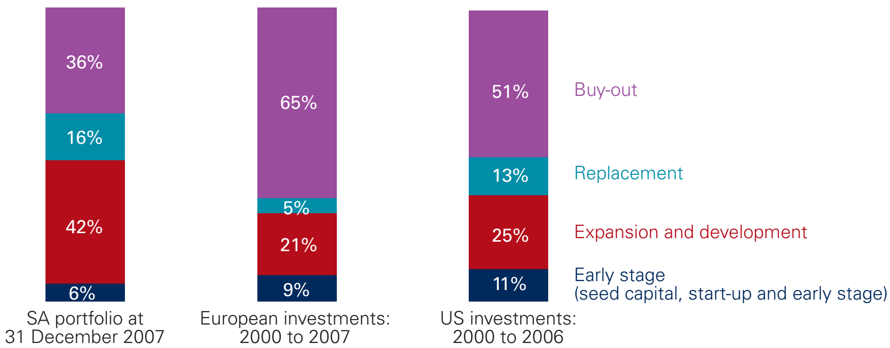


[16] Investments not classified by stage have been excluded.

South Africa's tendency towards later stage investments is not unlike international trends where early stage investments, which include seed and start-up, have decreased from 21% in 2000 to 7% in 2006 in North America and from 19% in 2000 to 4% in 2007 in Europe. On the other hand, buy-outs increased from 27% in 2000 to 55% in 2006 in North America and from 42% in 2000 to 77% in 2007 in Europe[17].

South Africa's early stage investments at 6% of total unrealised portfolio at cost at 31 December 2007 is lower than North America (11%) and Europe (9%)[17].

Figure 25: Analysis of investments by stage based on cost of investments – South Africa compared to Europe and US

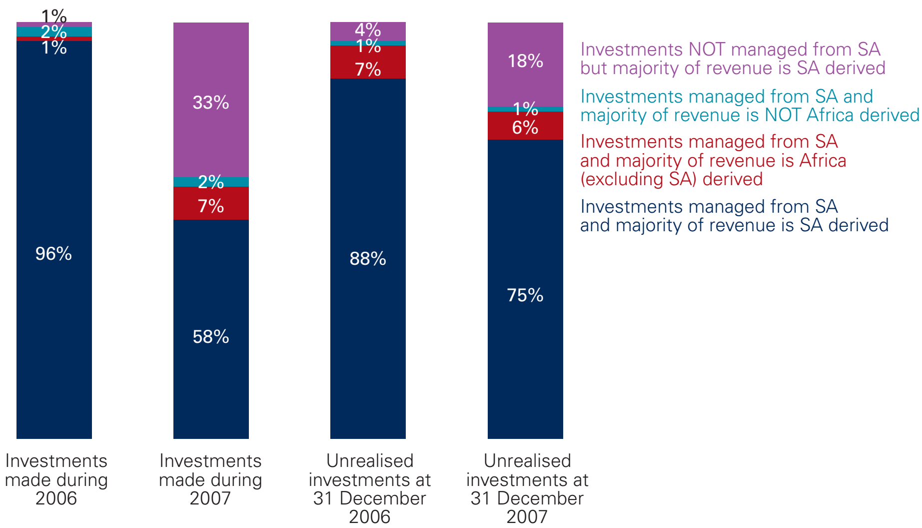


The majority (75% / R41 billion) of the unrealised investment portfolio of R54.9 billion at 31 December 2007 comprise investments whose majority of revenue is generated in South Africa.

The remaining 25% comprises: South African investments not managed from South Africa (18% / R9.8 billion) relating mainly to Edcon, other African investments managed from South Africa (6% / R3.4 billion), mainly Actis' African portfolio, and non-African investments managed from South Africa (1% / R691 million).

We note an increasing tendency of South African fund managers to raising capital with a mandate to invest outside of South Africa, mainly sub-Saharan Africa. This reflects the better acceptance of the region as a viable investment opportunity and a degree of relaxation of Exchange Control in South Africa.

Figure 26: Analysis of investments by geography based on cost of investments



[17] Data sourced from EVCA / Thomson Financial / PwC, Prequin and PwC 3i

The figure below provides an analysis of the Top 10 largest reported private equity transactions in 2007.

Figure 27: The ten largest private equity transactions reported during 2007 based on total funding raised

Name of investment	*Equity provider/s*[18]	*Debt provider/s*	*Total funding raised*	*Type of investment*	*Private Equity Fund's equity interest*	*Part of syndication*	*BEE ownership (post-deal)*
Edcon	Bain Capital Barclays Private Equity Absa Capital Private Equity	Barclays Capital Absa Capital	R27 132m	LBO	Controlling interest	Yes	Not empowered
Alexander Forbes	Actis Africa Ethos Harbourvest Capital International OTPP CdpQ	RMB Investec Bank Nedbank JP Morgan Goldman Sachs	R8 982m	LBO	50.1%	Yes	Black-influenced company
Primedia	Brait	RMB OMIGSA Vantage Capital	R7 300m	LBO	18.3%	Yes	38.8%
Consol	Brait OMIGSA Sanlam Private Equity Harbourvest Capital International	CitiBank JP Morgan	R6 600m	LBO	61.5%	Yes	26%
Steinfurn	Absa Capital Private Equity	Absa Capital	R1 580m	LBO	49.9%	No	Black-empowered company
Premier Foods	Brait	N/A	R1 500m	MBO	Not disclosed	No	Not disclosed
Tsebo Outsourcing Group	Absa Capital Private Equity	Investec Bank Vantage Capital	R1 435m	LBO	45%	No	Black-empowered company
Brandcorp	Ethos Sphere	Absa Capital Nedbank	R1 420m	LBO	Controlling interest	No	Black-influenced company
Vox Telecom	Lereko Metier Capital Growth Fund	Investec Bank Limited	R490m	Later stage expansion capital	23.3%	No	Black-empowered company
Mvelaphanda Holdings	Absa Capital Private Equity	N/A	R450m	Later stage expansion capital	Not disclosed	No	Black company

[18] Excluding management, BEE partners and re-investing shareholders

The figure below provides an analysis of the Top 10 largest reported private equity transactions in 2006, as reported in last year's survey.

