



A journal of activity and trends in Southern African private equity and venture capital

2019



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EDITOR'S NOTE



to a new level. **renew. imagine. strive. evolve.**


The theme for the SAVCA 2019 Industry Conference is "RISE: To a new Level" where the acronym RISE stands for **Renew. Imagine. Strive. Evolve.**

This year's theme was selected based on the premise that SAVCA, as an organisation, and the private equity and venture capital industry in Southern Africa more broadly, is reaching a point of maturity. And although there are a number of past milestones to celebrate, which we did with our 20th anniversary in 2018 and continue to do, SAVCA is focused on the future and positioning the private equity and venture capital industry for growth and impact.

In this journal, we explore the significant changes that present both challenges and opportunities for our industry. However, we focus on the idea of *RISING* to a new level which, for us at SAVCA, means taking advantage of the opportunities presented by the changing political, economic and regulatory landscape, which includes the shifting trends in the industry – something we feel that the private equity and venture capital industry is poised to do.

SAVCA is fortunate to have a very active membership base, and we want to thank all our members and those who have contributed to this journal for selflessly sharing their knowledge and experiences for the benefit of the industry.

This journal and the conference topics lay the foundation for 2019, which we believe is a year to embrace change and disruption, and leverage opportunities.

Thank you for rising to a new level with us! 

Tanya van Lill

CEO: SAVCA





to a new level. **renew. imagine. strive. evolve.**

SAVCA 2019 SOUTHERN AFRICA INDUSTRY CONFERENCE

27 – 28 FEBRUARY 2019 | PRIVATE EQUITY

28 FEBRUARY – 1 MARCH 2019 | VENTURE CAPITAL

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SAVCA presents the first joint
Private Equity and Venture Capital in Southern Africa Conference

Private Equity: 27 – 28 February 2019
Venture Capital: 28 February – 1 March 2019



about the



SAVCA Conference

R.I.S.E to a new level

The theme for the SAVCA 2019 conference is “RISE to a new level”. The conference will explore and showcase how, despite a tough and ever-changing economic landscape, the industry continues to RISE. The word RISE itself invokes an increase of associations, upsurge and growth, all of which are aligned with where the industry is currently and what it is expecting to achieve in the future. RISING to a new level means taking advantage of the opportunities introduced by a changing economic landscape –something that the private equity and venture capital industry are poised to do.

RISE represents how venture capital and private equity continues, and should continue to...

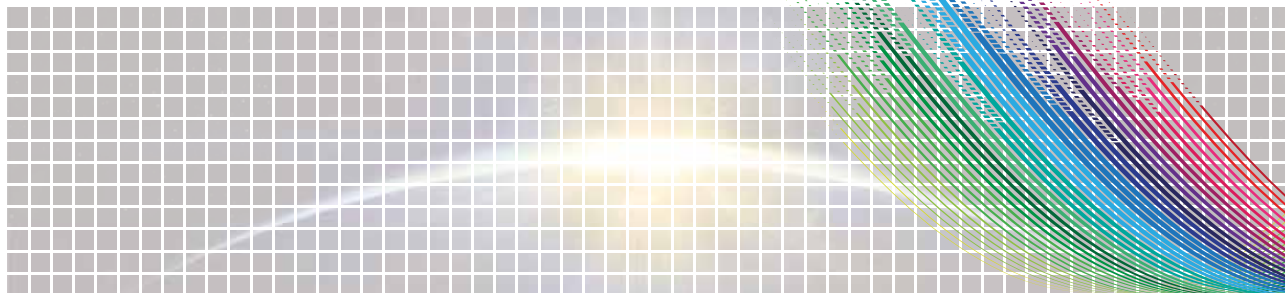
RISE: Renew. Imagine. Strive. Evolve



CHAIRMAN'S NOTE

Rise to a new level

renew. imagine. strive. evolve.



In 2019, the Southern African Private Equity and Venture Capital Association (SAVCA), celebrates the great strides made by our industry. Each year, private equity continues to grow from strength to strength, despite the political and economic challenges that have characterised our region lately. The resilience shown by the industry, as well as the extraordinary potential it has to continue its growth trajectory are what inspired the theme for this year's conference: **RISE to a new level. Renew. Imagine. Strive. Evolve.**

Renew

Over the last year, the industry has been a substantial driving force behind the nascent renewal of the Southern African economy. Private capital in particular, has always found numerous ways to build sustainable businesses, through not only funding but also via lending experience and expertise. As a result, businesses backed by private equity investment grow faster than comparable companies backed by other kinds of finance. Over the foreseeable future, these businesses are set to renew the Southern African economy.

Imagine


Our industry is characterised by solution-orientated thinking with venture capital investors constantly on the prowl for entrepreneurs with ideas that seek to reach the next level. According to the SAVCA 2018 Venture Capital Industry Survey our local venture capital (VC) funds invested more than R1 billion in start-ups and early-stage companies in 2017, with many entrepreneurs acknowledging the benefits that VC investments have had on their ability to enhance employment opportunities within their respective enterprises and to run their businesses optimally. VC is providing opportunities for entrepreneurs to imagine new ways of doing business.

Strive

The Southern African industry has demonstrated its ability to succeed, despite being faced with a challenging operating environment over the recent past. According to the 2018 Private Equity Industry Survey, private equity once again outperformed its listed counterparts and experienced a significant and record-breaking rise in investment activity. As an industry, we should seek to maintain this performance and strive towards making an even larger economic and social contribution in 2019.

Evolve

Private equity and venture capital are set to contribute to the evolution of the Southern African economy. Not only is the industry itself evolving, with an increasingly more sophisticated understanding of how social impact can be integrated into the investment process without compromising financial returns, but also because of the support provided to innovative entrepreneurs with businesses that are set to transform the way South Africans live their lives.

With this being SAVCA's 21st year of existence, we hope to see the industry continue to take advantage of the abundance of opportunities that exist in our region and keep rising to new levels. 

Craig Dreyer

SAVCA: Chairman

Africa's private equity partner



ENSafrica offers a comprehensive range of professional services to clients in relation to all aspects of private equity and venture capital throughout Africa.

Our private equity team specialises in the fields of mergers and acquisitions, fund formation, international and local tax, exchange control, banking and finance, securitisation, regulatory compliance and has the capacity to structure transaction and funds through our team in Mauritius.

renew.

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FUNDING

Fundraising in 2018 and beyond

As we move forward towards 2020, industry experts share their views on the challenges and outlook for the private equity and venture capital industry.

The fundraising environment in the Southern African region remained rather challenging in 2018, mainly due to the economic and political environment. This resulted in a decrease in the amount of capital raised by the industry.

Due to a commodity downturn, political instability and currency devaluations, there has been a slowdown in growth in Sub-Saharan Africa, which has impacted the frequency and returns on deals, which has in turn “affected the ability of GPs to raise money to fund these deals”, says Cindy Valentine, Partner at Simmons & Simmons.

Maredi Mampuru, Head of Client Relations at Ata Capital, says it is a very difficult space to raise funds, especially if you are still a young company or a small fund and have “quite a long way to prove your abilities”. Ata Capital, a majority black-owned and 100% black-managed investment manager, is currently raising its third fund and is targeting R1.5 billion from South African institutional investors. “The process is quite long. We started engaging with investors about a year ago,” he says, adding that there is a grim feeling in terms of fundraising, because there is still quite a lot of education that needs to happen around private equity investing. “On average, in South Africa we find that pension funds invest around 2-3% out of their 10% limit,” he says.



