SAVCA
SOUTHERN AFRICAN VENTURE CAPITAL AND PRIVATE EQUITY ASSOCIATION

FEATURE: THE ESKOM PENSION AND PROVIDENT FUND

2 April 2015

“Three Decades”, SAVCA’s publication that tracks the development of the South African private equity industry since its inception in the mid-1980s, was launched at our conference in Febuary. In the first of a series of excerpts from the publication, we feature an interview with Sbu Luthuli, CEO of the Eskom Pension and Provident Fund (EPPF), and capture his views on the private equity asset class and how the industry – as well as the EPPF’s approach to it – has evolved over the years. The EPPF boasts an almost twenty-year track record of investing in South African private equity funds.

SAVCA: Why has the EPPF been such a committed private equity investor for so many years?

SL: If you look at the history of private equity, over a ten-year horizon or even more, it has consistently outperformed other asset classes. We at EPPF believe that we need exposure to this asset class to diversify our exposure whilst maximising our returns for members. I imagine that there must have been some robust debate back in 1995 when we started investing in private equity. Obviously, there is always prudence, concern and a rigorous process before any new direction is approved. However, today there is definitely full buy-in and support from the trustees because they now have a better understanding of the benefits of investing in private equity in terms of returns and diversification.

SAVCA: How has your allocation to private equity changed since the EPPF began investing in the asset class?

SL: We started out with a very small allocation and have increased this gradually over the years. This allocation was somewhat constrained by Regulation 28 restrictions, which initially meant that we could invest only 2.5% of our assets into alternative assets including private equity. This meant that many other options were competing against private equity within the 2.5% allocation.

SAVCA: What did the changes to Regulation 28 in 2011 mean for your investment strategy?

SL: The changes meant that we had the latitude to increase our allocation to South African private equity while also expanding our investments into private equity funds which target African growth beyond South Africa. Currently we have allocated 2.5% of our total assets to domestic private equity and an additional 2% of our total assets have been allocated specifically to private equity in Africa (ex-South Africa). This is a significant amount and will allow us to capitalise on opportunities in Africa. There are many small to medium-sized enterprises, including family-owned businesses, which need a capital injection to grow and corporatise. We strongly believe that these investments will also help develop a listings pipeline in various African markets. So these changes to Regulation 28 have been positive for private equity, and, in the longer term, also for listed equity in Africa.

SAVCA: Which sectors have shown good returns and what are your expectations for returns?

SL: I cannot specifically single out any particular sector which has really outperformed. We have invested with private equity firms who have invested across many different sectors and have managed to extract value overall. It really depends on the timing of specific investments, structuring of the particular transaction as well as on the investment team. In many cases one firm will succeed in a particular sector, while another disappoints in the same sector. Expectations will vary based on the investment philosophy and strategy, but, given the long-term nature of private equity, we expect returns, on an internal rate of return basis, in the region of 25% to 30% or two and a half times money as a general norm. Expectations will differ for private equity real estate, infrastructure or mezzanine structures.

SAVCA: What are your views on co-investment opportunities?

SL: This has been a practice which has gained popularity in the past few years and it is something that we have recently started focusing on. As co-investments help to enhance returns we are definitely insisting we be allowed an opportunity to co-invest whenever we invest in a fund. We will not co-invest in every transaction, but we will get involved where we think we can add value and enhance our returns. We tend to approach co-investment opportunities with a fair degree of flexibility; we currently have not set rigid percentages and absolute limits.

Click here to view the published article in the "Three Decades" publication.