Figure 28: The ten largest private equity transactions reported during 2006 based on total funding raised

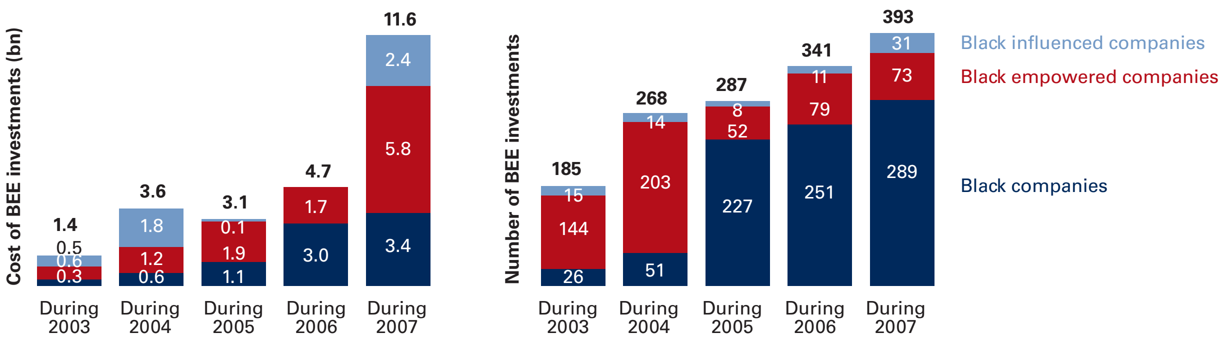
Name of investment	*Equity provider/s[19]*	*Debt provider/s*	*Total funding raised*	*Type of investments*	*Private Equity Fund's equity interest*	*Part of syndication*	*BEE ownership (post-deal)*
Safripol	Absa Capital Private Equity	Absa Capital	R1 275m	LBO	Not disclosed	No	Not empowered
Mvelaphanda Resources	Absa Capital Private Equity Sanlam	Absa Capital Sanlam	R1 239m	Replacement capital	Not disclosed	Yes	Black company
Moresport	Ethos	–	R681m	LBO	60%	No	Not empowered
Fidelity Security Group	RMB Corvest	Shareholders	R295m	Replacement capital	23%	Yes	Black company
Plumblink	Ethos	–	R234m	LBO	70%	No	Black-empowered company
Chemspec	RMB Corvest	RMB	R205m	MBO	45%	No	Black-empowered company
Vunani	Absa Capital Private Equity	–	R186m	Replacement capital	20%	No	Black company
Outdoor Networks	Sanlam Private Equity Zico	Absa Capital	R140m	LBO	40%	Yes	Black Company
Shanduka Resources	OMIGSA	–	R90m	Later stage expansion capital	15%	No	Black-owned
ERP.Com	Treacle Private Equity	–	R80m	Replacement capital	26%	No	Black-empowered company

[19] Excluding management, BEE partners and re-investing shareholders

Analysis of BEE investments

The cost of investment into entities that are at least black-influenced companies in 2007 was R11.6 billion, an increase of 147% from 2006 levels. The number of BEE investments also increased from 341 during 2006 to 393 during 2007. This reflects the private equity market's recognition that BEE investments are an increasingly important element of the South African economy.

Figure 29: Cost and number of BEE investments made during the year (excluding Captives – Government)



The 147% increase in investment activity is again positive when measured against total BEE M&A activity in South Africa during 2007, which increased by 71% from R56 billion during 2006 to R96 billion during 2007[20].

The average black economic empowerment deal size in 2007 was R30 million compared to R14 million during 2006. These are investments into black-owned, empowered or influenced companies.

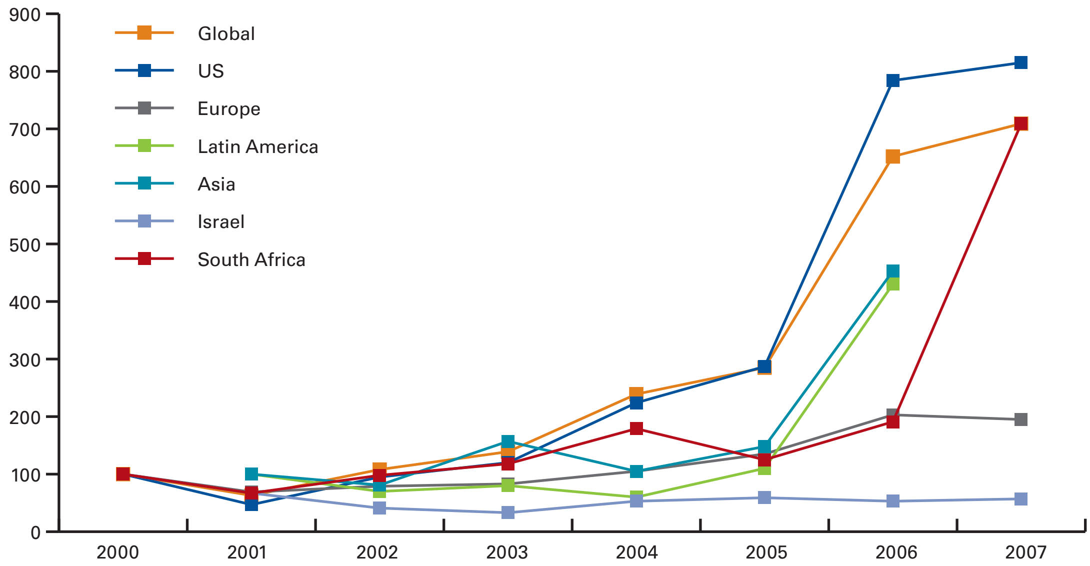
[20] Total BEE M&A activity (publicly announced deals during 2007 calendar year) as reported by Mergers & Acquisitions: A Review of Activity for the Year 2007 (Ernst & Young)

Global investment activity

Global investment activity declined in 2001 but recovered steadily from 2002 until 2005. Investment activity then rapidly increased in 2006 and this was maintained in 2007.