“We have also seen the majority of these funds investing in property-backed investments as opposed to traditional venture capital”

Thabo Ncalo

Brett Commaile, Lead Partner of AngelHub Ventures, adds: “In the past few months, we have frequently heard from private equity limited partners (LPs) that it is possibly the most challenging fund-raising environment they’ve encountered in the last 10 years - especially for first-time managers.”



“On average, in South Africa we find that pension funds invest around 2-3% out of their 10% limit”

Maredi Mampuru

Thabo Ncalo, Managing Partner at Savvy Partners, confirms that there is still a very small allocation to private equity or even venture capital in the Southern African region by institutional investors – typically less than 5% of their overall allocation (e.g. for larger pension funds). “With the low allocation to private equity as an asset class, one can only imagine the even lower or potentially non-existent allocation to venture capital as a sub-asset class,” he says.

“In the past few months, we have frequently heard from [LPs] that it is possibly the most challenging fund-raising environment they’ve encountered in the last 10 years”

Brett Commaile



“The appetite for risk among (primarily) retail investors is rather low, as most investors are accustomed to the more traditional investment asset classes such as listed equity, fixed income and property,” he adds.

However, there have been some improvements in South Africa with the introduction of the Venture Capital Company (VCC) regime, where investors are able to deduct the investment made into venture capital from their taxable income, stresses Ncalo. “We have also seen the majority of these funds investing in property-backed investments as opposed to traditional venture capital (e.g. innovation, impact investments),” he adds.

Fundraising trends

In terms of sizes and sectors, in the venture capital and private equity space there are a lot more tech-focused funds being raised with generalist funds being in the minority, according to Langa Madonko, Investment Principal at Summit Africa. He adds that in the traditional private equity space there are more sector-specific funds outside of South Africa. “We are seeing the emergence of healthcare specialist funds; the ‘Fourth Industrial Revolution’ funds; and the agri funds. I think we are moving toward more specialisation,” he says.

Madonko points out that there are more mid-market size funds being raised. “In the South African region, those funds would be between R1 billion and R3 billion; and for pan-African funds we’re seeing more people who are starting to play in the space of between \$100 million – \$250 million.” ▶

Experts agree that there is also a lack of or limited understanding of the venture capital and private equity space among many investors. According to Ncalo: "The industry needs to educate allocators of capital about the risk-reward dynamics of private and unlisted investing. This is probably best done through case studies highlighting successes in this space, opportunities and real stories about the impact (especially societal) that comes out of supporting early stage companies."

Meanwhile, Madonko says: "I think there has been an increased and more considered effort from general partners (GPs) to participate in the education of potential limited partners." He adds, however, that GPs have to be innovative in terms of their structure: "GPs need to have innovative solutions that speak to the market they work in, in terms of product offering. GPs also need to be conscious of pricing and the sensitivities in the market when coming up with solutions."



"The outlook for 2019 and beyond is positive, with strong indications of sustained confidence in the African private equity industry"

Paul Boynton

He adds: "I think something else that is becoming very significant in terms of capital raising is the environmental, social, corporate governance (ESG) factor."

Valentine adds that GPs need to be "constantly evolving to find smarter ways to achieve better growth and devise fundraising structures that potentially allow exits at the right time, prior to raising additional commitments".

Fundraising outlook

Industry experts agree that the fundraising landscape this year will be a bit slow for the first five to six months. According to Ncalo, the political climate in 2019 remains challenging as some countries (such as South Africa) go into political elections and this typically causes some risk aversion among investors who take a "wait-and-see" approach. He adds: "In my opinion, fundraising for early stage funds will remain a challenge, especially since listed equity markets in South Africa showed a negative performance in 2018."


As the South African market begins its turnaround, Commaille expects opportunities for investment to increase: "South Africa represents a significant opportunity for LPs looking for experienced fund managers and quality investments."

"GPs need to have innovative solutions that speak to the market they work in, in terms of product offering"

Langa Madonko



Paul Boynton, CEO of Old Mutual Alternative Investments, says that African pension funds will have a growing role to play as an additional pool of capital this year. "We will continue to see an uptick in enquiries as investors look to benefit from the key macro trends expected to underpin positive GDP growth across the continent. The outlook for 2019 and beyond is positive, with strong indications of sustained confidence in the African private equity industry."

"Beyond 2019, I see venture capital and private equity featuring more on investors' radars – especially when it comes to making more impactful investments," concludes Ncalo. 

Deal Tracker | Industrial

PE FUND	NPE / Heritage Capital (BEE Investor)
TARGET COMPANY	General Profiling (Pty) Ltd
INDUSTRY	Value Added Steel Services
DEAL VALUE	Undisclosed
% SHAREHOLDING TAKEN	60% in total, NPE and Heritage Capital acquiring 30% each
DATE	October 2018

COMMENT

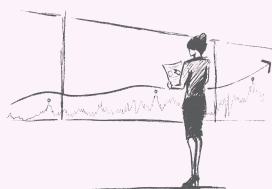
NPE partnered with Heritage Capital, a black economic empowerment ("BEE") owned company, to acquire a controlling shareholding in General Profiling. General Profiling is the largest independent steel service centre/component manufacturer in South Africa. In line with NPE's multi-pillared investment thesis, one key pillar being an acquisitive strategy, management and NPE have already identified attractive targets for consolidation purposes which NPE is excited about in this "buy-and-build" investment opportunity. General Profiling presents an attractive investment opportunity within the SA value-added flat steel services market given its ability to effectively differentiate itself on service and quality in a highly competitive market.

PE FUND	NPE / Multiply Investments
TARGET COMPANY	SBS Water Systems (Pty) Ltd
INDUSTRY	Manufacturing
DEAL VALUE	Undisclosed
% SHAREHOLDING TAKEN	67.2% shareholding acquired by the consortium
DATE	March 2018

COMMENT

NPE and Multiply Investments formed a water platform company (Wellspring Group) with a strategic view of targeting opportunities within the water sector. As its first investment, Wellspring acquired a controlling shareholding in SBS Water Systems ("SBS"). SBS represents a key initial investment in water and liquid storage, forming an integral part of the entire water value chain and creates a credible market presence off which further acquisitions can be made. SBS is a leading manufacturer, supplier and installer of Zinalume water storage solutions in South Africa and also exports tanks to the rest of Africa and the USA.

FUNDRAISING: COMMENTARY



Rohan Dyer, Partner -
Head of Investor Relations: *Ethos*



Limited partner appetite for emerging markets remains soft and fundraising for private equity funds in Africa is challenging. However, we believe it should recover as returns in developed markets are likely to moderate in the coming years. The diversification argument favouring emerging markets should gather momentum and the long-term fundamentals remain intact: increasing urbanisation, growing middle class and rising consumption prospects.

We continue to innovate while expanding our product offering. A mid-market fund, a mezzanine fund and an AI fund have been well received by LPs in recent years. We also listed a permanent capital vehicle – called Ethos Capital – on the JSE to provide public market investors with exposure to the firm's traditional closed-end funds. Launching Ethos Capital broadens our sources of capital and will help to seed our new fund strategies with a significant commitment.



J-P Fourie,
Head of Investor Relations: *Metier*



We see growing appetite from both local and international investors for niche funds, such as our successor sustainable capital fund that invests in clean infrastructure and renewable energy.

- Given the impact nature of our sustainable capital fund's investment strategies, we receive continued support from development finance institutions (DFIs) and from investors that don't compromise on financial/performance returns and have an appreciation of the impact imperatives.
- Performance/returns rightfully remain a key driver of fund raising support and this continues to be proven by our recent growth capital and sustainable capital fund realisations/exits, and our carrying value upticks.
- Track record and proven ability to deliver returns through many cycles is also a key consideration of investors.
- Interest in Southern African private equity remains high. Emerging market currency volatility has meant that international investors tend towards developed market private equity exposures.

