

Capital camaraderie: The birth of an industry association

2000 – 2005

SAVCA Members' Directory through the years



The Southern African Venture Capital and Private Equity Association (SAVCA) was established in 1998, designed to service the industry and support its growth. While much has changed in the market and in the organisation since that time, the spirit of camaraderie and cooperation has been a constant theme.



Jo Schwenke in 2000

A name that is always mentioned in conversations about the early days of South African private equity is that of Jo Schwenke. Former head of Business Partners, he was also founding chairman of SAVCA.

Schwenke looks back on the early days of South African private equity with his hallmark enthusiasm. "There was very little media coverage of the industry in those days, and equally little understanding of what the industry was all about. Private equity was not seen as a separate or alternative asset class and it operated as a very tightly knit, close industry – as private as its name suggests. And there certainly was no industry body at that time."

The first attempt to establish some form of industry collective goes back to around 1987. Schwenke recalls the efforts of Graham Rosenthal, a chartered accountant with Arthur Andersen, to start a venture capital club as seen in the US. "We would meet frequently, at the Sunnyside Park Hotel in Parktown, Johannesburg, and entrepreneurs would pitch their business ideas to potential investors. All the reputable and wealthy investors of that time would attend, including Investec's Stephen Koseff. This association lasted for a few years and then fizzled out around 1990."

Several years later, the next move to create an industry body was more formal and concerted – and had the benefit of Schwenke's determination and vision. The industry was at the stage where it required an authority to represent its participants, speak with one voice to various stakeholders – particularly legislators – and facilitate efforts to improve all aspects of the industry.

A new era for South African private equity

Schwenke says that by 1998 it had become the opportune time to revive efforts to create an industry body. "By this time Remgro had founded VenFin, Ethos Private Equity had been established, the IDC was in the game, as was Business Partners, and government was exceptionally interested in supporting entrepreneurial businesses. In addition, there were a few small players who were raising money from the public – and not always ethically so."

A key outcome of establishing this industry body was that firms with SAVCA membership had something of a seal of approval to participate in the industry. They had serious and real money to invest, and had been vetted by their peers.

"Interest in joining up was overwhelming, from the very beginning," says Schwenke. "Everyone we identified as potential members in fact signed up – and we even turned away some applicants that were not up to scratch. So, SAVCA was born very quickly, worked very well, and hosted exciting speakers and events."

The founding SAVCA charter was based on the European equivalent. "I was close to the European Private Equity and Venture Capital Association at

the time and we asked permission to use their charter as a template," says Schwenke. "We modified it to local conditions, approved it – and it was in play very quickly. We got off to a good start."

Small beginnings and a big vision

SAVCA functioned using very few resources in those early years, with members pitching in wherever they could. "We would run the organisation from my office with my staff assisting, and would use Remgro's Court House in Sandhurst, Johannesburg (with Johann Rupert's blessing), for our functions and AGMs. The body was run on a shoestring budget in order to keep subscription fees down, so there would be no excuses not to join. Members would absorb expenses and share their resources and premises with the association."

Shortly after the founding of SAVCA, the organisation published its first annual members' directory, listing member-firms' details and investment requirements. The first publication, in September 1999, carries Schwenke's foreword in his capacity as interim chairman and in which he states that "a healthy Venture Capital and Private Equity industry is good news for entrepreneurs and consequently for the economy".

Here Schwenke also sets out the objectives of the industry body:

SAVCA intends playing a meaningful role in the Venture Capital and Private Equity Industry by:

- o promoting self-regulation
- o lobbying on behalf of the industry
- o disseminating information and publicity
- o arranging training for the staff of its members
- o researching the industry in South Africa

In line with these founding principles, SAVCA immediately began its work relating to regulation and lobbying, research, marketing and training.

Finding a regulatory voice

Craig Dreyer, CFO of Ethos Private Equity and an active participant in SAVCA's activities from the founding days, explains that "a key motivation behind establishing the member association body was to have a voice with respect to the drafting of any regulation and legislation which potentially may affect the private equity industry". At this time in the industry's evolution, he says, the private equity asset class was completely unknown to the key policymakers and legislators at the Financial Services Board (FSB), the South African Revenue Services (SARS) and National Treasury. "Our thinking was that we did not want to be finding out after the fact about financial services legislation that made no sense for the private equity industry. Instead, we felt strongly that we would rather be a key part of the development of such legislation."