South Africa has grown year-on-year investment activity since 2001. Following the decline in 2005, there was a strong rebound in 2006. As reported in other sections of this survey, 2007 was a record year for investment activity in South Africa.

Figure 30: Global and South African investment activity during the year (2000 = 100)[21]



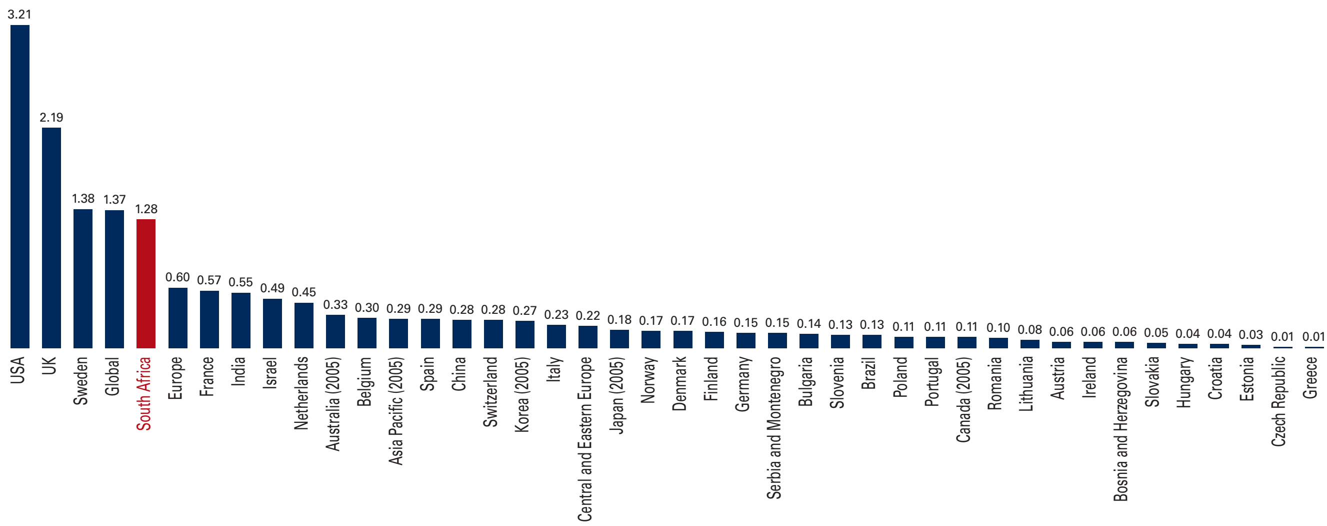
[21] Source: Prequin, EVFCA, Dealogic, EMPEA, Kesselman & Kesselman PwC

South African private equity investments increased from 0.35% in 2006 to 1.28% of GDP in 2007. This is lower than the 3.21% recorded in the US and the global average of 1.37%, but significantly higher than the European average of 0.6%.

South Africa's global ranking improved from 10th in 2006 to 4th in 2007 and it is pleasing to note that South Africa is ranked above the so-called N-11 and BRIC countries.

We caution that only SA and Israel's data relates to 2007, whereas all other countries are for either 2006 or 2005.

Figure 31: Global investment activity during the year as a percentage of GDP (%)[22]



[22] Source: EVCA, EMPEA, PwC 3i, Kesselman & Kesselman PwC
2007 for South Africa and Israel, 2006 for all others unless indicated

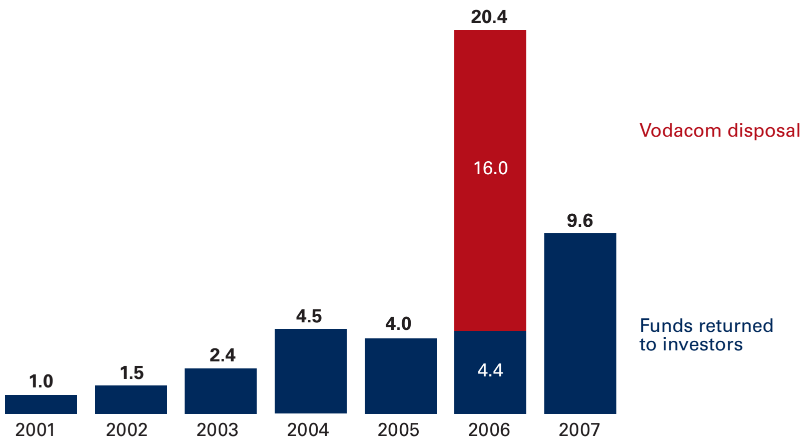
Exits

Total funds returned to investors

Funds returned to investors increased by R5.2 billion from R4.4 billion during 2006 to R9.6 billion during 2007 (Note: The R4.4 billion recorded in 2006 excludes Venfin's disposal of its interest in Vodacom for R16 billion. The data relating to this disposal has been excluded from the rest of this survey to allow for a better comparison of historic information).