Fundraising and fund launches by private equity in Southern Africa and beyond

(2018)

Source: *Africa Global Funds*

ECP closes fourth Pan-African fund
// November 21, 2018

Ethos launches AI Fund and makes first investments // November 6, 2018

FIVE reaches second close targeting €200m // Ethos achieves first investment and first close for new large buyout Fund // October 4, 2018

Phatisa Food Fund 2 hits first close
// October 3, 2018

IPDEV 2 reaches final closing
// October 1, 2018

OGEF hits first close at \$58m
// September 5, 2018

Globeleq to acquire SA energy portfolio from Brookfield Asset Management
// August 9, 2018

PAPE Fund III hits first close
// July 24, 2018

Denham Mining Fund closed at \$558m
// July 11, 2018

ASFF II raises \$81m at first close
// June 14, 2018

Ashburton Mezzanine Fund I reaches R507,5m first close // May 31, 2018

A.P. Moller hits second close with investors from Denmark and Sweden // March 20, 2018

Cepheus Growth Capital Fund gets \$51m at first close // February 15, 2018

Goodwell III hits final close
// February 5, 2018

Partech Ventures launches largest African VC tech fund // January 21, 2018



OPINION PIECE

“How can Africa increase FDI”

Ronak Gopaldas, Director:
Signal Risk



Director at risk advisory firm, Signal Risk, Ronak Gopaldas weighs in on the opportunities and challenges that lie ahead for businesses and policymakers on the African continent, with some key opinions on how these challenges can successfully be navigated.

To attract significant Foreign Direct Investment (FDI), Africa needs to resolve several complex economic policy dilemmas. Of utmost importance is a clearly defined and articulated trade and investment strategy, which takes cognisance of evolving global dynamics.

Trade: Globalism versus protectionism

Traditional economic policy has been turned on its head in recent years amid a changing geopolitical landscape. The ‘protectionism versus globalism’ discourse is currently on top of Africa’s policy agenda. Will the continent adopt a more insular route like the US or a more outward-looking agenda like China? Will funding and investment be secured in yuan or dollars? Do the continent’s policy makers need to pick a side?

Initial signs suggest that the continent’s policymakers will pursue both avenues – to various degrees and in different forms. It looks as if pragmatism, not ideology, is emerging as the central guiding factor in policy formulation.

On a macro level, despite broad economic liberalisation across the continent over the last two decades – reflected in improved GDP growth and a spike in personal incomes in many countries – Africa’s trade figures have yet to catch up. According to the Brookings Institution, intra-African exports in 2016 made up a paltry 18% of the continent’s total exports, compared to 59% and 69% for intra-Asian and intra-European exports, respectively. For too many African countries, trade still means exporting raw commodities to the developing world. Meanwhile, high tariffs and decrepit infrastructure – including crowded border posts and dilapidated roads – prevent many countries from trading successfully with their own neighbours.

Now, as much of the rest of the world looks inward, Africa is looking to buck this isolationist trend via regional integration and increased cooperation. Indeed, Africa is in a unique position in that it has the chance to trade with an untapped market: itself.

The adoption of the African Continental Free Trade Agreement (AfCFTA) in March last year was a step in the right direction and demonstrated a willingness for leaders to craft African solutions to African problems. Other initiatives such as the launch of the African Union Agenda 2063 (a shared road map for the integration and socioeconomic transformation of Africa by 2063); the promised African Union passport;

and the new Single African Air Transport Market all point to significant efforts by African leaders to take ownership of the continent’s destiny – rather than being bystanders – as has been the case previously when foreign powers have jostled for influence. Although there are doubts about its prospects, the magnitude and speed of these changes are too significant to be scoffed at, according to Professor Landry Signé of the Africa Growth Initiative at the Brookings Institution.

However, despite the increasingly liberal orientation adopted on a pan-African level, there is also increasing clamour for protectionism. The notion of “highly selective” trade policies to stimulate certain key sectors has been put forward as a method of achieving “catch-up growth.” Rather than crude protectionism, this would be selective, smart and targeted – justified by the overall need to advance national development goals. The head of the UN Economic Commission for Africa, Dr. Carlos Lopes, advocates this kind of “smart protectionism” – where government industrial policy is meant to mediate rather than displace market forces. The goal would be to target sectors that can catalyse growth and employment based on a country’s comparative advantage. In doing so, the cycle of dependency on imports from foreign markets can be reduced.

Investment: populism versus pragmatism

Though the external environment is largely beyond their control, African governments are deepening their economic challenges with frequent regulatory changes and uncertainty about policy direction. Irrational, haphazard policy decisions in a number of countries, such as South Africa, Tanzania and Nigeria have left local and foreign investors confused, and business struggling to cope with an already volatile economic climate.

Nowhere was this more clearly displayed than in South Africa, where former President Jacob Zuma’s ousting of Nhlanelo Nene as finance minister triggered a collapse of the rand and equity markets at the end of 2015. In the last year, uncertainty and clumsy messaging about land expropriation without compensation and the proposed mining charter has spooked investors.

Investor perceptions of Nigeria have been strained not only by policymakers’ management of the naira and the administration’s lack of progress on economic reform – but also by the heavy-handed approach to foreign investors. Regulatory fines (of banks and telecom operators, most ►

notably MTN) have brought heightened attention to the overall risk of the operating environment in Nigeria.

The incongruous nature of the penalties to the alleged wrongdoings has rattled investors. Adding further confusion is the lack of co-ordination and agreement among the various regulators.

Similarly, Tanzania's policy environment has been poorly managed, both from a fiscal and regulatory perspective, which has led to distrust between the government and the private sector. The ongoing dispute with Acacia Mining, rooted in an economic nationalist ideology, has rendered the country uninvestable; to many investors the risk is simply not worth the reward.

With limited policy flexibility and exogenous shocks already affecting the growth outlook, African sovereigns can ill afford to further complicate matters with avoidable mistakes. Managing sentiment positively will be key in ensuring African economies navigate these turbulent times effectively.

To do this, policymakers need to adopt more decisive messaging and provide clear and unambiguous policy responses on key issues.

So what?

Amid these challenges, African policymakers must attempt to deliver winning strategies in an increasingly integrated yet marginalised global economy. The focus therefore needs to be on factors within their control.

So, what should their priorities be?

Leadership: We are in the midst of a geopolitical recession where global governance is backsliding. But given how far behind Africa is to the rest of the world, following this trend is simply not an option. Indeed, there is now an opportunity

for the continent's leaders to exploit the global leadership shakeup, if they can ensure their own houses are in order.

But Africa's leadership needs to recognise that relevance will only be achieved as a 'collective'. Using the power of the 'collective' adds both scale and gravitas to Africa's global voice and will allow the continent to adopt a more muscular approach to international affairs. When viewed on a continental level, features such as its population and market size, favourable demographics, a rapidly urbanising and rising middle class, and technological advances become too big to ignore. As Nigerian president Mahamadou Issoufou, put it, "Africa is stronger when we work together."

Greater integration: This would enable the continent to develop larger regional markets and build capacity to initiate African solutions to Africa's economic and political problems. But this will take much more than political rhetoric. It requires practical steps and political will to move from policy to action.

Prioritisation of economic diplomacy: Strategic competition between rivals in the global East and West should be exploited, with pragmatic rather than ideological levers of economic diplomacy utilised to maximise a country's economic interests. Rather than adopting an either-or approach to strategic allies, or picking one side over the other, African policymakers should exploit all interests based on their economic value.

