



## New Frontiers

Perceptions of and allocations to private equity  
by Southern African pension funds

2016

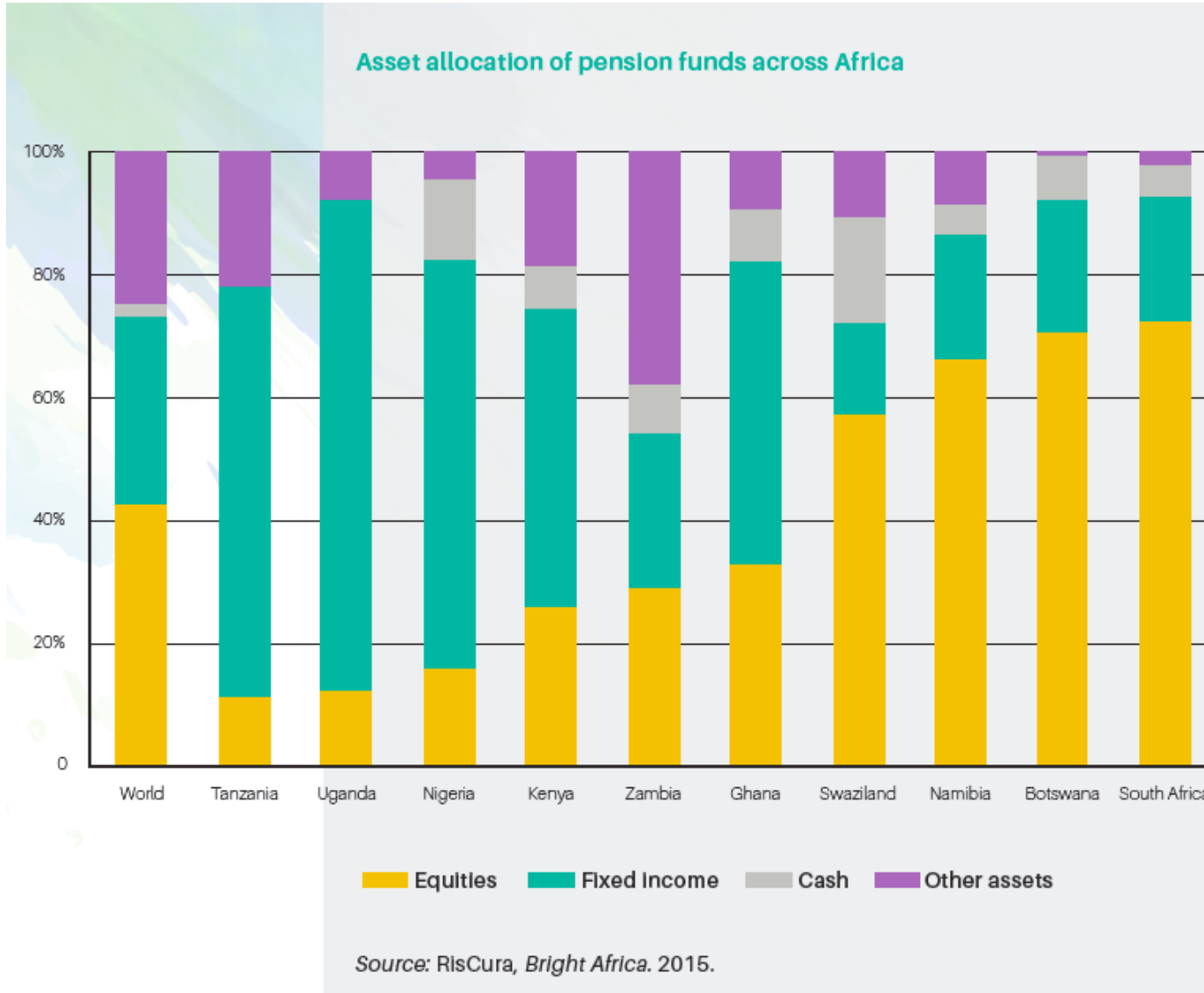
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*19 April 2016*

# Background

- South African pensions assets estimated at \$234bn in 2014 (*Towers Watson*), representing the bulk of Southern African pensions assets
- Changes to South Africa's Regulation 28 in 2011 have not incentivised pension funds to increase their private equity allocation (*RisCura; anecdotally*)
- Global average allocation by pension funds to private equity is in the order of 5% (*Coller Institute*)



