

SAVCA ANNUAL CONFERENCE 2015: Chairman's speech – Dave Stadler

The Programme Manager, Ladies and Gentlemen

This is indeed a great assembly of private equity peers! On behalf of SAVCA, I welcome you to this 15th year of the SAVCA conference, this year with the theme of "Investing for Growth, Investing for Good". A welcome to locals and especially to those who have arrived from afar to the beauty of this fairest Cape! Judging by the attendance here this morning, the Spier wines went down extremely well last year and you have all returned for more! I trust that you enjoyed them again yesterday evening, as I certainly did.

Africa has tremendous entrepreneurial spirit. Some time ago, I was travelling in the country to an investee company. On the way back to the airport, having enjoyed some good South African wine at dinner the previous evening, I noticed a house alongside the road that had been converted into business premises with its business name proudly painted in large letters on its wall: "Aunt Lilley's Hang Over Clinic"! So, for wine lovers, there be help at hand!

But what a sober gathering – we have an impressive line-up of business experts, industry leaders and institutional investors participating in our programme today. And I wish to comment on some first rate research that has been completed by SAVCA and on some of the challenges facing us as the private equity industry in Southern Africa.

While Southern African private equity progressed through the global financial crisis in better shape than most, the crisis undoubtedly had an impact both in a reduced appetite for this alternative asset class and in an acceleration of financial regulation applicable to South Africa. A number of participants, historically committed private equity players, exited this asset class.

However, there have also been new entrants. International investors increasingly see Africa as an attractive investment destination and deals today often include foreign partners and consortia, and extend into the rest of the continent. This new perspective on African growth has resulted in a number of international private equity firms setting up operations in South Africa and other African countries. Many South African firms can now be considered pan-African investors.

Notwithstanding the financial crisis and economic conditions that remain tough, private equity in Southern Africa has continued to focus on growth, with the number of transactions announced increasing in recent months, and on the expansion of portfolio companies. The benefits to portfolio companies of a private equity partnership is borne out by a SAVCA survey, published in 2014, which confirmed, amongst other matters, that South African private equity offered far more than just finance.

Respondents to the survey said that private equity allowed investee companies to grow faster - staff employed in investee companies grew some 40% over the two-year survey period covered, private equity helped build more robust, sophisticated investee companies and there was a greater preference for private equity compared to other forms of financing.

This is very positive!

I am pleased to announce that SAVCA is today launching two *more* publications that provide valuable perspective on the private equity industry, and on its significant impact:

The first is 'the 2015 SAVCA Case Study Compendium'. This publication sets out 16 well-researched case studies on investee companies from different SAVCA members. The case studies bring to light the role played by private equity as a crucial and multi-faceted partner to investee companies, and as a force for good in ESG matters. Some of these case studies will be discussed during this morning.

The second publication to be launched today is entitled 'Three decades'. This publication provides an overview of the emergence and establishment of South African private equity over the past 30 years. It provides fascinating and nostalgic reading! We are fortunate to have stalwarts of the private equity industry included in our panel on this topic later this morning. Others are in attendance today, and we are honoured to have all of you here.

Notwithstanding the robustness of the private equity industry in Southern Africa, there are a number of challenges:

The first challenge will always be the availability of new quality deal flow: In an environment with many macro challenges, labour issues, a lack of real positive growth in the economy, and general market uncertainty, management of many companies have tended to sit and react to developments. The result is a noticeable slowing down in transactions. The challenge for the private equity industry is to be creative and innovative and to pro-actively seek out new quality deal flow both in South Africa and in the rest of sub-Saharan Africa.

The second key challenge for private equity is to attract an increased number of investors into the private equity market: SAVCA's membership has grown from our initial 34 full members in 2000 to some 85 full members today despite it being far more difficult to start a private equity fund in South Africa today than it was in earlier years.

Today, banks, on the whole, are withdrawing from private equity, the major pension funds are focusing on direct investment and co-investment rather than supporting new 'first time' funds in South Africa and the number of South African pension-fund investors in private equity has not increased significantly. This, too, in spite of a major change to Regulation 28 of the Pension Funds Act in 2011, which allows pension funds to increase their private equity allocation meaningfully.

Raising funds offshore also has its challenges. Lack of local investor support, and the regulatory, compliance and financial burden of marketing in multiple international jurisdictions entail huge 'barriers' to successful fund raising. The market has become increasingly complex!

The challenge to SAVCA, as the industry body, is to engage a greater number of South African and other African pension funds, their principal officers and trustees, as to the nature, benefit and impact of private equity, and to ensure a deeper understanding of how essential this asset class is in a diversified institutional portfolio. While it is said that *“he who takes no risk, drinks no champagne”*, private equity is not risky for pension funds provided the portfolio managers are of quality and add value to their portfolios. There is the real potential to attract new pension funds to this asset class take advantage of the superior returns generated by private equity.

The third key challenge is the plethora of new legal and regulatory developments: SAVCA has an opportunity and a duty to engage with the regulatory authorities, on behalf of our members, to ensure that the ever-greater legislation affecting private equity is appropriate for the industry in South Africa. Matters currently being attended to by SAVCA include the revised BEE codes of good practice, the reporting requirements of FATCA and dividends withholding tax, and the limits on the deductibility of interest on debt incurred in financing assets, to name but a few. SAVCA's engagement with regulators is ongoing and intended to achieve appropriately balanced legislation for our members.

The conference programme today will address and cover many of the key matters that affect and shape the private equity industry in Southern Africa. I must, of course, record my thanks to Erika, Victoria and Lauren, the SAVCA conference sub-committee and Scatterlings for their huge efforts in organising this great conference.

It will provide us, as an audience, with some positive insights and learnings from our speakers and panel members, for which I thank them sincerely. It promises to be an exciting day and we look forward to everyone joining us for a glass or two of superb Spier wine this evening, to discuss and debate the day's topics.

As an industry, we will continue to be a force for good, through wise investing and portfolio management, through making value-adding contributions at a strategic and operational level within our portfolio companies, and through contributing to a growing and thriving regional economy. As an industry, we are 'Investing for Growth. Investing for Good'!