What is clear is that policymakers on the continent will need to adapt to the changing geopolitical landscape with more creative and innovative strategies than in the past. Navigating these challenges will require skill, dexterity and pragmatism. It will be tough, but getting it right is essential to successfully reshaping the continent's future and moving it from the back burner to the forefront of the global agenda. 

Deal Tracker | Real Estate

PE FUND	Vantage Mezzanine III Pan African Sub Fund Partnership
TARGET COMPANY	Thaara Limited
INDUSTRY	Real estate
DEAL VALUE	\$8 million
% SHAREHOLDING TAKEN	N/A
DATE	25 April 2018

COMMENT

The Fund provided \$8 million of mezzanine debt funding to Thaara Limited, an operating company that owns the Rosslyn Riviera Shopping Mall. Rosslyn Riviera is a convenient neighbourhood state of the art shopping mall in the upmarket suburb of Rosslyn/Runda in Nairobi that officially opened for trading in Feb 17.

PE FUND	Vantage Mezzanine III Pan African Sub Fund Partnership
TARGET COMPANY	Cap Tamarin Ltée
INDUSTRY	Real estate property development
DEAL VALUE	\$10 million
% SHAREHOLDING TAKEN	N/A
DATE	06 July 2018

COMMENT

The Fund provided \$10 million of mezzanine debt funding to Cap Tamarin. Cap Tamarin is a mixed-use development located in the town of Tamarin on the west coast of Mauritius. Cap Tamarin aims to provide a live, work and play neighbourhood to both Mauritian and non-Mauritian citizens.

Private equity transactions in Southern Africa (2018)

Source: Africa Global Funds

ShoreCap III makes maiden investment
// November 8, 2018

Ethos achieves first investment and first
close for new large buyout Fund
// 6 November, 2018

PAPE Fund III acquires stake in fintech
company // November 6, 2018

GTR Ventures makes first African
investment // October 31, 2018

Investec makes foray into SA education
sector // October 18, 2018

HAVAIC invests in SA commercial
property platform // October 16, 2018

Imara's PE division backs Zambezi
Berry Company // October 12, 2018

Ethos co-invests with EPPF in Gammatek
// October 4, 2018

Goldman Sachs leads \$53m investment
round in JUMO // September 18, 2018

Futuregrowth becomes Yoco's first
SA institutional investor
// September 10, 2018

IDEAS Managed Fund invests in nine
SA IPPs // August 27, 2018

Vantage GreenX Note II invests in six
renewable energy projects in SA
// August 13, 2018

Globeleq to acquire SA energy
portfolio from Brookfield Asset
Management // August 9, 2018

PAPE Fund III takes stake in South African
logistics company // August 5, 2018

Carlyle completes acquisition of Tessara
// August 2, 2018

Amethis, Kibo and Proparco in Meref
Industries deal // July 30, 2018

The Rise Fund buys stake in Wilderness
Holdings // July 25, 2018

Futuregrowth takes stake in commercial
and industrial technology group Symion
// July 24, 2018

Futuregrowth invests in GPF
// June 18, 2018

OMPE acquires 50% stake in Medhold
// May 30, 2018

HAVAIC invests in AURA
// May 30, 2018

Agri-Vie Fund II invests in Capital Fisheries
// May 21, 2018

TPG Growth's Fund leads \$47.5m
Series C for Cellulant // May 14, 2018

1K1V makes fourth investment in Africa
// May 14, 2018

Knife Capital invests in DataProphet
// April 27, 2018

Vumela Fund leads investment round in
Giraffe // April 20, 2018

Grit invests in Ghana and Mozambique
// April 17, 2018

Arise Fund takes stake in Moza Banco
// April 8, 2018

Takura acquires stake in Mozambican
vegetable producer // April 8, 2018

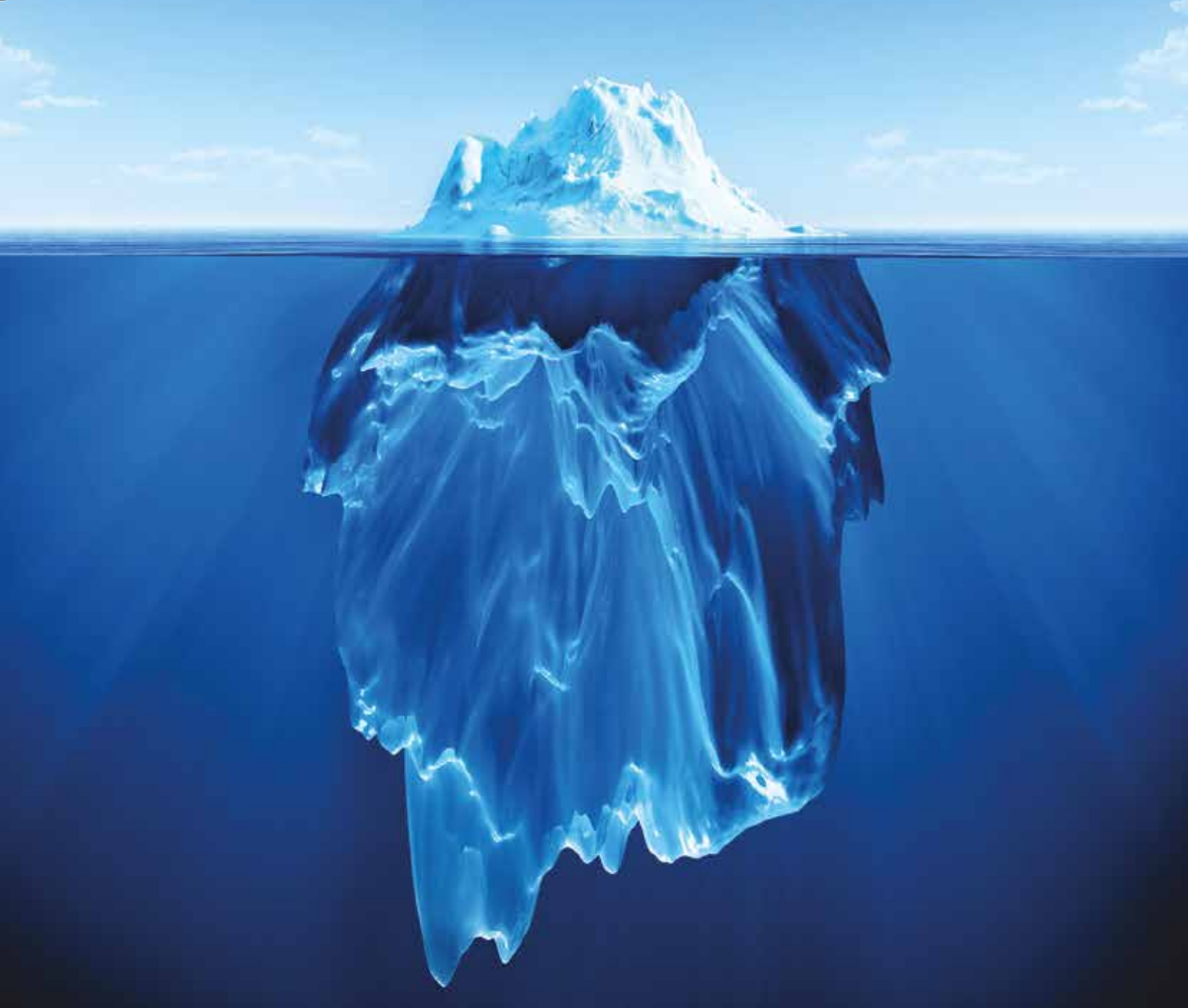
Inspired Evolution partners with Alten
Africa // March 21, 2018

EMMF I makes sixth investment
// February 28, 2018

EXEO Capital in aquaculture deal
// February 7, 2018

wiGroup secures investment from Virgin
Group and Smollan // January 30, 2018

EAIF backs power station refinancing in
Mozambique // January 22, 2018



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A glimpse into Southern Africa's dealmaking opportunities and trends

Despite several economic headwinds – such as policy uncertainty in South Africa, rising external debt in Zambia and slow growth in government spending in Botswana – facing the Southern African region, private equity and venture capital firms are still finding attractive investment opportunities. SAVCA spoke to a handful of fund managers to find out more about their investments over the past year and to gain insight into some of the region's deal-making trends.