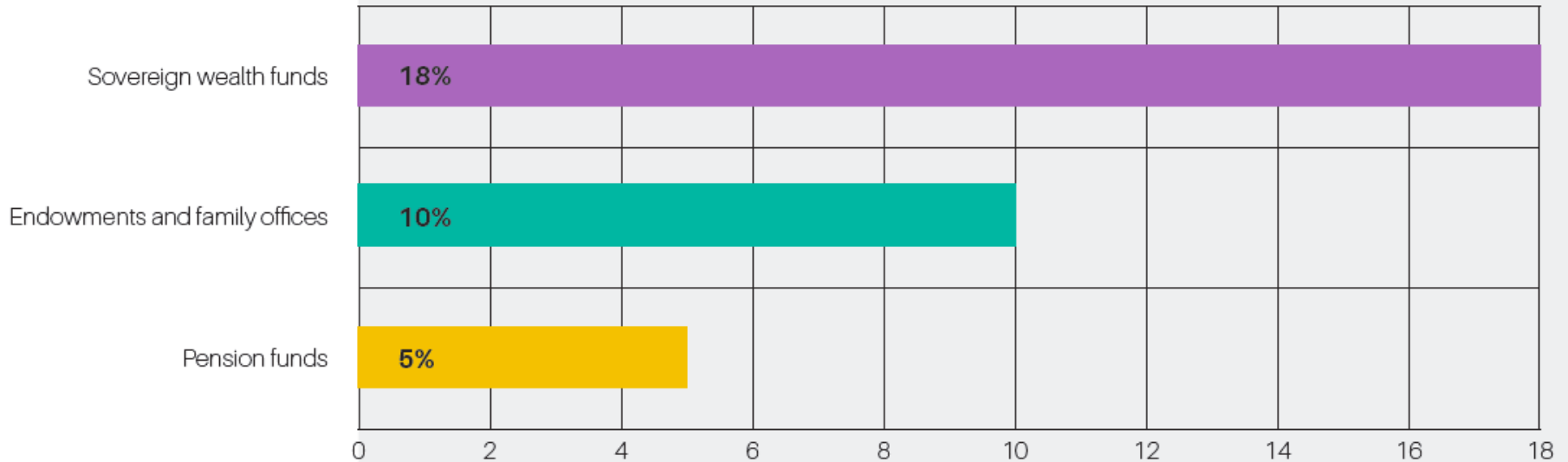
# African pension funds have limited exposure to “other” assets





# Globally, pension funds have around 5% allocated to private equity

## Allocations to Private Equity



Source: Collier Institute of Private Equity, London Business School, *The Extent and Evolution of Pension Funds' Private Equity Allocations*. The Adveq Applied Research Series. January 2014.

# Private equity, defined

a long-term, alternative asset class, which entails fund managers raising third-party funds from various classes of investors, to buy assets that predominantly are held privately