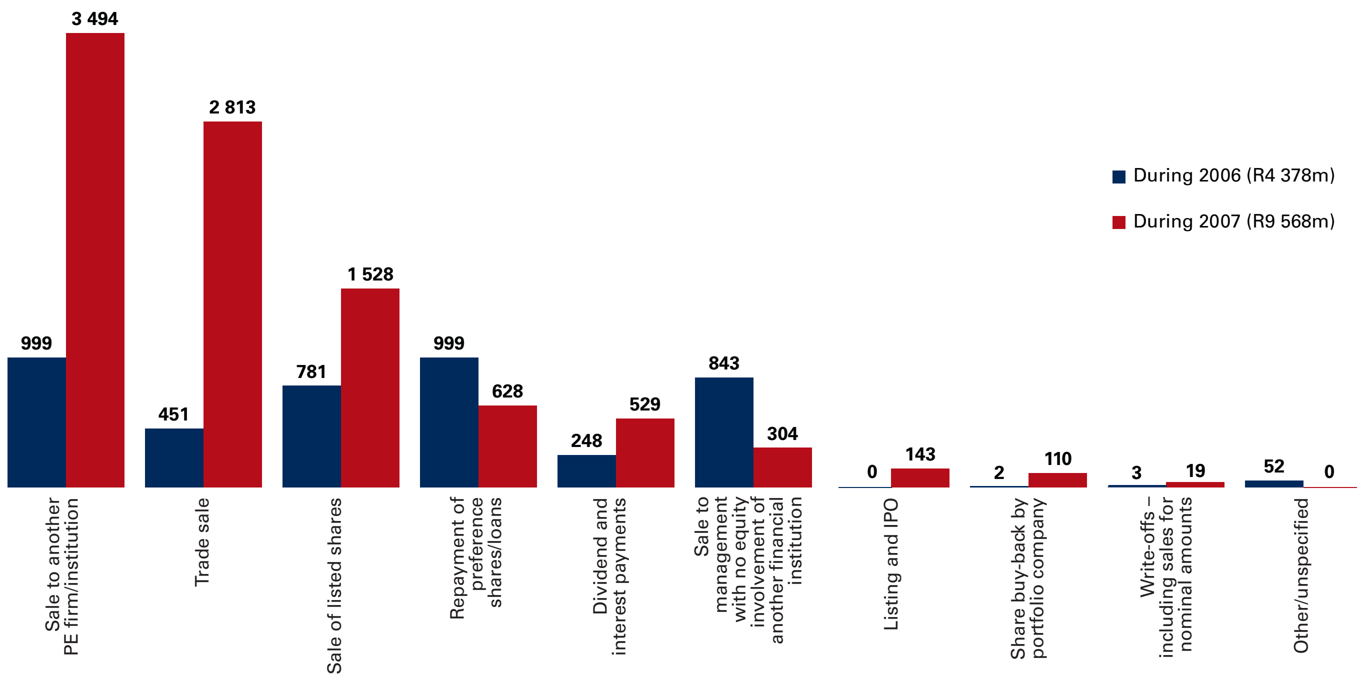
This significant (118%) increase in funds returned to investors marks a positive end to the private equity life cycle with the majority of beneficiaries of these returns being ultimately the policy holders of pension and provident funds.

Figure 32: Funds returned to investors during the year (Rbn)



The analysis of funds returned to investors during 2006 and 2007 is shown below.

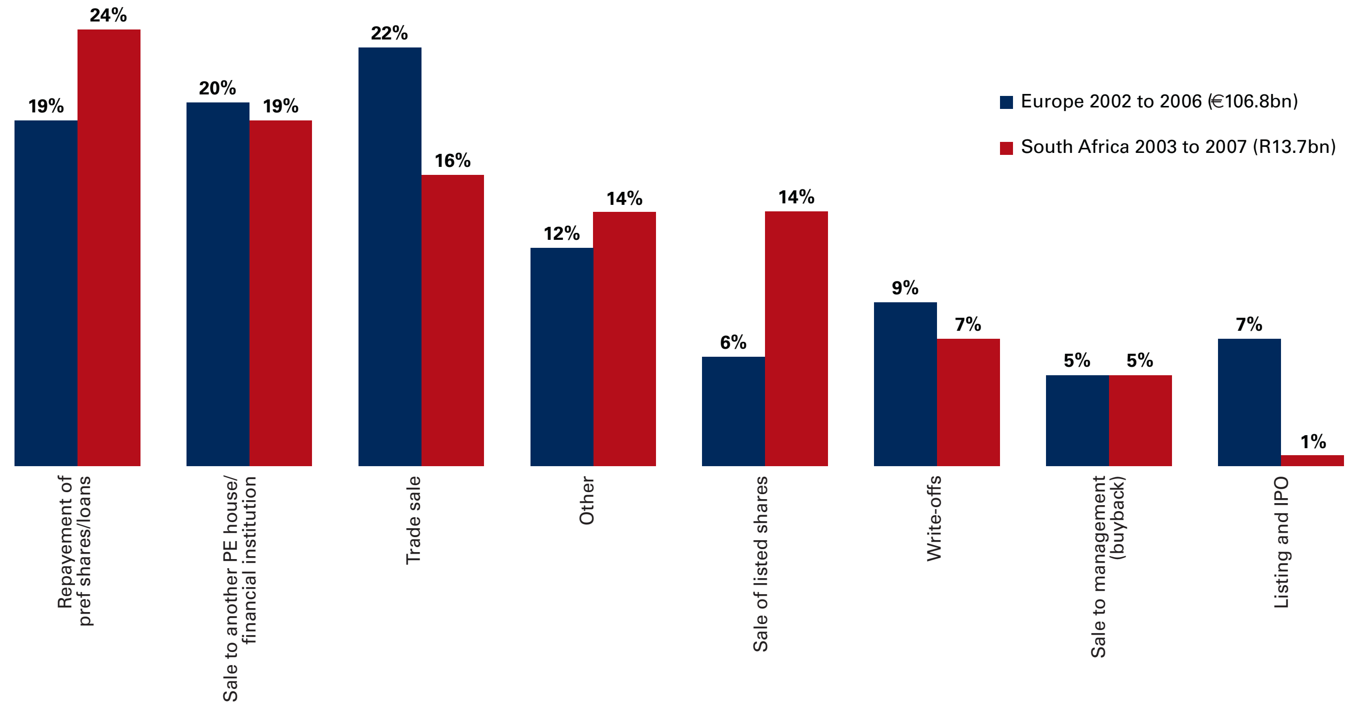
Figure 33: Analysis of funds returned to investors during the year (excludes Venfin's disposal of Vodacom) (Rm)



During the first quarter of 2007, Brait listed the Kelly Group. This is South Africa's first listing as a complete/partial exit by a fund manager since 2004. There have, however, been a number of exits via the sale of listed shares.