In South Africa, Agile Capital sees potential in mid-market companies operating in sectors such as financial services, automotive, healthcare and media. It is currently investing its third fund, with about 30% of the capital already allocated. In 2018 the fund acquired a 26% stake in SA Biomedical, a distributor of medical devices and equipment, and also invested in Provantage, an outdoor media company.



"Larger ticket sizes attract more international investors, making the deals more competitive"

Izelle le Roux-Owen

In addition to doing business in their home market, Agile actively encourages its portfolio companies to seek out other opportunities on the African continent. "We focus on South African companies, and then post-investment we drive them to expand into the rest of the continent," says Agile CEO Tshego Sefolo.

Opportunities beyond South African borders

Musa Capital is also upbeat about the opportunities beyond South African borders, particularly in Namibia, Botswana and Mauritius. Its priority sectors are agribusiness, affordable housing, retail financial services, and logistics and distribution. Last year, Musa's Namibia Mid-Cap Fund invested in a hydroponic farming operation as well as a logistics business providing trucking services. "Within two years we've deployed 70% of the fund's capital. So, there are invest-worthy deals in Namibia, despite the size of its economy and relatively small population," says Richard Akwei, Principal at Musa. In 2019, Musa expects to launch separate funds targeting Botswana and Mauritius.



"We focus on South African companies, and then post-investment we drive them to expand into the rest of the continent"

Tshego Sefolo

Africa's rapidly-growing food market may be worth more than \$1 trillion annually by 2030, according to the Alliance for a Green Revolution in Africa (AGRA). Private equity firm Phatisa is tapping into this theme with the recent announcement of the \$120 million first close of its Phatisa Food Fund 2, successor fund to its African Agriculture Fund. Izelle le Roux-Owen, Partner at Phatisa, says the new fund will have less of a focus on primary agriculture, and will instead consider investments in mechanisation, agricultural inputs, poultry and meat production, food processing, fast-moving consumer goods, logistics, aggregation, distribution, wholesale and retail.

In Southern Africa's venture capital (VC) space, fintech remains an attractive investment theme. During 2018, Kalon Venture Partners announced its backing of FinChatBot, a developer of artificial intelligence-powered chatbots for the financial industry, as well as follow-on investments in electronic payments provider i-Pay and loyalty company SnapnSave. Venture capital is not all about fintech though. For example, Stellenbosch-based AngelHub Ventures invested in GoDo-Church, a developer of church administration software targeting thousands of churches throughout Africa.

While none of the fund managers SAVCA spoke to complained about a shortage of deals coming across their desks, the assets on offer are often too small or not of a high-enough quality. Another deal-making challenge, according to Sefolo, is the lack of visibility around South Africa's macroeconomic trajectory, which makes it tricky to correctly price assets.

"Within two years we've deployed 70% of the fund's capital"

Richard Akwei



There is consensus that South Africa's private equity industry is relatively competitive with a large number of players chasing deals, which drives up prices. However, north of South Africa's borders, valuations are generally more favourable, says le Roux-Owen, highlighting a particular sweet spot ▶



in mid-market companies. “Larger ticket sizes attract more international investors, making the deals more competitive. But for medium-sized businesses requiring investment of around \$20 to \$30 million, which is too small for many of the large players, it is much less competitive.”

Co-investment emerging as a new trend

Although South Africa’s VC industry is also seeing an influx of new funds, partially due to the Section 12J initiative, there is an emerging trend of venture capital firms joining hands and co-investing. “My preference is co-investment rather than individual investment,” says Clive Butkow, CEO of Kalon Venture Partners. “I’d rather have a smaller piece of a bigger pie than a bigger piece of a smaller pie. We can add a lot more to the entrepreneur by leveraging the networks of two firms as opposed to one. One plus one equals 11.”



“We’re certainly seeing an uptick in the quality of investment opportunities, despite the fact that it has been a tougher financial climate for most businesses”

Brett Commaille

According to Brett Commaille, Lead Partner at AngelHub Ventures, there is a funding gap for VC-backed businesses that have reached a certain size and require in the region of R20 million – R100 million to continue their growth path and expand into new markets. To take advantage of these opportunities, AngelHub Ventures recently partnered with Dzana Investments to form Hlayisani Capital, a new growth equity fund.

“We’re certainly seeing an uptick in the quality of investment opportunities, despite the fact that it has been a tougher financial climate for most businesses. While some larger corporates have kept things on hold, entrepreneurs have carried on by aggressively growing their ventures. And hopefully with the new fund, we will be able to take advantage of some of these opportunities,” says Commaille.

Overall private equity and VC investors remain cautiously optimistic about 2019. In South Africa the dust is expected to settle following the general election, while countries such as Botswana, Malawi, Mauritius and Zambia are all forecast to show GDP growth in excess of 3.5% (IMF, Oct 2018). There is also increasing interest from international LPs in terms of investment in Africa, which will likely result in more funding. [🔗](#)

Deal Tracker | Technology

PE FUND	Ethos Mid Market Fund I
TARGET COMPANY	Gammatek
INDUSTRY	Technology Equipment
DEAL VALUE	R252 million
% SHAREHOLDING TAKEN	51%
DATE	August 2018

COMMENT

Ethos Mid Market Fund I has invested in Gammatek, an importer and distributor of mobile device accessories and consumer products. The business has exclusive distribution agreements with leading global manufacturers such as Bodyglove, Speck and UAG. It has c.50% market share and a sustainable competitive advantage as a result of superior customer service and efficient inventory and supply chain management. The investment thesis is to drive growth from increasing market penetration, diversification into complementary consumer products and expansion into other markets in the rest of Africa.