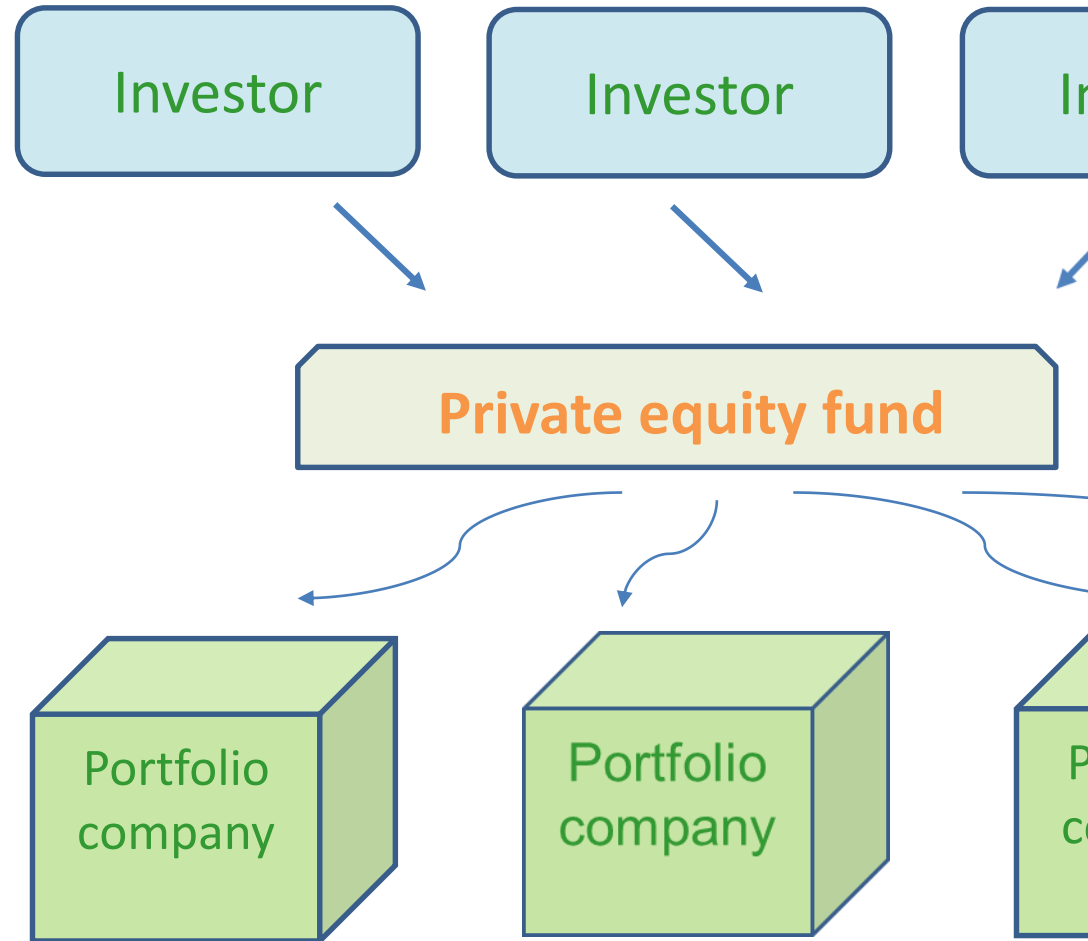


# The private equity ecosystem

Pension funds, Endowments, Development Finance Institutions, Sovereign Wealth Funds, Life Offices, Fund of Funds, Family Offices, High Net-Worth Individuals

Fund size and investment mandates vary: Generalist vs specialist funds; geographic focus; type of capital provided

The fund's shareholding in the portfolio company varies, depending on fund philosophy and nature of investment opportunity



# Survey rationale and methodology

- Determine from the major Southern African pension funds what are their perceptions of, and allocations to, private equity
- Targeted top 100 South African pension funds, and major pension funds in other SADC countries, via **Batseta**
- Confidential electronic survey, conducted Oct-Dec 2015