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

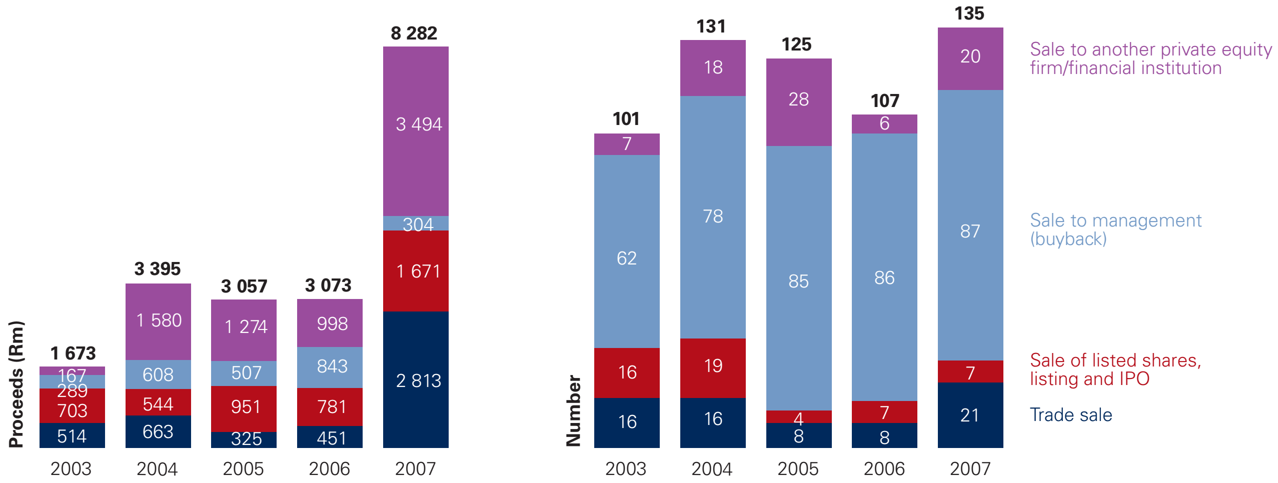
Figure 34: Analysis of exits based on cost: South Africa compared to Europe



Disposals

The value of disposal[23] proceeds increased to R8.3 billion in 2007 from R3.1 billion during 2006. Disposals to other private equity firms or financial institutions was again the option which attracted the most transactions in value terms while sales to management (buy-backs) also repeats the historic trend of attracting the highest number of transactions.

Figure 35: Analysis of disposals during the year based on proceeds and number (excludes Venfin's disposal of Vodacom)



The average proceeds per disposal have increased from R29 million in 2006 to R61 million in 2007.

The reported profit (proceeds less cost of investment) on disposals of R5.5 billion during 2007 was substantially higher than the R2.4 billion during 2006. Sale to another private equity firm being the main contributor of 2007 with R2.1 billion (2006: R839 million) followed by trade sales with R1.9 billion (2006: R278 million).

[23] Disposal proceeds exclude the proceeds on the repayment of preference shares/loans, share repurchases, proceeds from disposals for a nominal amount, write-offs and dividend and interest payments.

The implied times money back multiple during 2007 was 3 times, lower than the 4.5 times reported for 2006 disposals.

Figure 36: Disposal profits during 2007 (Rm)

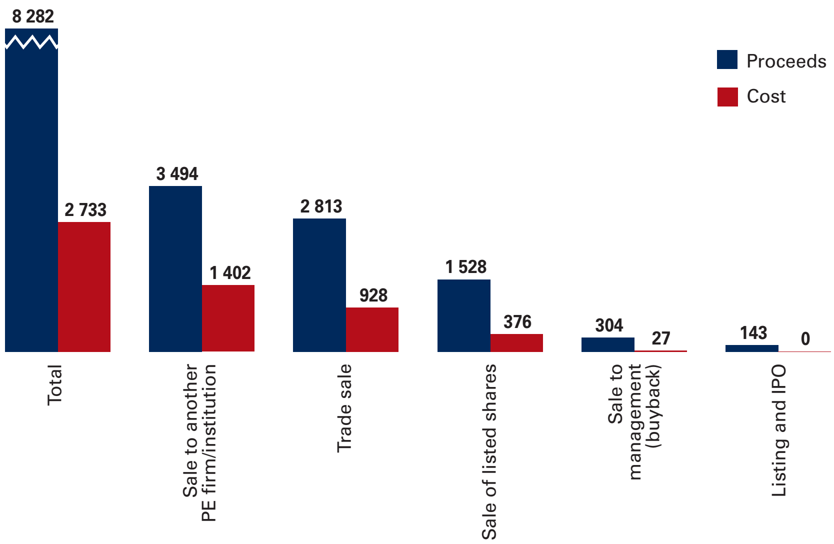
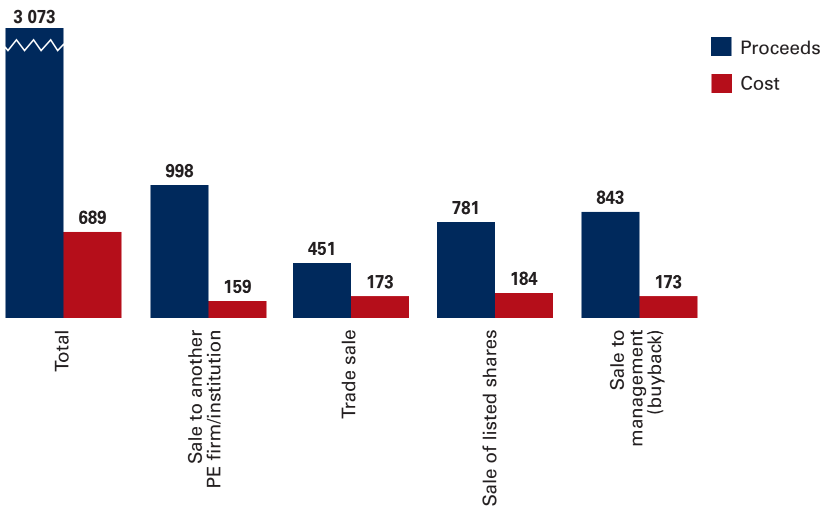


Figure 37: Disposal profits during 2006 (Rm)



Write-offs

41 investments were written off during 2007, inclusive of sales for nominal amounts (2006: 24 investments). The net loss on these investments (cost less proceeds) was R208 million up from R62 million during 2006.