Deal Tracker | IT Services

PE FUND	Nedbank Private Equity (NPE) / RMB Ventures
TARGET COMPANY	Tracker Technology Holdings (Pty) Ltd
INDUSTRY	Information Technology and Services
DEAL VALUE	Undisclosed
% SHAREHOLDING TAKEN	NPE acquired 17.7% shareholding
DATE	November 2018

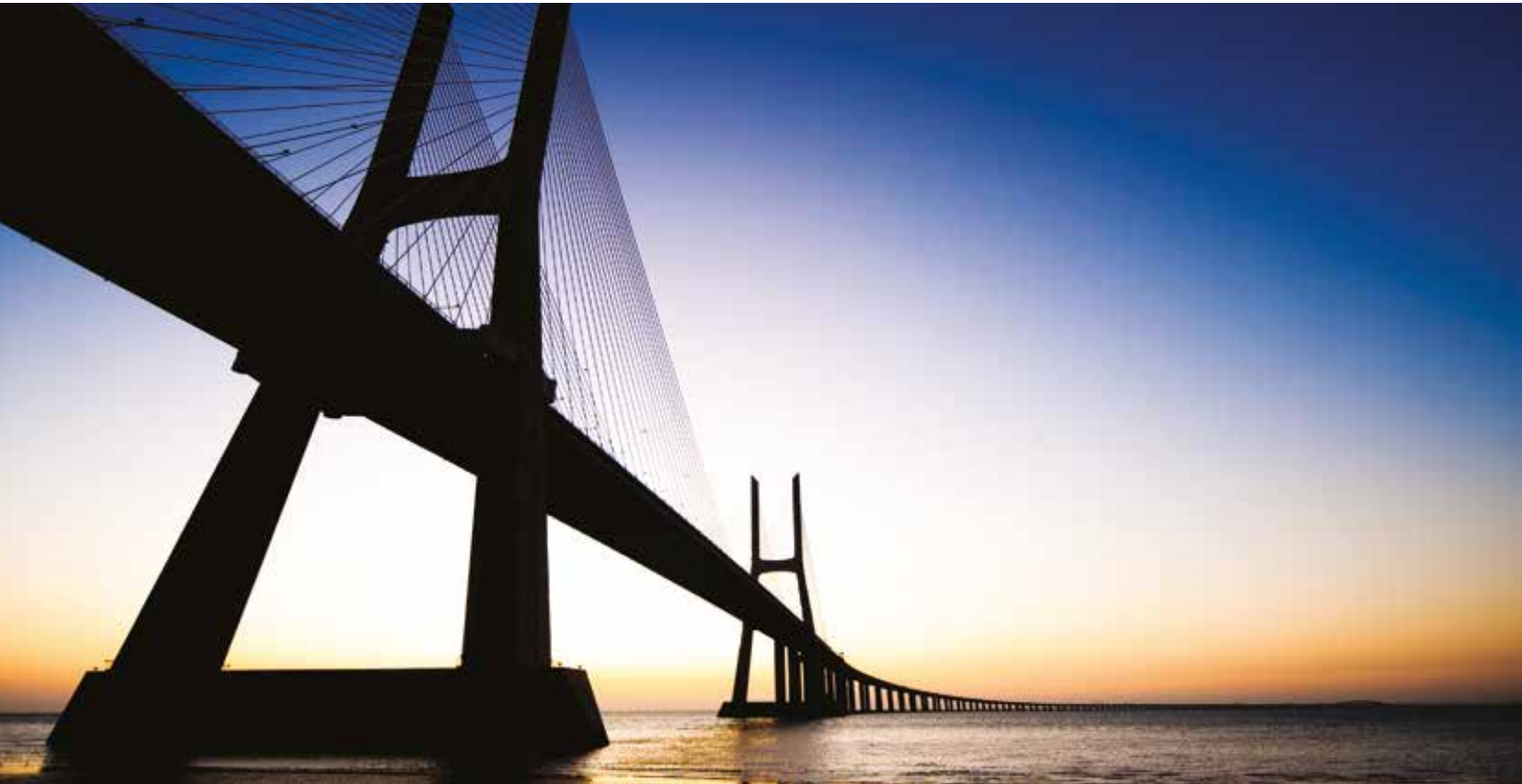
COMMENT

NPE has acquired a direct shareholding in Tracker Technology Holdings (Pty) Ltd, a leading telematics and information solutions provider in South Africa.

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OPINION PIECE

Alternative sources of risk capital: Mezzanine and crowdfunding

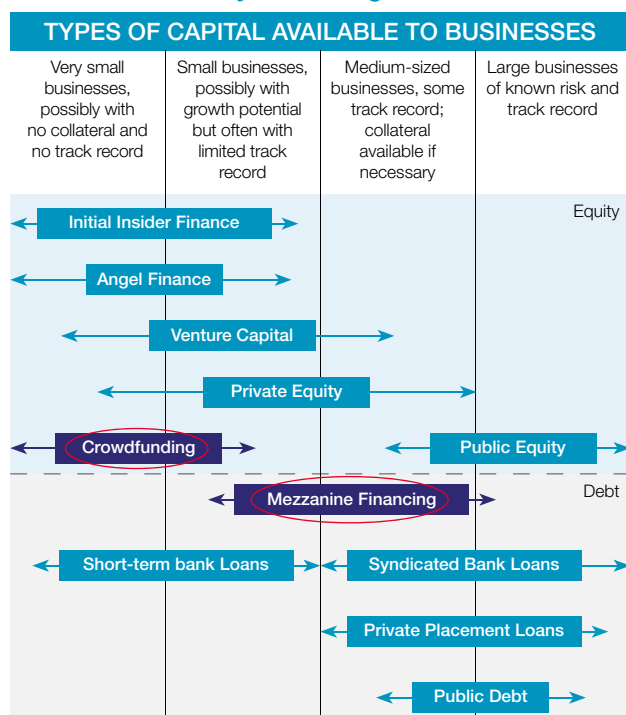
Warren van der Merwe,

Managing Partner: Vantage Capital



Given the low growth and volatile macroeconomic environment in South Africa, it is becoming increasingly difficult for investors to generate their target returns without taking substantial additional risk. Investors and companies must find a risk/return solution that works for both. Fortunately, up-and-coming and fast-growing alternative sources of capital such as mezzanine finance and crowdfunding offer a win-win market solution.

The Business Life Cycle Funding Curve



At the early stages of a business' life cycle, the universe of funding sources in Africa is still limited. Venture capital is a relatively new asset class on the continent with very few foreign venture capital funders. Local capital, on the other hand, is largely focused on businesses that are already profitable. In most cases, only those entrepreneurs with strong western market networks have been able to tap into this source successfully. That leaves the vast majority of early stage businesses to fund themselves via family and friends and then grow organically using limited internal cash flows. Fortunately, an alternative source – Crowdfunding – is showing promising potential.

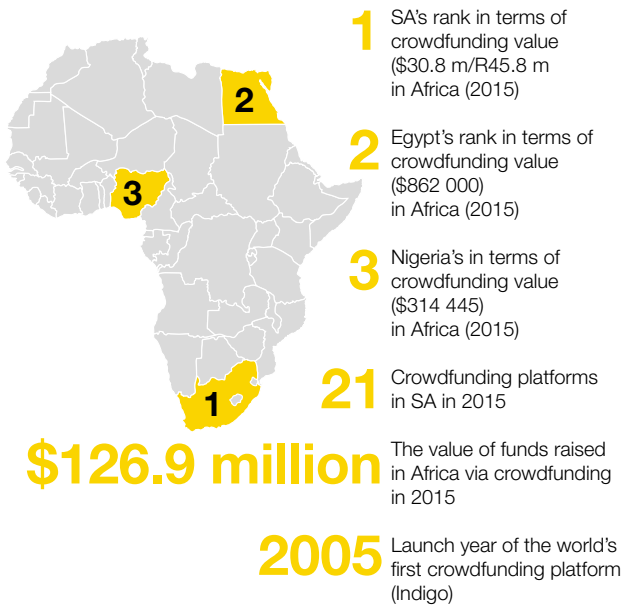
Crowdfunding 101

Crowdfunding is public capital that can be accessed by entrepreneurs to fund an idea, usually at proof-of-concept stage. There are four main types of crowdfunding, namely:

- Reward-based crowdfunding – where individual investors provide funds towards a project in return for direct rewards (essentially pre-selling the product/service);
- Peer-to-peer lending – matching borrowers and lenders with small ticket loans;
- Equity crowdfunding – where individual investors acquire shares in the business in return for funding;
- Donations-based funding – where individuals donate funds that go towards social causes without the expectation of any financial return.