# Profile of survey respondents

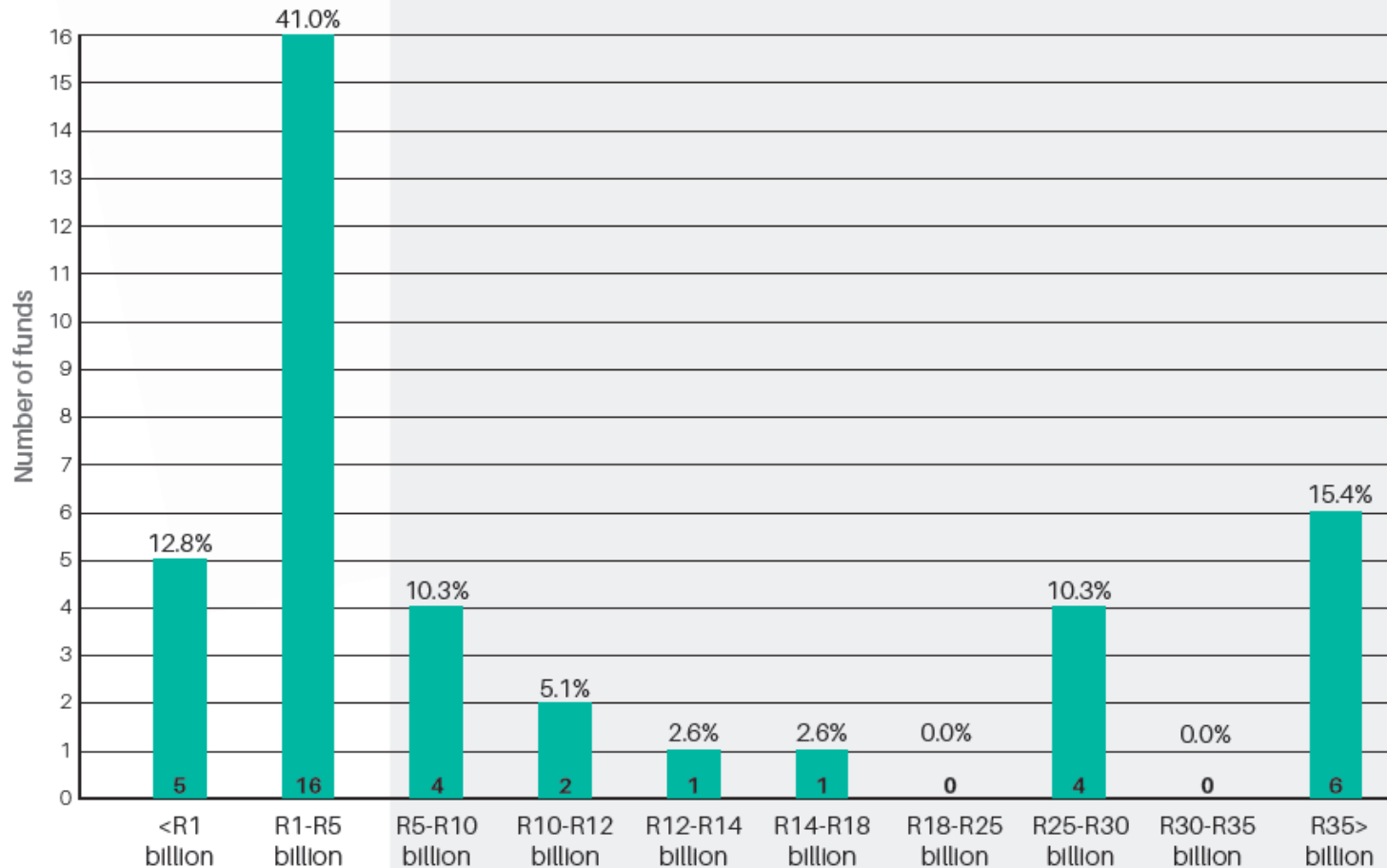
- 39 respondents, of whom 38 are South African pension funds
- Profile of respondents varies by:
  - Assets under management
  - Number of members
  - Fund structure (most are defined contribution)
  - Fund type (most are standalone)