SAVCA now has healthy and highly effective relationships with the major policy and legal role-players. "Our relationships today contrast markedly with those of a few decades ago when they were somewhat icy and untrusting," says Dreyer, who heads up the SAVCA Regulatory Sub-Committee. "We are now able to deal openly and frankly with difficult issues".

Researching the industry

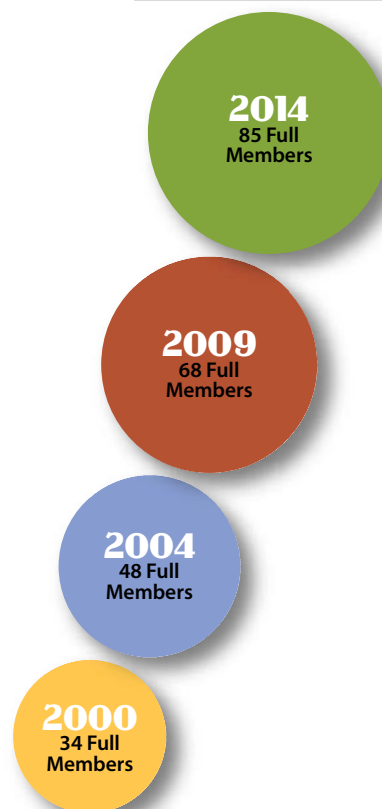
Today, as in the early days, this lobbying work is underpinned by research. SAVCA's research work began with a partnership with KPMG, for the production of an annual survey of the private equity and

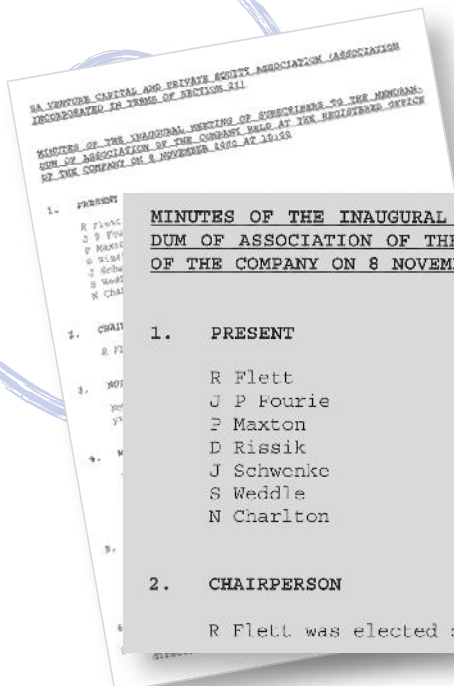


Jo Schwenke

Then & Now

SAVCA membership trends over time





First page of the minutes of the inaugural SAVCA meeting held on 8 November 2000.

FUND SNAPSHOT

Horizon Equity

Horizon Equity Partners was founded in 1996 by Richard Flett and Steven Lipchin.

First fund closed in 1997:

Investors/LPs: Anglo American, Mitsubishi Corporation
Mandate: Generalist Growth Capital for SMEs

Most significant investment:

Not one, but several: ATM Solutions, Peresys, Lincoln Lubrication. All involved investments in companies that were loss making or marginally profitable at investment, grew their business at least threefold during our ownership, and were ultimately exited through high value sales to strategic acquirers.

Three biggest changes since those early years:

- o The widespread adoption of third-party managed fund vehicles based on international best practice, rather than the hodge podge of home grown vehicles found in the mid-nineties.
- o The rapid increase in fund sizes experienced from 2000 to 2008 which, together with increased availability of leverage, led to massive inflation of deal sizes before collapsing in the wake of the global financial crisis.
- o The tsunami of regulation that has hit the industry since the turn of the century, most of which was not originally intended to regulate private equity.

venture capital industry. The first survey, published in 2000 and contained in the 2001 SAVCA members' directory, reflects an industry which in 1999 had R27.5bn in assets under management and 265 investment professionals.

