

# Private equity for the public good



Erika van der Merwe, CEO of the South African Venture Capital and Private Equity Association (SAVCA)

Private equity, broadly defined as a long-term, alternative asset class in which fund managers raise third-party funds to buy assets that are held privately, is well established in South Africa.

**T**he industry, now accounting for about R130 billion in assets under management, is being increasingly recognised for its positive influence in institutional portfolios.

For investors in the private equity asset class, long-term rewards are pleasing and consistently above benchmark returns for JSE-listed equities, with a clear recovery since the 2008 financial crisis.

The RisCura-SAVCA South African Private Equity Performance Report to the end of September 2013 shows that investments in this asset class provided an annualised return of 22.2 per cent net of fees, over a 10-year period. This was slightly higher than the total return of 20.8 per cent generated by the JSE All Share Index over the same period, and keeping up with the 21.7 per cent yielded by the JSE Shareholder Weighted Index (SWIX).

Private equity also has clear benefits for the investee companies. The 2013 SAVCA-DBSA Economic Impact Survey identifies a number of areas where private equity partners bring value to the companies in which they invest. With intellectual and financial support, there is capability to expand. This is evidenced by boosted revenues, job creation, entry into new product lines and the establishment of new



offices, branches and facilities, both in South Africa and elsewhere.

More broadly, private equity contributes towards the more efficient use of capital in financial markets as investors concentrate on opportunities where there is scope for genuine growth and expansion. Private equity fund managers seek out investments where they can make a sustainable difference and offer hands-on, strategic direction through their active value management approach. They ensure that the expansion and development of the investee company is sustainable and built around long-term objectives, and that financial resources are used optimally.

At an even broader level, private equity funding can help develop industries, countries, regions and continents. For example, in narrowing the funding gap by working with the providers of other forms of capital such as debt, mezzanine, project and grant funding, private equity is playing a significant role in financing major infrastructure projects in Africa.

Private equity also contributes to uplifting the environmental, social and governance (ESG) credentials in investee companies, consistent with the worldwide trend in which ESG factors are becoming a priority for investors in all asset classes. Private equity fund managers are well positioned to deliver on this thanks to their hands-on and strategic involvement with their investees.

ESG considerations include issues such as examining supplier networks to ensure environmental and social considerations

within these broader arrangements are acceptable. In South Africa, this extends to BEE considerations such as the promotion of small black businesses in the value chain. The 2013 SAVCA-DBSA Economic Impact study shows that a sample of respondents reported their South African and worldwide employment levels rose by 40 per cent post-private equity partnerships. At fund level, investments into macro-environmental projects such as renewable energy are increasing.

Private equity investment has also had a notable impact on corporate governance. The Economic Impact Survey indicates that 70 per cent of investee respondents singled out improved corporate governance as one of the benefits of having private equity partners.

In South Africa, the growing investor appetite for this alternate asset class is helped by recent legislative changes that allow a private pension fund portfolio allocation of up to 10 per cent in private equity. Also, South Africa's Government Employee Pension Fund, the largest pension fund in Africa, is a firm believer in the varying roles that private equity, as a well-regulated industry, can play in its exceptionally large portfolio.

Interest in private equity on the continent is growing and international fund managers are attracted by the growth trajectory of Africa, seeing it as a highly appealing emerging market region. We can expect to see rewarding allocations from local, regional and global institutional investors to South African private equity over the next few years.