# Sample profile: Assets under mngt

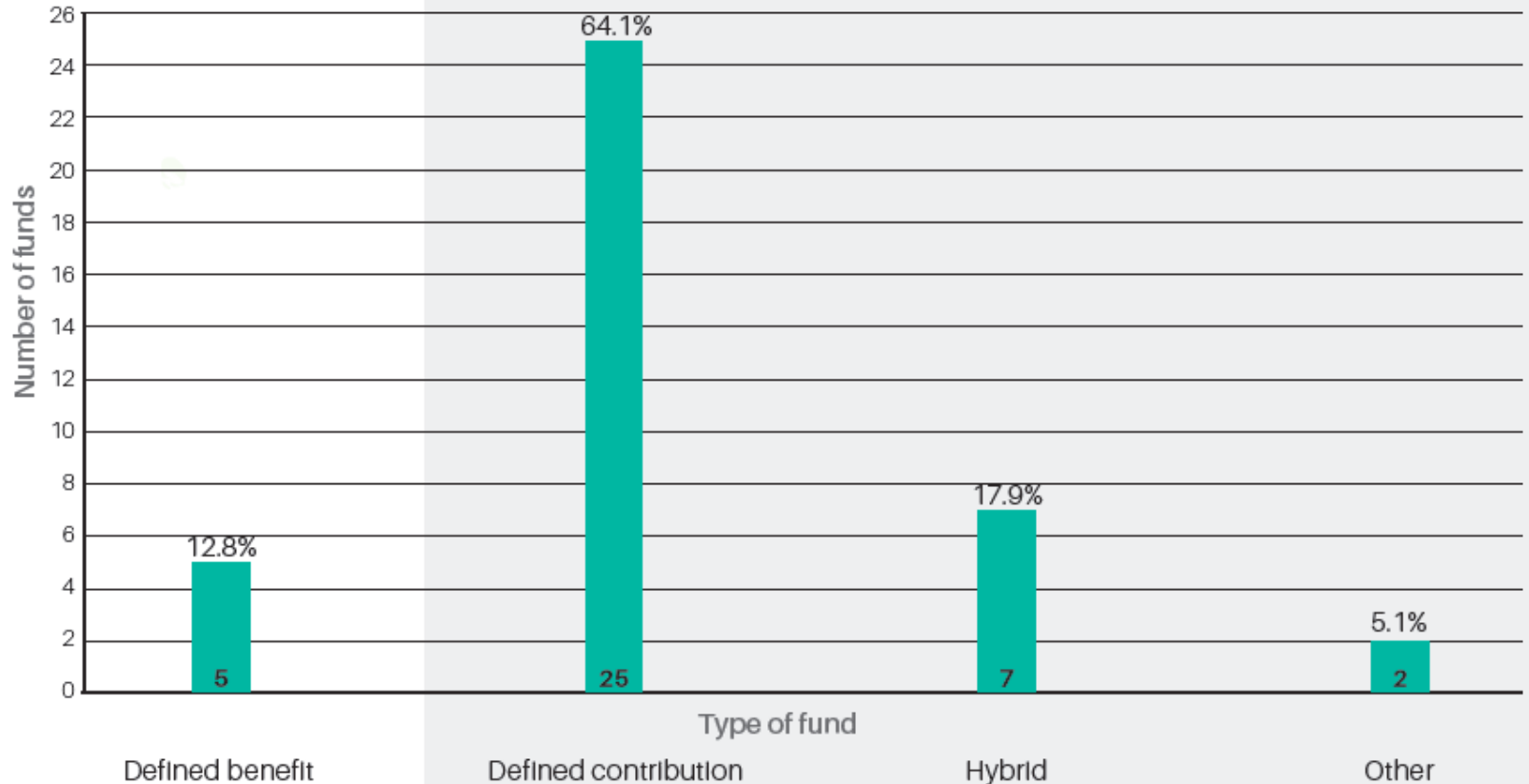
Respondent distribution by fund size: Assets under management  
Number of respondents, as a percentage of the sample





# Sample profile: Fund structure

Respondent distribution by type of fund structure  
Number of respondents, as a percentage of the sample