Cancelled/expired funds

R97 million (2006: R49 million) of committed but undrawn funds at 1 January 2007 were cancelled and/or expired during 2007 and are thus no longer available for investment by the fund manager.

Performance

Background

Consistently measuring the performance of private equity funds is always 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 need to 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 38 and 39 present the total IRR for realised and unrealised investments, while Figures 40 and 41 present the IRR for realised investments only. Whilst the total IRR presents the total return of the fund since inception, including unrealised investments, the realised IRR only presents the returns of funds deployed and subsequently realised and returned to investors. This presents a less subjective picture of fund returns, although it does exclude the possible negative impact of investments that are difficult to exit.

52 of the 59 funds that returned a completed questionnaire (88%) claimed compliance with the International Private Equity and Venture Capital Valuation Guidelines in terms of their valuation methodology applied to their unrealised investments.

The 2007 results in the figures below include the IRR levels for 35 respondents, managing R67.8 billion at 31 December 2007 (78% of total funds under management) (2006: 73%).

Also set out separately for the first time are the responses from 20 independents, managing 93% of the funds under management by independent fund managers at 31 December 2007 (2006: 99%).

Figure 38: 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	2007 No. of respondents	2006 No. of respondents	2007 No. of respondents	2006 No. of respondents	2007 No. of respondents	2006 No. of respondents
Below 10%	3	2	–	–	–	–
10% – 19.9%	1	2	4	2	–	–
20% – 29.9%	3	6	1	1	–	–
30% – 39.9%	1	1	1	1	2	2
> 40%	4	3	–	–	–	–

Figure 39: 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	2007 No. of respondents	2006 No. of respondents	2007 No. of respondents	2006 No. of respondents	2007 No. of respondents	2006 No. of respondents
Below 10%	–	–	1	1	–	–
10% – 19.9%	2	1	–	1	–	–
20% – 29.9%	–	2	2	2	–	–
30% – 39.9%	–	–	4	2	2	2
> 40%	3	2	1	1	–	–

The 2007 results in the figure below include the realised IRR levels for 26 respondents, managing R62.1 billion / 72% of total funds under management at 31 December 2007 (2006: 69%).

Also set out separately for the first time are the responses from 15 independents, managing 85% of the funds under management by independent fund managers at 31 December 2007 (2006: 94%).

Figure 40: 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	2007 No. of respondents	2006 No. of respondents	2007 No. of respondents	2006 No. of respondents	2007 No. of respondents	2006 No. of respondents
Below 10%	–	–	1	1	–	–
10% – 19.9%	2	1	–	1	–	–
20% – 29.9%	–	2	2	2	–	–
30% – 39.9%	–	–	4	2	2	2
> 40%	3	2	1	1	–	–

Figure 41: 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	2007 No. of respondents	2006 No. of respondents	2007 No. of respondents	2006 No. of respondents	2007 No. of respondents	2006 No. of respondents
Below 10%	–	–	1	2	–	–
10% – 19.9%	2	1	–	1	–	–
20% – 29.9%	–	1	1	1	–	–
30% – 39.9%	1	1	2	1	1	2
> 40%	–	1	2	1	1	–

The paper '*Is Private Equity a Suitable Investment for South African Pension Funds?*' [24], presented at the Convention of the Actuarial Society of South Africa during October 2006, documented the results of an investigation into the investment performance of a sample of 11 South African private equity funds over a 13-year period. The investigation found that the average aggregate gross IRR for the sample of funds since inception was 34.8%[25], a performance premium of 18% per annum relative to listed South African equities.

The paper concludes that the sample of the funds is representative, as the sample set has attracted over R10 billion in commitments since 1992. The authors of the paper thus "safely assumed that the sample set of firms and funds represents a credible proportion of the South African private equity opportunity set available to South African pension funds."

24 Paper prepared by I. Missankov, R. van Dyk, A. van Biljon, M. Hayes and W. van der Veen
25 Average net IRR (after management fees and carried interest) was 28.3%, 6.3% lower than the gross IRR

In summarising their findings, the authors of the paper, conclude that, besides others, private equity in South Africa:

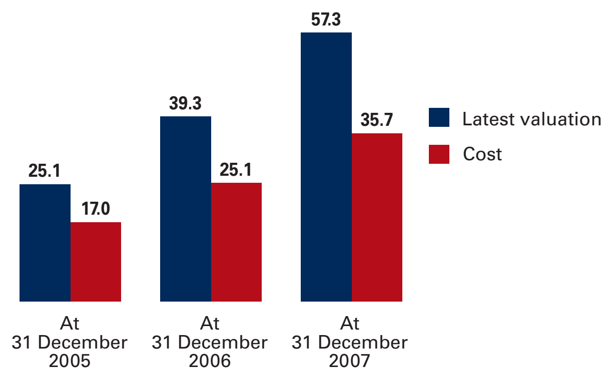
- displays significant positive absolute returns
- displays a significant premium relative to conventional asset classes and, in particular to South African listed equity and 'small-caps'
- displays significantly better risk-adjusted performance than other asset classes
- has no or a low correlation to the performance of other asset classes, suggesting diversification benefits
- takes time, typically at least two to three years, for the above benefits to materialise due to fees being deducted in the early years while investments either are not made or are not significantly revalued.

Investments at latest valuation

The valuation of investments made at a cost of R35.7 billion was shown to be R57.3 billion at 31 December 2007. This represents 65% of all unrealised investments at 31 December 2007 (2006: R25.1 billion / 74%). This dataset is incomplete because either the latest valuation was not provided or the respondents indicated that investments are valued on a cost basis.

The data above indicates that the implied times money back multiple, that is,

Figure 42: Unrealised investments at year end – cost compared to valuation (Rbn)



assuming investments are disposed of at valuation value, is 1.6 times at 31 December 2007 and 2006. This reflects the possible conservative nature of valuations as the exit multiple for disposals during 2007 was 3 times their original cost.

US and Europe

Internationally, net returns[26] 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.

