

# Private equity fund raising reaches record high

Funds raised by private equity managers investing in South Africa and other African markets reached R29.0 billion in 2015, the highest on record for the industry and up a significant 145% from R11.8 billion in 2014. This is according to the Southern African Venture Capital and Private Equity Association( SAVCA) 2016 Private Equity Industry Survey, the annual survey of private equity and venture capital activity in Southern Africa.

A substantial majority of the funds raised during 2015 (75.9%) were from South African sources, and largely by independent fund managers from third-party investors for late-stage investment mandates. Pension funds, international development finance institutions and funds of funds were the most prominent investors into the industry.

Speaking at the survey

launch, CEO of SAVCA, Erika van der Merwe, said that the notable pick-up in fund raising was the outstanding theme to emerge from this year's survey, and is an indication of the sustained interest by local and international institutional investors into private equity investments in Southern Africa. "UK, US and European investors are prominent investors in private equity in this region, with non-South African sources accounting for more than 45% of industry funds raised to date and not yet returned."

The brisk capital raising contributed to the growth in industry-wide funds under management: Survey results reveal that South Africa's private equity industry, including both government and private funds, managed R165.3 billion of funds at 31 December 2015, an increase of R15.0 billion from 31 December 2014<sup>1</sup>. This represents a compound

annual growth rate of 11.9% since 1999, when the SAVCA survey first began.

SAVCA, along with research partner KPMG South Africa, surveyed 72 managers, representing 82 funds, with a mandate to invest in South Africa and in other African markets. This research information was augmented through alternative sources for a further 10 managers representing 18 funds.

Van der Merwe explains that, of the industry's funds under management, R40.6 billion in undrawn commitments – contractual capital commitments by institutional investors to private equity funds – will be called upon in the next few years as private equity fund managers implement their strategies. Around half of this capital is earmarked specifically for South African investments.

The invested component of funds under management

is allocated across a range of sectors, mainly in the form of expansion, development and buyout capital. Private equity investment activity in South Africa during 2015 totalled R10.5 billion across 534 deals, of which R4.4 billion was for follow-on investment and R6.1 billion for new investments. By value, the most popular sectors for deal-making in 2015 were banks, financial services and insurance (15.9%), retail (15.7%), infrastructure (14.2%) and manufacturing (11.8%).

Nearly two-thirds of the value of deals done in 2015 entailed investee companies with a BEE rating of four or higher. "Black economic empowerment participation in investments is fundamental to the South African economy and remains a significant driver of private equity activity in South Africa," says Van der Merwe.

Proceeds from asset realisations – exits from

investee companies – totalled R4.5 billion in 2015, with trade sales being the most prominent exit route by value. Sales to other private equity houses were the second-most popular exit route. The private equity industry returned R8.9 billion to investors in 2015, representing proceeds from exits as well as dividends, loan repayments and interest payments.

"The significant increase in funds under management evidences the attractive returns, sustained growth and long-term confidence of investors in the Southern African private equity and venture capital industry," Van der Merwe adds.

<sup>1</sup> The PIC did not participate in this year's survey, and thus no 2015 data is available. PIC data, classified under Captives – Government, have been removed from the historical survey data to ensure comparability over time.