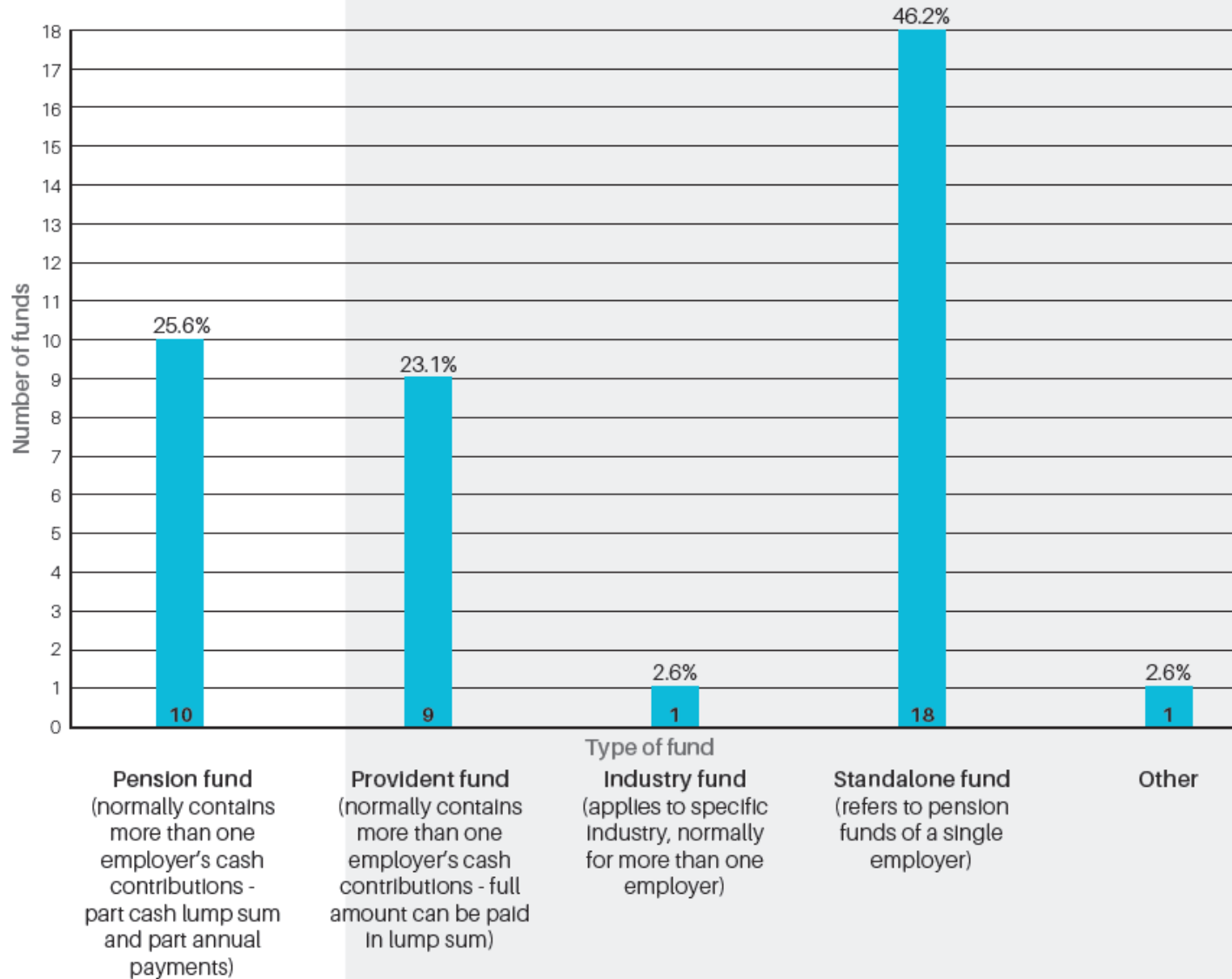




# Sample profile: Fund type

## Respondent distribution by fund type

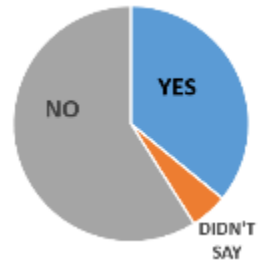
Number of respondents, as a percentage of the sample





# Key findings from the survey

- Investment in private equity in the sample is low:  
Out of 39 respondents:
  - 14 respondents have an allocation to private equity
  - 23 do not have an allocation to private equity
  - 2 did not indicate their position
- Venture capital is not a consideration for pension funds:
  - With the exception of the Namibian respondent, none of the respondents has a mandate or an allocation specifically to invest in venture capital.



## Conclusion:

Few pension funds in South Africa have taken advantage of regulatory changes enabling increased allocations into private equity. Limited exposure is a missed opportunity for pension funds and their members.