Schwenke served two terms as SAVCA chairman and was followed in 2002 by Malcolm Segal, previously a managing partner at Grant Thornton and who by this stage was managing a listed private equity fund. Schwenke is full of praise for Segal, saying "Malcolm added another level of professionalism as the second chairman of the association. He put the industry on the map, created visibility for the asset class, and raised our profile in the financial community and with the regulators."

During Segal's tenure, the position of full-time CEO was created. "SAVCA had a strong committee at that time and we were demonstrably adding value to our members," says Segal. "We started off with part-time CEO positions, being held by Para Naidoo and Troy Dyer. The annual SAVCA-KPMG survey was held in high regard, and the Financial Mail published an annual yearbook on the

industry. Our members could see good things coming out of SAVCA and we needed to take this further."

A full-time CEO position required additional funding, and Segal said proposals were put forward to advocate this position. "Large industry players such as Ethos and Brait were big supporters of having a full-time executive, and we were able to raise membership fees to the level required to afford our first head."

A maturing industry and a sustainable association

J-P Fourie, who had been a Johannesburg Stock Exchange observer on the SAVCA board from early on in SAVCA's formation, was appointed as SAVCA's CEO in 2006. Fourie describes SAVCA at that time as being "poised for growth and acceptance, but not yet sustainable". Asked about the major challenges facing the organisation at the time, Fourie lists the drive to increase membership, gather and interpret industry data and, from a regulatory perspective, addressing the inconsistent tax treatment across different fund types of realisation gains.



J-P Fourie

Fourie notes that, during his six-year tenure, he saw an industry maturing, with larger amounts of capital raised and an increasing number of deals

done. "Private equity was beginning to receive due recognition, especially in relation to positive regulatory changes and the regulatory acceptance of the asset class. And in this time I witnessed SAVCA becoming an accepted, respected and sustainable organisation, serving the industry and representing the voice of the industry."

At the board level, Mutle Mogase, who was co-founder and executive chairman of the Vantage Capital Group, followed Malcolm Segal as SAVCA chairman in 2006. In 2008, as the global financial crisis hit, Cora Fernandez, then deputy CEO of Sanlam Private Equity and already a seasoned SAVCA director, succeeded Mogase.



Cora Fernandez

Fernandez lists as one of the highlights during her time with SAVCA the ability of the organisation and the industry to overcome what had seemed very difficult relationships with government departments and regulators. She oversaw the publication of the 2009 SAVCA-DBSA Economic Impact Study, a ground-breaking report which brought to light the positive social, economic and developmental impact of private equity in South Africa.

"The results of this research went a long way towards dispelling what at times were negative perceptions of this asset class and opened up the way for more pleasant regulatory negotiations."



Emile du Toit

Emile du Toit, who had joined the SAVCA board in 2009, took up the SAVCA chairmanship in 2011. Dave Stadler, CEO of Paean Private Equity, was appointed chairman in November 2014.

Looking back at the evolution of the South African private equity industry, Schwenke reflects on SAVCA's humble beginnings. "As a founding committee our desire was to serve – and not be self-serving. And as an industry body, every single player was represented. There was great camaraderie; we were like-minded, had close relationships and were never competitive." 🌐

Then & Now

SAVCA introduces a new logo in 2005



From the SAVCA archives:

Extract from an interview with Emile du Toit, who served six years on the SAVCA board.

Du Toit has sat on both sides of the table, first as an LP at the DBSA, where he was a Divisional Executive for Private Equity and Investment Banking, and then as a GP in his role as Head of Infrastructure Investments at Harith General Partners.

Q: *Emile, what were the most significant changes that you saw in the private equity industry during your tenure on the SAVCA board?*

A: The major change both in South Africa and globally has been the increased regulation on the industry following the global financial crisis. This regulatory burden has driven up the cost of compliance and makes it much less efficient to be a small fund manager and has given the larger players an advantage. This has meant that SAVCA has needed to take on a much stronger role than before in engaging with regulators, policymakers and legislators, as representative for its entire membership base.

During my tenure, it has been pleasing to see the changes to Regulation 28 by the FSB, which allows pension funds to increase their allocation to private equity from 2.5% to 10%. Take up by pension funds has been limited to date. As an industry body SAVCA still has substantial work to do in increasing the awareness amongst asset consultants and pension fund trustees of the benefits of private equity.