

Solid returns for South African private equity

Johannesburg, 8 October 2014. The latest SAVCA-RisCura South African Private Equity Performance Report confirms that the private equity asset class in this market continues to deliver a sturdy performance. Data show that, over the ten years to the end of June 2014, private equity funds yielded an annualised rate of return of 18.6%, net of fees.

Ten-year returns decreased slightly compared with those measured during the previous quarter, as some of the firm gains made during the period of strong economic growth of the early 2000s, when returns averaged 37.9%, begin to have less significance. Private equity returns have underperformed JSE indices slightly over this latest ten-year period, with the All-Share Index (ALSI) returning 20.9% and the Shareholder Weighted Index (SWIX) returning 21.6% for the same period.

Five-year returns continue their trend of post-crisis recovery and, at 20.2%, are at their highest since the third quarter of 2010. These returns marginally trail the five-year ALSI (21.4%) and SWIX (21.1%) performance

“This strong and consistent returns track record, alongside the continued financial market recovery since 2008, supports a fresh wave of fund-raising by our local managers, many of whom have launched new funds over the past year. We are seeing interest from both local and international institutional investors, who are seeking diversification of their portfolios across asset classes and by geographic region,” says Erika van der Merwe, CEO of the Southern African Venture Capital and Private Equity Association (SAVCA).

Cash-flow trends into and out of private equity funds signify the shifting focus for many fund managers in the South Africa industry, as a sizeable number of funds mature and approach the end of their mandated life: Over the past year *distributions* – the return of cash to investors – have outstripped *drawdowns*, the term which refers to the transfer of committed capital from institutional investors to private equity fund managers, and which happens towards the earlier portion of the fund life.

Rory Ord, Head of Independent Valuation at RisCura, “Private equity continues to offer strong performance and diversification benefits, despite the current challenging economic conditions. New fund-raising activity has been well supported by the number of exits that have recently occurred in the industry, and returns continue to show a healthy trend post the financial crisis.”

Rohan Dyer, Head of Investor Relations at Ethos Private Equity comments on prospects for the local industry, including the increasing expansion of mandates to incorporate investments across the sub-Saharan African region: “A number of South African private equity firms are well-positioned to take advantage of growth opportunities across sub-Saharan Africa, both by buying assets in other countries and by growing the interests of their South African-based portfolio companies north of the border. Within South Africa, those firms with substantial value-add capabilities should be able to achieve good returns by enhancing portfolio-company performance despite the macroeconomic headwinds.”

The SAVCA-RisCura Private Equity report tracks the performance of a representative basket of South African private equity funds, and is published on a quarterly basis. A period of ten years is considered the suitable benchmark for a comparison of returns, given that this is the typical horizon for private equity funds.

NOTE: Private equity returns are calculated as an internal rate of return (IRR) and are reported net of fees. Returns for listed equity are calculated as a compound annual rate of return.

Ends

About SAVCA: The Southern African Venture Capital and Private Equity Association (SAVCA) is the industry body and public policy advocate for private equity and venture capital in South Africa, representing about R160 billion in assets under management. SAVCA promotes Southern African private equity by engaging with regulators and legislators on a range of matters affecting the industry, providing relevant and insightful research on aspects of the industry, offering training on private equity and creating meaningful networking opportunities for industry players.

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About RisCura: RisCura provides independent valuation, risk, and performance analysis to investors in unlisted instruments in Africa. We partner with clients to deliver the transparency and accountability demanded by investors and auditors. Our clients include private equity funds, pension funds, credit funds, banks, and other investors in Africa, and cover industries as diverse as agriculture, retail, manufacturing, and the extractive industries. Our success is built on our reputation for rigorous, research-based, and results-driven investment decisions that benefit our clients.

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