# Other survey highlights

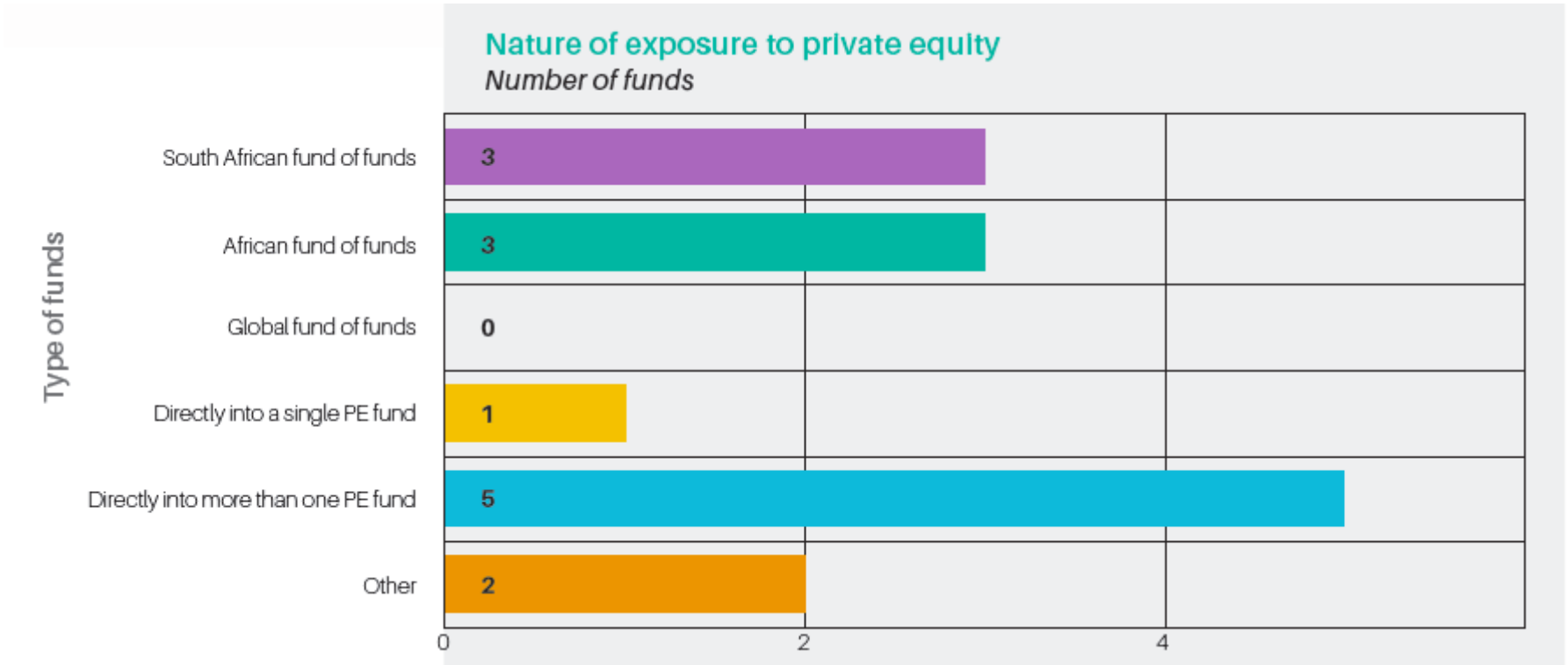
- The majority of pension funds in the sample employ asset consultants for certain support services: **The role of advisors to the pensions industry is critical**
- While the majority of the smaller respondents do not make allocations to private equity, there are some small pension funds which do invest in the asset class: **Size is not a singular determinant of the appetite for private equity investment**
- Pension funds with an existing private equity mandate are most likely to consider an increased allocation through new partnerships: **Familiarity with private equity may be an important driver of allocation to the asset class**

# Pension funds that allocate to PE

- This group is diverse in terms of AuM, number of members and structure
- The most common means of accessing private equity is through:
  - A fund-of-funds structure
  - Directly into more than one private equity fund
- 8 of the 14 have increased their private equity allocation since the Regulation 28 amendments
- The track record of the private equity fund manager is an important factor in manager selection



