

SA PRIVATE EQUITY RESILIENT AMID VOLATILE FINANCIAL MARKET CONDITIONS

11 February 2016: With investors searching for yield amid global market volatility and slowing economic growth, the performance of South African private equity continues to highlight the benefits of including this asset class into a diversified institutional portfolio.

The latest RisCura-SAVCA South African Private Equity Performance Report, which tracks industry data up to September 2015, reveals that, despite long-term returns retreating from the positive trend enjoyed in recent quarters, private equity continues to outperform listed equity over a ten-year period.

The report shows that the South African private equity industry delivered a ten-year internal rate of return (IRR) of 20.7% in September 2015, down from 21.7% in June 2015, net of all fees and expenses. This performance compares with the 14.9% return from the JSE All Share Total Return Index (ALSI) over the equivalent ten-year period. According to Erika van der Merwe, CEO of the Southern African Venture Capital and Private Equity Association (SAVCA), this underscores the returns-boosting role that private equity can play in a diversified institutional portfolio.

While a ten-year measurement period is considered appropriate for private equity, given the long-term characteristics of the asset class and the locked-in nature of typical fund structures, a similar pattern of returns is evident over shorter time periods.

Over a five- and three-year period, private equity returns to September 2015 have dropped slightly since the previous quarter, to 17.4% and 15.7% from 18.5% and 16.4% respectively. This performance compares favourably with the ALSI, which recorded yields of 14.9% and 15.4% over the equivalent five- and three-year periods.

Van der Merwe says that the sustained positive rand-based returns tell a story of an industry that continues to grow and deliver. "We expect this trend to continue in 2016 and, although the year is likely to be challenging for equity – listed or not – the hands-on, strategic and patient approach that is characteristic of private equity will likely support a steady performance by portfolio companies."

According to Rory Ord, executive at RisCura, after five years of strong performance, South Africa's listed market is finally declining, showing a negative return in 2015. "This year has started in similar form and, all in all, the ALSI is now roughly where it was two years ago. Considering this, South African private equity investors have certainly benefitted from their more diversified exposure over this period."

Judging by the private equity fundraising trend over the past two to three years, these investors have been adding to their private equity exposure. Fundraising was brisk during 2015, with a number of private equity houses announcing successful first and subsequent fund closes. "More funding announcements are expected during 2016, although rand volatility could create challenges for the marketing of the industry to international investors targeting dollar-based returns," Van der Merwe says.

She concludes that, “by nature, the private equity industry is built on careful deal selection, which is followed by thoughtful, focused and active management of the asset. This process ensures that, despite unpredictable economic growth, the industry will continue to deliver fair returns to its investors.”

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About SAVCA:

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 about R170 billion in assets under management, through more than 140 members. SAVCA promotes Southern Africa private equity by engaging with regulators and legislators on a range of matters affecting the industry, providing relevant and insightful research on aspects of the industry, offering training on private equity and creating meaningful networking opportunities for industry players.