FEATURE: Catherine Swanepoel, Ke Nako Capital

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A fund of private equity funds is an ideal entry point for institutional investors wishing to gain diversification within the private equity asset class, or who seek to devolve the decision-making process associated with fund-manager selection. SAVCA spoke to Catherine Swanepoel, who serves on the Investment Committee for fund of fund managers South Suez and Ke Nako, which are focused respectively on Africa and South Africa.

SAVCA: South Suez and Ke Nako have been amongst the pioneers of private equity fund of funds in Africa and South Africa respectively. What are the opportunities for the fund of fund model in emerging markets, and in Africa in particular?

CS: The opportunities for a fund of funds is to provide a diversified, “one-stop shop” offering for clients that want to access the opportunity – in our case African private equity – without having to dedicate significant internal resources to understanding, performing due diligences of and monitoring individual investments. Given the diversified nature of the African markets we believe the best way to arbitrage the mispricing of risk is to have a flexible approach that leverages off local networks and partners to build a much better diversified portfolio than any single manager can deliver – and thereby enhance the risk-adjusted return.

SAVCA: What have your fundraising experiences been over the years? Are you seeing evidence of the global investor drive to Africa?

CS: Certainly interest has grown rapidly, and we are seeing some global investors come into Africa, but it is still on a relatively limited scale. There are a handful of global institutional investors that have committed to developing a significant Africa program over the next few years, but many others are content with only one or two investments in Africa as part of a larger diversified portfolio. The recent challenges in emerging markets, including Brazil, Russia and now China, are also creating an impetus for some investors to focus on home markets, namely the US and Europe, which are currently in high demand.

SAVCA: Ke Nako is focused on allocating funds to South African private equity fund managers, while South Suez has a broad, African focus. Do investors express a different appetite for South African private equity compared with other African markets?

CS: The sources of capital do differ slightly, but the difference is more to do with the investor’s desired allocations. For many investors South Africa is a more accepted private equity market with an established manager landscape, whereas Africa is considered more frontier in nature, with higher growth potential.

SAVCA: You have recently closed South Suez Africa Fund II, which together with associated managed accounts has commitments of over $500m. What are your criteria for allocating to managers? And how do you ensure that your capital is suitably diversified across managers, sectors and regions?

CS: This fund is now committing to funds and co-investments across the African continent, with a focus on mainly generalist strategies in both large and mid-cap segments. Diversification is a topic that is managed actively by the investment committee to the fund, on an on-going basis. Because the fund invests over a 5-year period, its allocation and commitment strategy is adjusted over time to take into account potential imbalances in geography and sector, and also to allow the manager of the fund to actively over-weight certain strategies.

SAVCA: What are your views on the likely trends in African private equity over the coming three years? Are you optimistic on the returns prospects?

CS: Funds that were raised and invested from 2007/2008 still need to exit the vast majority of their deals. It may unfortunately not be the best time for exits in the next 2-3 years given the strength of the US dollar versus many African currencies and also given the current turmoil in many developing markets. Nevertheless exits must happen, as the relatively limited track record of exits continues to be one of a major obstacles to raising more private sector capital in Africa.