# Nature of exposure to private equity



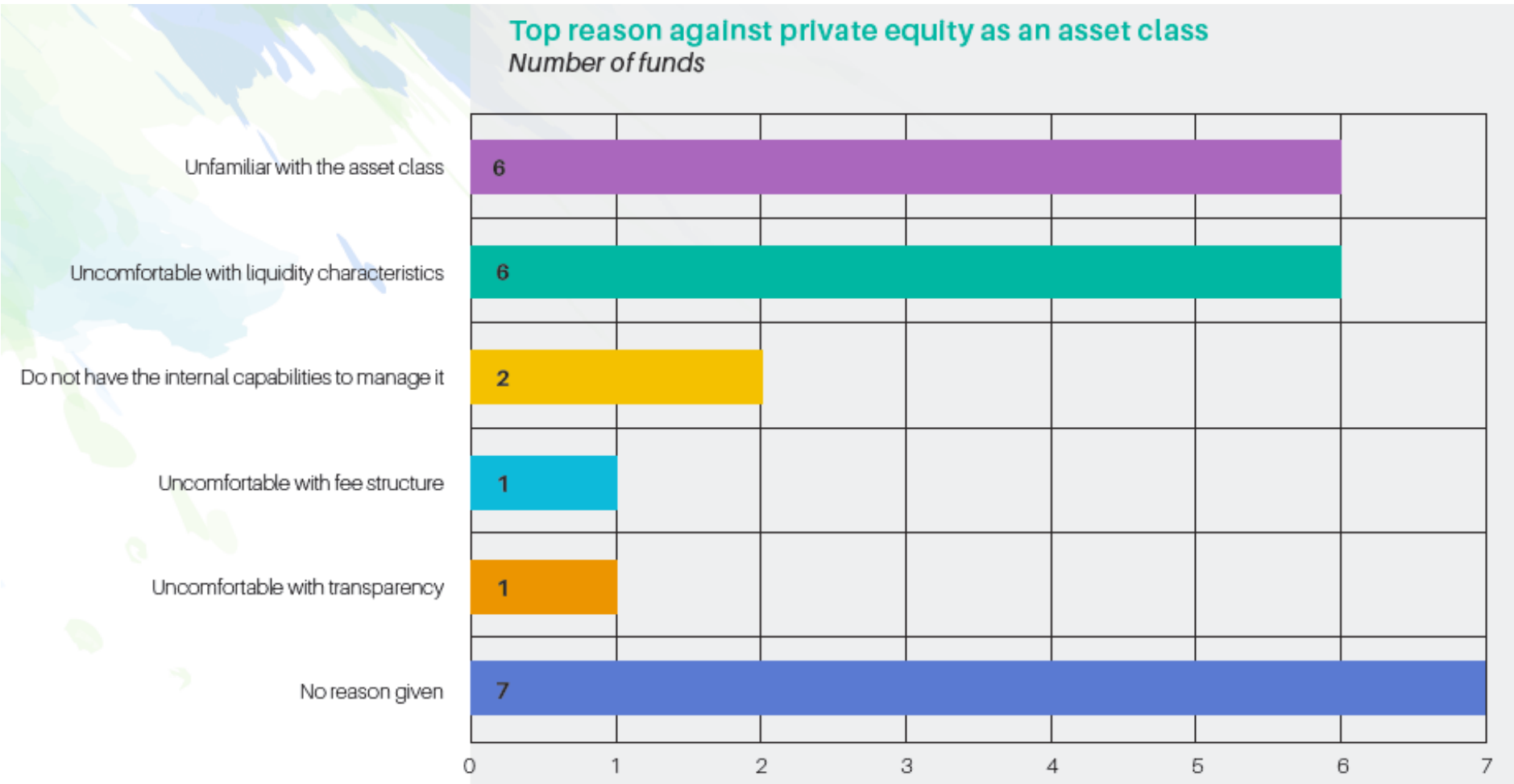


# Pension funds that do not allocate to PE

- From the sample, the typical profile of pension funds that do not allocate to private equity is (1) small, (2) has a defined contribution structure, and (3) is a standalone fund
- The main reasons cited for not allocating to private equity are:
  - Unfamiliarity with the asset class
  - The liquidity characteristics of private equity
  - Lack of internal capability to oversee a private equity programme



# Why not invest in private equity?



# The case for private equity

- Private equity is a key element in a diversified, institutional portfolio:
  - Returns boosting (tends to outperform listed equity)
  - Diversification attributes (behaves differently from other asset classes)
  - Exposure to industries that are under-represented in listed markets (efficiencies)
  - A track-record in furthering environmental, social and governance (ESG) initiatives, in a way that boosts sustainability and valuations of businesses (better businesses)

# Private equity industry returns

- Internal Rate of Return

Time period	Pooled IRR	ALSI TRI*	FINDI TRI*	SWIX TRI*
10 year	20.70%	14.9%	19.3%	15.6%
5 year	17.40%	14.9%	23.7%	16.0%
3 year	15.70%	15.4%	25.5%	16.2%

- Times Money

Time period	Pooled IRR	Realised	Unrealised	Total
10 year	20.7%	1.26	0.60	1.86
5 year	17.4%	0.90	0.59	1.49
3 year	15.7%	0.60	0.75	1.36



Source:  
RisCura-  
SAVCA  
Private  
Equity  
Quarterly  
Performance  
Survey Q3  
2015



# Conclusion

- An opportunity for private equity industry to focus on education, for existing and potential pension fund investors and their advisors about:
  - How private equity works,
  - Its valuations processes, and
  - Its developmental impact



**Thank you**  
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