An African dream gains substance

FUND SNAPSHOT

Actis

Actis was founded in 2014. Many members of the Actis management and investment teams had worked at CDC and brought years of experience in investing across Africa, Asia and Latin America.

Date in which the first fund closed:
July 2004

Mandate:
Actis invests exclusively in the emerging markets, with a growing portfolio of investments in Asia, Africa and Latin America; it currently has US$6.5bn funds under management. Combining the expertise of over 100 investment professionals in nine countries, Actis identifies investment opportunities in three areas: private equity, energy and real estate. Africa lies at the core of the firm's investment strategy. Today, over 40% of Actis's investments are located in Africa, with over $1.5 billion invested across 13 countries on the continent.

Most significant investment in South Africa and why:
Alexander Forbes: Going into the transaction, it was the second-largest delisting that South Africa had seen; the exit process represented the third-largest listing ever done in South Africa. It was also the first deal that we had done in South Africa and was very high-profile in nature.

Three biggest changes since those early years:
- In 2004, Actis had one investor and $1bn in assets under management; today, it has 212 investors and US$6.5 billion assets under management.
- Transitioning to sector focus.
- Becoming a leading global firm.

Compared with the early pioneering work of some of South Africa's listed corporates, who led a bold expansion north of the borders, South African private equity firms adopted a more conservative approach to increasing their regional reach. It has been only in recent years that a notable shift in fund mandates has been observed, incorporating planned deals in African markets beyond South Africa. Largely, though, the form of gaining exposure to other jurisdictions has been through fund managers guiding portfolio companies in cross-border portfolio expansions.

International private equity players continue to dominate the continent outside of South Africa and, for most South African private equity funds, a regional African theme is still not a meaningful component of their strategy.

For an industry focused on a demanding home market, it has been a daunting task to tackle new economies. An early and high-profile setback, by way of Oceanic Bank, the Nigerian deal in which a consortium including Old Mutual and Ethos was invested, may well have added to the circumspection.

Steep learning curve

Paul Boynton, CEO of Old Mutual Alternative Investments, says the deal prompted a great deal of learning and introspection, especially considering the past successes Old Mutual has experienced on the continent. "We did very well with Celtel, and our African infrastructure investments, such as rail in Zambia and Zimbabwe, and an airport in Tanzania, were equally successful. This challenging transaction required us to reassess our approach to and pricing of risk in Africa."

He points out that one of the lessons from this experience is to ensure deals have the support of a strong local presence. "We have not been deterred and Old Mutual continues to look at Africa for private equity opportunities, with a deeper comprehension of the risks and how to mitigate them."

Despite a slow start, South African private equity funds now are considering their African options in earnest. Limited economic growth in the domestic market and a broad range of growth and returns opportunities in West, East and Southern Africa are drawing managers northwards.

Sandeep Khanna

Sandeep Khanna, a managing director at The Abraaj Group, says that "a number of South African-based GPs have, over the past five to seven years, moved hesitantly into the rest of the continent, with varying degrees of success – and with varying perceptions of risk versus rewards. Today, partner companies expect this value addition from private equity to open up the markets and to provide networks and opportunities to expand their business on the African continent".

Indeed, this strategy for Africa, namely that of ensuring operational expansion in key African markets, is already pervasive in many private equity portfolios.

Sphere Holdings CEO Itumeleng Kgaboesele says his operation is working closely with management teams to craft African strategies. "We're also spending time and resources to understand the different regions. We have invested significantly in building relationships in East and West Africa. This approach makes sense to us, compared to buying stakes in companies outside of our borders. Despite the tougher economic conditions, we believe that there are still great investment opportunities in South Africa."

Peter Schmid, partner at the emerging markets private equity firm Actis, cites the firm's recent Tekkie Town deal as a good example of taking a South African portfolio company into other African markets. "The low-cost model of this business is ideal for Nigeria, perhaps even for the North African countries such as Egypt and Morocco." Based on Actis's extensive deal-making experience across Africa, which includes its successful role in Celtel, Alexander Forbes, Vlisco, Actom and BCR, Schmid cautions, though, that finding experienced and high-quality management teams for such a cross-border expansion drive is a notable challenge faced on the continent.

Although it has done a Nigerian deal and has been invested indirectly in more than thirty African countries since the early 2000s through a number of its investee companies, RMB Corvest describes its African strategy as a cautious one. According to Dick Merks, "Our strategy at present is about getting a feel for the continent, and, so far, we have struck one deal, Vital Products in Nigeria. It is hard work and quite difficult to find quality businesses with proper records. At this stage, we are keen on finding entrepreneurial, family-sized businesses that will give us exposure to the middle-income consumer base."

Local talent the lifeblood of an African strategy

Capitalworks, a leader as a South African-based private equity fund manager in establishing a separate fund with a mandate covering sub-Saharan Africa (excluding South Africa), closed its African Special Opportunities Fund in 2009.

"These certainly were the early days for local fund managers to look north; since 2010, we've seen growing investment activity by South African funds outside South Africa," says Chad Smart, co-founder and chairman of Capitalworks.

This fund, which Smart describes as having a very people-intensive approach, focuses on the small mid-market space, with deals usually in the $8m to $10m range. The methodology of Capitalworks' Africa fund is also somewhat different from that employed in its two South African funds.

"We typically would take an industrial player alongside us into other African markets, in addition to joining forces with local partners; so this is a slightly different angle to investing, compared with our approach in South Africa. For example, when we invested in a pharmaceutical manufacturer in Uganda, we partnered with Cipla, an Indian pharmaceutical manufacturer, as well as a local partner with management skills, strong local relationships and an ability to identify local talent."

African Infrastructure Investment Managers (AIIM) is further along

Dick Merks

From the media archives:

Investing In Africa: The Abraaj Story

12 MAY 2014

The Abraaj Group has invested $2.2billion in Africa to date. And they are just getting started.

Abraaj's strong presence in sub-Saharan Africa is in large part a result of its 2011 merger with Aureos Capital, though the Abraaj Group's partners are keen to stress a seamless integration and complementarities across the continent (Abraaj having been active in North Africa).

Aureos Capital, the $1.3-billion dollar fund run by Sev Vettivetpillai, was initially established in 2001 as a joint venture between the Norwegian government's PE arm, Norfund, and the Commonwealth Development Corporation (CDC). In 2008, Vettivetpillai and the principals of Aureos led a management buyout of the firm from its parent entities to form an independent PE fund with a strong sub-Saharan Africa practice.

Source: Ventures-Africa.com

Chad Smart

SIDEBAR

Maintaining various regional offices has its challenges, from a staff- and communication-management perspective. AIIM, which has offices in Cape Town, Nairobi and Lagos, says its team members have a disciplined focus on "keeping people talking, to ensure there is no sense of isolation and to make sure that all areas of the business remain aligned".

the continuum of carrying out and managing multi-country African deals. Jurie Swart, AIIM CEO, describes the transition that AIIM's funds have made, saying, "one of the biggest changes that we experienced over the years has been a move from being a South African-focused manager to becoming pan-African, and in seeing the development of a deal-flow pipeline that increasingly has a broader African focus".

Jurie Swart

He explains that the success of this transition in fund mandates was underpinned through South Africa serving as "an incubator for us to develop our skills and methodologies for private equity infrastructure investing".

Like many of his peers, Swart emphasises the importance of establishing a regional presence and of having people on the ground with a proper understanding of the region from a deal origination, structuring and management perspective.

Khanna supports this view – and notes the rewards thereof. "What we've seen is that managers who have taken the time to either set up an on-the-ground presence or who have developed a strong network in the countries and have done deals, have gone on to make exceptional returns."