

SAVCA: ONE VOICE FOR THE INDUSTRY

AGF CATCHES UP WITH ERIKA VAN DER MERWE, CEO OF THE SOUTH AFRICAN VENTURE CAPITAL AND PRIVATE EQUITY ASSOCIATION (SAVCA) TO DISCUSS THE ORGANISATION, ITS ROLE AND PRIVATE EQUITY LANDSCAPE IN SOUTHERN AFRICA

BY ANNA LYUDVIG



AFRICA GLOBAL FUNDS (AGF): PLEASE TELL US ABOUT SAVCA AND ITS ROLE.

ERIKA VAN DER MERWE (EVDM): 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 Southern Africa, representing members with more than R160bn (\$13bn) in assets under management. Established in 1998, SAVCA has provided a platform for deepening and broadening connections amongst members. We work towards fulfilling our mission of promoting the industry, engaging with regulators and legislators, providing insightful research, offering training relevant to the industry and creating networking opportunities. All of this activity is supported by active SAVCA board members and other committed participants, who recognise the importance of having one voice for the industry.

AGF: SUB-SAHARAN AFRICA IS ONE OF THE MOST ATTRACTIVE REGIONS FOR BUYOUT FIRMS, WHEREAS SOUTH AFRICA IS NO LONGER THE DESTINATION OF CHOICE, DO YOU AGREE?

EVDM: South Africa arguably has the greatest choice of investable companies on the continent, as confirmed by the steady number of deal announcements seen in the market over the past year, for instance. Many of these companies either already have exposure to growth in a number of African markets or have the potential to grow beyond South African borders.

AGF: WHICH SECTORS ARE HOT AT THE MOMENT AND WHY?

EVDM: Infrastructure remains a strong investment theme in the region, as do sectors benefiting from the emerging consumer. According to our research, from the 2014 SAVCA-KPMG Private Equity Industry Performance Survey, nearly half of the R17.5bn (\$1.4bn) of investments made by South African private equity firms in 2013 were in infrastructure, as investors took advantage of the significant expansion opportunities in the local market. Similar opportunities exist across

the continent. In 2013, South African assets in manufacturing, media and financial services also featured prominently from a deal-making perspective.

Anecdotally, there appear to be many deal-making opportunities for private equity firms doing transactions in the mid-size to small spectrum, with fund managers relying on networks and proprietary relationships to source these deals. It does appear as though competition for large deals is picking up. There is increased appetite amongst a range of investors, from trade buyers with corporate balance sheets, to private equity funds and other financial buyers, for African assets.

AGF: IN YOUR LATEST RISCURA-SAVCA SOUTH AFRICAN PRIVATE EQUITY PERFORMANCE REPORT, YOU STATE THAT PRIVATE EQUITY RETURNS OVER 10-YEARS LAG SLIGHTLY BELOW JSE INDICES. HAVE YOU FOUND THAT THE RISK-REWARD TRADE-OFF OF BEING IN A LONG-TERM PRIVATE EQUITY VEHICLE HAS HELD UP IN COMPARISON TO WHAT ONE CAN GET FROM PUBLIC EQUITIES?

EVDM: Private equity returns compare favourably with listed markets even at a time when the domestic listed equity market is trading at high levels. Our view is that recovering confidence and the ability of private equity fund managers to back operational expansion and strategic growth in their underlying portfolio companies bode well for sustained solid returns in the medium to long term. This hands-on approach is also a notable means of risk mitigation.

AGF: WHAT CHALLENGES IS THE PRIVATE EQUITY INDUSTRY CURRENTLY FACING?

EVDM: The most enduring challenge is that of informing and educating potential investors about the nature of the private equity industry, about the tremendously positive impact that private equity has on the companies in which it invests – and therefore on the economy. Our view, based on research that SAVCA has done, is that private equity supports the expansion of businesses with which it partners, provides valuable operational and strategic guidance, and introduces

essential improvements in governance.

AGF: WHAT ARE YOUR EXPECTATIONS FOR THE SOUTHERN AFRICAN PRIVATE EQUITY INDUSTRY GOING FORWARD?

EVDM: We expect to see many more deal announcements in the coming months, as newly raised funds are deployed, and as mature funds ramp up their exit processes. So, this is a busy and exciting time for the industry.

Over the longer term, we envisage an industry expanding further, and we expect to welcome new investors and new fund managers. This includes an increasingly prominent role for African pension funds as investors into private equity funds, as pensions reform unfolds.

AGF: CAN YOU COMMENT ON THE FUNDRAISING ENVIRONMENT?

EVDM: The findings from our industry survey reflects an expanded industry, with R162.2bn (\$13.3bn) in funds under management at the end of 2013. This is a 17% increase from the start of that year. The lift in funds under management reflects successful fundraising programmes during the course of 2013. Total third-party funds raised in 2013 increased by 45.2% to R27.3bn (\$2.2bn). While data for 2014 is not yet available, a number of our members recently have announced successful first and final closes, with many targeting deals across various African jurisdictions.

AGF: IN YOUR EXPERIENCE, WHAT IS THE MOST DIFFICULT THING FOR A PRIVATE EQUITY INVESTOR TO GET RIGHT?

EVDM: There is no doubt that private equity investment is a fascinating career, with every stage of the investment process bringing new challenges. These include challenges of competing with other private equity fund managers for institutional funding, building a successful investment team, sourcing the right deals, at the right price and at the right time -- and ultimately securing an optimal exit. Seasoned private equity practitioners indicate that success in this industry requires specific sets of technical skills, as well as personality traits that include patience, persuasiveness, a strong will and extensive insight into human nature.

AGF: WHAT ARE SAVCA'S KEY PRIORITIES FOR THIS YEAR?

EVDM: SAVCA remains committed to fulfilling its mandate of promoting and supporting the industry through its various work streams. A key priority for this year, as with previous years, is for SAVCA to expand its communication and education programmes to inform large and mid-sized local and regional pension funds about private equity. We also plan to develop our member base outside of South Africa. Through the projects we undertake, we also aim to bring home the message that private equity is a positive force for development in the region.