Figure 43: US and European returns

	US at 30 September 2007[27]				Europe at 31 December 2006[28]			
	3 Year %	5 Year %	10 Year %	20 Year %	3 Year %	5 Year %	10 Year %	20 Year %
Early stage	6.8	3.1	34.5	20.8	2.3	-4.7	-1.1	0.0
Development	–	–	–	–	6.9	1.2	7.1	8.5
Balanced	14.6	10.1	14.9	14.2	6.6	-1.8	7.9	8.1
Later stage	11.6	9.0	8.6	13.9	–	–	–	–
All venture capital	**10.7**	**6.9**	**17.8**	**16.4**	**4.4**	**0.9**	1.8	**4.6**
Buy-outs	15.2	14.5	8.5	12.9	21.9	15.9	16.6	16.2
Generalist	–	–	–	–	15.2	9.0	8.0	9.5
All private equity	**14.0**	**12.0**	**10.6**	**13.9**	**17.1**	**11.5**	**11.5**	**11.9**
NASDAQ	12.2	17.9	4.8	9.4				
S&P500	10.7	13.1	4.9	9.1				

US

Venture capital performance showed positive returns across all investment horizons at 30 September 2007, according to Thomson Financial and the NVCA. This was in keeping with trends in Q1 and Q2. The greatest increase from the period ending Q2 2007 to Q3 2007 was in the one-year category of the private equity performance index (PEPI), which showed an increase of 8.8% to 32.3%. Significant fluctuations in the short-term are often caused by large exits impacting the return and this has therefore been excluded from the table above.

The next largest increase was in the five-year PEPI which showed an increase of 1.9% from 4.6% in Q2 2007 to 6.7% in Q3 2007. This follows the increase of 1.5% between Q1 and Q2.

10-year performance showed the largest decline, with a decrease from 19.3% to 17.9% in Q3 2007.

[26] Gross IRRs, before management fees and carried interest, are reported for South Africa while net returns are shown for Europe and the US
[27] NVCA and Thomson Financial – press release of 28 January 2008
[28] EVCA and Thomson Financial – Preliminary Performance Benchmarks 2007 – European Private Equity, released on 14 March 2008

Public markets continue to be significantly out performed across all venture capital fund types in the 10 and 20-year horizon.

Mark Heesen, the NVCA President, commented that, “The third quarter 2007 performance numbers are consistent with an asset class that benefited from improving exit markets during the year, but still had to contend with losses earlier in the decade. We expect these numbers to continue to trend positive for at least the next quarter as this past year saw some strong IPOs and acquisitions that will support higher returns in the short run. We continue to keep our eye on the economy in 2008 as the threat of a recession could stall the venture capital exit market and that could impact returns negatively.”

Europe

The preliminary performance figures for 2007 compiled by Thomson Financial and released by EVCA indicate that performances in 2007 were stable and that the industry remained strong with funds raised of €74.3 billion (2006: €71.8 billion).

The figures show that the European private equity industry has returned 11.7%, net of management fees and carried interest, with funds specialising in buy-outs and venture capital returning 16.1% and 4.5% respectively. These returns were on a pooled average basis.

As noted above, best performers were the buy-out funds, with slight variations in returns for funds sizes: 17.4% for $250-500 million, 21.9% for $500 million – $1 billion, and 15.6% for funds over $1 billion.

Overall, top quartile private equity funds (across all types of funds) produced pooled IRRs of 23.5%, down from 29.1% in 2006. Top quartile buy-out funds produced pooled IRRs of 33.4% and those of venture capital funds produced 15%.

Looking at shorter-term indicators, the rolling five-year investment horizon return for buy-outs increased to 15.9%, which confirms an upward trend since 2004. There was a marginal decrease in the three-year indicator in 2007, from 22.1% to 21.9%. The rolling investment horizon for venture turned in mixed results in 2007.

Commenting on the 2007 final performance figures, David Bernard, Vice President, Thomson Financial, added, “While the overall environment has become more challenging for the private equity industry in the last six months, the average performance remains strong with 11.7% annual return net of fees to investors. This allows the industry to look ahead with confidence while many players adjust their practices to remain an attractive asset class.” He conceded that the average returns of venture capital firms were disappointing, but he believes that these funds, which typically focus on early stage investments will benefit from a clean-tech revolution in the coming years.

Investment professionals

The figure below illustrates that white males still make up approximately half of all private equity investment professionals (2007 and 2006: 52%). The second largest category is black males which contributes 19% of the total reported numbers for 2007.

Indian, coloured and black professionals employed by the private equity industry increased by 29 during 2007 to 158, representing a 22% increase. The proportion of these professionals to the total number of professional increased slightly from 38% to 40%.

70 females (18%) of all population groups were reported as being private equity investment professionals at 31 December 2007 (2006: 19%).

Figure 44: Racial and gender constitution of private equity fund management professionals at the end of 2007 and 2006

	At 31 December 2007					At 31 December 2006				
	White	Indian	Coloured	Black	Total	White	Indian	Coloured	Black	Total
Male	208	28	19	75	330	177	26	18	53	274
Female	34	7	5	24	70	34	6	5	21	66
Total	**242**	**35**	**24**	**99**	**400**	**211**	**32**	**23**	**74**	**340**

The industry showed an overall 18% increase from 340 professionals at the end of 2006 to 400 professionals at the end of 2007.