Globally, crowdfunding successfully raised \$34 billion in 2015 and is expected to reach \$93 billion by 2025. The Massolution 2015 report notes that this is largely dominated by lending platforms, with the bulk of transactions taking place in North America. Africa's share stands below 1%, although funds raised have doubled over the past year. South Africa is the largest and fastest growing crowdfunding market on the continent. Some of the prominent players in South Africa include – Uprise Africa (equity), ThundaFund (rewards), and BackaBuddy (donations). It is estimated that \$30.8 million of crowdfunding was raised in South Africa in 2015. South African crowdfunding campaigns have been diverse, ranging from the launch of beverage brands to music albums, social initiatives and even documentaries. Some of the most successful campaigns have raised more than \$70 000, with the global average per campaign standing at about \$30 000. ▶

Crowdfunding in Africa



Source: 2016 Afrikstart Crowdfunding Report and World Bank

Why is crowdfunding a viable alternative?

- It provides market validation for the concept since funders typically tend to be early adopters who are essentially "fans" of the product concept.
- An unsuccessful campaign (funding target not met) prompts the entrepreneur to pivot certain aspects of their business plan.
- Non-equity based crowdfunding platforms can help avoid early dilution for business founders.

"Uprise. Africa meets a gap in the funding market by leveraging on its expanded networks and using technology. It is vital that innovative offerings like equity crowdfunding become available to help SMEs grow and enable greater inclusive growth."

– Inge Prins, CMO: Uprise. Africa

Mezzanine finance 101

As a business advances through its life cycle, building a track record and achieving scale and profitability, more conventional forms of capital become available including senior debt and private equity. An alternative source - mezzanine finance - in particular is a lesser known, but increasingly attractive option.

Mezzanine finance is a form of investment capital with a cost structure between that of senior debt and ordinary equity. The following chart shows the typical capital structure and return profile:

Senior Subordinated Debt	SENIOR DEBT	<ul style="list-style-type: none"> • Capital Structure: 30-50% • Expected return: 10-15%
Subordinated/Unsecured Debt	MEZZANINE	<ul style="list-style-type: none"> • Capital Structure: 15-20% • Expected return: 15-25%
Convertible Subordinated Debt Preferred Shares	EQUITY	<ul style="list-style-type: none"> • Capital Structure: 30-55% • Expected return: 25%+

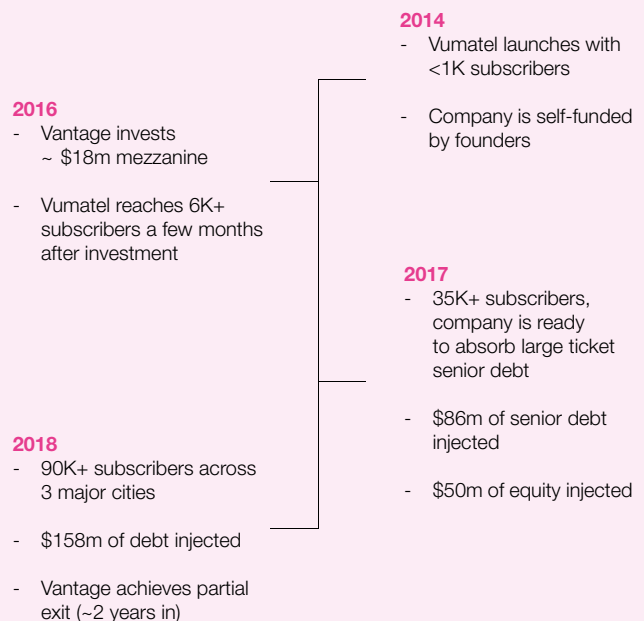
Mezzanine finance in Africa

In developed markets, mezzanine finance is a commoditised product while in Africa, it tends to be tailored to the needs of specific clientele. As banks in Africa are less willing to take on lending risk within the SME segment, mezzanine funders are seeing an opportunity to provide an instrument with senior debt-like features (first or second ranking security), but with equity upside in the form of shares or a self-liquidating structured exit. From a Limited Partner (LP) perspective, it is quite common to see mezzanine finance competing with private equity given the low spread between their return profiles, particularly during volatile economic periods. In fact, a mezzanine allocation can also help boost the risk-adjusted returns of the LP's overall portfolio. From an investee perspective, a mezzanine injection will limit equity dilution, which is an especially attractive proposition for owner-managed SMEs across the continent. In particular, many family-run businesses are highly sensitive to taking on private equity, given the level of equity dilution and loss of business control it normally entails.

VUMAT

Case Study: Vumatel is one of the leading Fibre-To-The-Home Network Operators in South Africa.

Investment Details: Vumatel required significant amounts of capital to expand rapidly in order to gain market share in a competitive landscape. Given its early stage maturity, however, Vumatel required a bridge to senior debt in order to achieve its ambitious milestones. Vantage recognised this as a brief but highly attractive "mezzanine window" and was quick to provide an ~ \$18 million (R250 million) mezzanine facility.



"Engaging with the right forms of capital at the various maturity levels of the company helped unlock various first-mover advantages in an industry where speed of execution is paramount."

– Neil Schoeman, Chairman: Vumatel

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Growing opportunities for exits in 2019



Despite the uncertain political environment in South Africa, and in greater Africa, industry players are confident that exit activity is set to ramp up in 2019.

The exit environment for African private equity is much more robust and active than many realise. There is an active market both for selling and buying of assets and interests, according to Paul Boynton, CEO of Old Mutual Alternative Investments. "There are a growing number of exit routes across different sectors and countries, not just in the more mature South African market," he says.



"However, we started seeing more interest in SA companies in the third and fourth quarters of last year which bodes well for PE exits in 2019/20"

Graham Stokoe

Meanwhile, Anthonie de Beer, Managing Partner Large Buyouts at Ethos Private Equity, does not think that 2018 was a great exit year for private equity in Africa, or emerging markets in general as "a number of processes were pulled, and a number of potential emerging market IPOs did not progress".



"There are a growing number of exit routes across different sectors and countries, not just in the more mature South African market"

Paul Boynton

"A lack of earnings visibility, plus the contraction of the buyer's universe, meant 2018 was not exciting for exits," he adds.

From a South African perspective, the economic environment was quite tough in 2018, but "there were still a number of good exits", says Graham Stokoe, Executive Director of Transaction Advisory Services and Africa Private Equity Leader at Ernst & Young (EY). He says there was a challenging environment for exits because of political uncertainty and the dip into economic recession, but also because multinational investors were taking a latency approach on South Africa

early last year and in 2017/16. "I think we have had less interest from Europe, the UK and the US over the last three to four years. However, we started seeing more interest in SA companies in the third and fourth quarters of last year, which bodes well for PE exits in 2019/20," says Stokoe.

"A lack of earnings visibility, plus the contraction of the buyer's universe, meant 2018 was not exciting for exits"

Anthonie de Beer



In terms of sectors, industrial businesses continue to be a large part of exits in South Africa. "We have also seen interest in the fintech and wider financial services (payments, credit scoring, etc.) space. The exit activity was mostly in the \$10 million – \$100 million space. There were also some deals in the \$100 million to \$500 million range, but not many deals over \$500 million," he adds.

Exit routes

With the IPO market being lacklustre and PE players showing caution, only trade or strategic players provided viable exit routes, says de Beer.

According to Stokoe, there have been more exits through auction processes, although there does seem to have been more failed auctions/exits in the last two years. There was also a big increase in private equity selling to other private equity or financial buyers.