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	R billions
Year ended 31 December 2007						
Early stage funds						
• Independents	0.582	0.235	0.049	0.012	0.174	0.174
• Captives – Financial Services	0.250	0.071	–	0.029	–	–
• Captives – Government	–	–	–	–	–	–
• Captives – Other	0.259	0.113	0.036	0.084	–	–
	1.091	**0.419**	**0.085**	**0.125**	**0.174**	**0.174**
Later Stage Funds						
• Independents	42.284	20.933	14.097	15.358	5.439	4.762
• Captives – Financial Services	25.574	6.984	1.152	8.667	1.706	1.275
• Captives – Government	12.306	2.318	–	0.172	0.003	–
• Captives – Other	5.369	1.080	–	1.215	2.246	2.071
	85.533	**31.315**	**15.249**	**25.412**	**9.394**	**8.108**
	86.624	**31.733**	**15.334**	**25.537**	**9.568**	**8.282**
Year ended 31 December 2006						
Early stage funds						
• Independents	0.733	0.282	0.001	0.147	0.001	0.001
• Captives – Financial Services	0.249	0.099	–	0.038	–	–
• Captives – Government	–	–	–	–	–	–
• Captives – Other	0.223	0.139	–	0.012	0.030	0.030
	1.205	**0.520**	**0.001**	**0.197**	**0.031**	**0.031**
Later Stage Funds						
• Independents	23.773	15.806	14.297	2.380	2.952	1.892
• Captives – Financial Services	18.173	5.644	0.227	3.470	1.080	0.977
• Captives – Government	10.101	1.969	–	0.130	–	–
• Captives – Other	6.001	1.399	–	0.710	16.315	16.173
	58.048	**24.818**	**14.524**	**6.690**	**20.347**	**19.042**
	59.253	**25.338**	**14.525**	**6.887**	**20.378**	**19.073**

Participants

Name	Min investment (Millions)	Max investment (Millions)	Contact name	Contact telephone
Absa Capital Private Equity	R100	R1 500	André Pieterse	011 350 2587
Absa Bank (Incubator Fund)	R1	R10	Vuyo Tlale	011 556 6280
Actis Africa	US$25	US$100	Garth Jarvis	011 778 5900
Biotech Venture Partners	R2	R12	Heather Sherwin	021 462 2152
Brait Private Equity	R5*	R1 000*	Sean Dougherty	011 507 1000
Business Partners	R1*	R250*	Jó Schwenke	011 470 3000
Capricorn Capital Partners	R10	R150	Gavin Chadwick	011 666 0700
Collins Private Equity	Nil	R25	Bruce Chelius	031 303 9811
Decorum Capital Partners	R1	R80	Wayne Botha	011 706 1442
Ethos Private Equity	R100	R1 000*	Craig Dreyer	011 328 7400
Glenhove Fund Managers	R5	R15	Alun Frost	011 263 9500
Global Capital	R20	Unlimited	Larry Nestadt	011 728 0255
HBD Venture Capital	R10	R25	Julia Long	021 970 1000
Horizon Equity Partners (Fund III)	R15	R120	Richard Flett	011 269 4040
iCapital Fund Managers	R6	R15	Rowan Williams	011 268 6165
Industrial Development Corporation	R1	*	Paul Johl	011 269 3000
Lereko Metier Capital Growth Fund Managers	R50	R750	Anthony Hewat	011 268 4000
Medu Capital	R30	R70	Nhlanganiso Mkwanazi	011 268 9140
Mezzanine Partners	R75	R125	Walter Hirzebruch	011 507 1082
Molash Capital	R1	R300	Eldon Beinart	011 883 2899
Nedbank Capital Private Equity	R20	R500	Dave Stadler	011 295 8316
NEF Trust	R25	R100	Milko Skoro	011 305 8173
Old Mutual Investment Group	R1*	*	Mark Gevers	021 509 2400
Pamodzi Resources Fund Advisors	$50	$325	S'bu Mngadi	011 912 7500
RMB Corvest	R10	R500	Kerry-Lee Hurst	011 268 0555
RMB Ventures	R25	R250	Jake Archer	011 282 8475
Southern African Enterprises	US$1	US$5	Richard Swai	011 283 1630
Sanlam Private Equity	R100	R250	Cora Fernandez	011 778 6610
Sasfin Private Equity Fund Managers	R5	R30	Malcolm Segal	011 445 8001
Shanduka Fund Managers	R20	R75	Raj Govender	011 305 8900
Sphere Private Equity	R10	R50	Aadil Carim	087 940 3300
Standard Bank Private Equity	R50	*	Ross Randall	011 636 7725
The Median Fund	R0.05	R2	Joseph Stoltz	021 527 5980
Treacle Private Equity	R10	R90	Rudolf Pretorius	011 463 7476
Trium Investments	R2	R20	Hagen Spaeth	012 844 0550
Vantage Capital Fund Managers	N/A	N/A	Chris Lister-James	011 530 9000
Vantage Risk Capital	R80	R350	Luc Albinski	011 530 9000
WIP Private Equity	R10	Unlimited	Shaun Rosenthal	011 715 3500

*Fund/transaction dependent

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

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
BRIC	Grouping of the countries of Brazil, Russia, India and China
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

CdpQ	Caisse de dépôt et placement du Québec
DFIs	Development Finance Institutions
DTI	South African Department of Trade and Industry
Draw down	A draw down or capital call occurs when third party investors (called limited partners in the US) provide cash to a private equity fund for investment into a portfolio company. The draw down reduces the outstanding commitment due from the investor
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
JSE	The Johannesburg Stock Exchange
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
MIC	Mineworkers Investment Company
N-11	The Next Eleven (or N-11) is a short list of 11 countries named by Goldman Sachs investment bank on 12 December 2005 as having promising outlooks for investment and future growth
OMIGSA	Old Mutual Investment Group of South Africa
OTPP	Ontario Teachers' Pension Plan
NVCA	National Venture Capital Association (US)
PIC	Public Investment Corporation
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

Steinfurn	Steinhoff Africa Furniture Manufacturing division
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

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Fund structuring	Investments	Portfolio management	Realising value

KPMG's Private Equity Group caters for all stages of the private equity lifecycle and comprises financial advisory, tax and legal professionals focused on deal sourcing, due diligence investigations, deal structuring, valuations, trade disposals, corporate restructuring and macroeconomic financial modelling.

Our intricate understanding of the private equity market, strong relationships with key players, well established track record and recent involvement in many of the recent public-to-private buy-outs, are testament to how we can serve you.

KPMG has an established international and national private equity network and was the first to offer our clients such a multidisciplinary team approach.

As one of the Top 10 M&A investment advisors (per Dealmakers 2007), we can also assist management teams to understand and capitalise on private equity activity.

KPMG does not provide financing, so our advice is always independent and objective.

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