Luc Albinski, Managing Partner of Vantage Mezzanine, adds: "We have seen a significant number of secondary deals. This should worry investors as it suggests that players may be struggling to find large, well-run companies that are owned by entrepreneurs with whom they can engage and are instead raiding the cupboards of existing private equity portfolios in a search for the next deal." ▶

"Private equity investors may be outbidding strategic investors for assets, which must be a source of concern as private equity investors cannot benefit from the synergies that strategists can draw on and may, as a result, be overpaying," he says.



"The degree of preparation will not necessarily define if you manage to exit your business or not, but rather influences the valuation you can get"

Andrea Böhmert

In 2018, Vantage exited its New GX investment, earning a 38% internal rate of return (IRR) over a two-year period. "All our investments are self-liquidating and in the main are exited through a senior debt refinancing. We can leave the challenges of finding a buyer for the business and negotiating an acceptable exit formula with management to our more talented private equity colleagues," adds Albinski.

Achieving successful exits

Even more detailed preparation is recommended to achieve more successful exits. Stokoe says: "To prepare well for an exit you have to do a lot of detailed preparation – robust equity story, expanding and testing the buyers' universe, potential acquirers getting to know the business, meeting the management team and learning what they value in the business. To achieve a successful exit, we recommend that a detailed exit plan is prepared approximately two years before the actual exit."

De Beer confirms: "Proper preparation means that you need to be engaging with the buyer universe two to three years in advance of a planned exit."

He adds: "At Ethos we follow the credo of: "Proper Preparation Prevents Poor Performance". These '5Ps' define the ingredients of a successful exit. To meet return expectations, you need to prepare extremely well and be consciously planning for exit even prior to your original investment."



"Private equity investors may be outbidding strategic investors for assets"

Luc Albinski

For Andrea Böhmert, Co-Managing Partner at Knife Capital, exits are "not overnight events - they take a lot of time and effort". She says that for most entrepreneurs and investors, how you exit a business defines the overall return but not many have a long-term exit strategy they work towards. "Understanding potential exit partners, key metrics that influence valuations and being "exit-ready" should be on any company's annual agenda," she stresses. "The degree of preparation will not necessarily define if you manage to exit your business or not, but rather influences the valuation you can get," she says.

Outlook

Although there are elections in South Africa this year, which often result in a pause of exits, Stokoe is expecting to see

more exits out of South Africa in 2019. "I think it's still challenging to exit but with the economy coming out of recession and more multinationals looking at SA, exits should increase. There are also a number of PE-owned companies that need to be exited to reduce some backlog that has been created," he says.

"In 2019 and beyond, there will be a growing opportunity to exit through public listings on local markets," says Boynton. "African exchanges continue to struggle with liquidity but some of the larger bourses do offer exit options for PE investors, including Johannesburg, Nigeria and Nairobi. Even smaller exchanges like Tunis may offer a viable exit route for certain portfolio companies." [🔗](#)

A sample of private equity exits in Southern Africa (2018)

Source: Africa Global Funds

Actis exits Compuscan
// December 19, 2018

Vantage exits New GX Capital
// September 6, 2018

Abraaj and PIC exit Libstar
// May 23, 2018

Wendel sells its stake in Saham Group
// March 20, 2018

Phatisa partially exits Kanu
// March 18, 2018

Mergence delivers first exit
// February 5, 2018

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OPINION PIECE



John Bellew,
Partner and Head of Private Equity: *Bowmans*

Reasons to be cheerful - 2019

In 1979 Ian Dury and the Blockheads had a hit single titled “Reasons to be Cheerful (Part 3)”. The lyrics of its opening 11 lines are poetry of the highest order:

*“Why don’t you get back into bed
Why don’t you get back into bed
Why don’t you get back into bed
Why don’t you get back into bed
Why don’t you get back into bed
Why don’t you get back into bed
Why don’t you get back into bed
Why don’t you get back into bed
Why don’t you get back into bed
Why don’t you get back into bed
Why don’t you get back into bed”*

It is good to be an optimist. Although I think we can agree that 2018 was a year that tested optimism and inclined us to follow Mr Dury’s advice. The year seemed to promise so much. Ramaphoria swept the nation and hopes for a new dawn took root. There were high expectations for dealflow and fund-raising activity in this changed world.

Sadly, our euphoria ebbed as the true extent of the rot in our society, in our corporates, in our institutions and in our state-owned enterprises was revealed. And to top it all, we also had to deal with the crisis of confidence in African private equity caused by Abraaj. Life in private equity did not stop, but it did not catch fire.

So, if it is good to be an optimist, where does the store of optimism reside in 2019 and how does our industry live up to the RISE (renew, imagine, strive and evolve) theme of this year’s conference?

The ‘renew’ bit I think is happening around us. Although our challenges are big, South Africans are masters of the art of rolling up our sleeves and doing what needs to be done. We believe we are a special and unique nation, and that we can overcome. We have proven this before and we will do so again. Although the pace of progress seems slow from day to day, when one looks back over the entirety of 2018 (a much more realistic timeframe) great headway is being made and we should not be shy to acknowledge this or to be sensibly optimistic about the way forward. Commissions of inquiry are in progress and light is being shone into dark places. The space to hide diminishes daily. Changes of leadership of key institutions

are happening, and we can reasonably expect that consequences will follow for those who sought to steal our state and our future. There is momentum in the right direction and it is reasonable to assume that the coming elections will deliver an outcome that will enable this momentum to continue, if not gather pace.


The ‘imagine’ bit is also never a problem. Private equity is adept at identifying needs, filling gaps and making a positive difference, and it can do this in difficult economic and political environments. This imagination reflects in the growing number of niche funds, and I expect education, infrastructure, food, healthcare and financial services to remain sectors of interest. There is healthy development in the critical area of venture capital and there will be more capital unlocked for SMEs.

As far as ‘striving’ goes, he who does not strive does not deserve his management fee and is unlikely to earn any carry or raise a successor fund, so motivation is never in short supply. Local managers are becoming more bullish about the South African market. As the JSE has receded and listed PE ratios have fallen, so sellers are becoming more realistic about pricing, pipelines are filling up and transactions are becoming more ‘doable’. It seems there is indeed room for cautious optimism that this will be a better year for South African merger activity.

And finally, evolution. The right model for African PE remains a topic of debate. Expect to see further innovation as the industry continues to evolve. The participation of defined contribution funds in private equity is overdue, and there is room for creative thinking to develop solutions in this area. Longer life and permanent capital vehicles are now part of our landscape and are here to stay, driven partly by sector considerations but also by the desire of managers to have the flexibility to recycle capital and raise fresh capital on the markets. We may also see more flexible deal structures evolve.

Our theme song was not all negative – Ian Dury found much to raise his spirits, some of which may resonate:

*“A bit of grin and bear it, a bit of come and share it
You’re welcome, we can spare it...”*

Let’s take 2019 by the horns and make it work for all of us. There is room to rise. 



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OPINION PIECE

Wake up world and embrace the impact revolution

A new approach must marry financial goals with social good

Sir Ronald Cohen



Sir Ronald Cohen, author of *On Impact: A Guide to the Impact Revolution*, takes us through the revolutionary thinking of millennials in an environment where capitalism exists alongside the realisation that companies need to be conscious of their footprint on society and the environment.

The existing social contract has expired: we need to draw up a new one. Following the summer G20 summit in Hamburg, it is worth asking again how to address our most pressing global challenges.

Racked by rising inequality and human and environmental crises, capitalism as it exists today isn't delivering on its promises to increase prosperity and social progress for all. The gap between rich and poor grows every day. Meanwhile, the toll on our environment continues to rise — from climate change to deforestation and the pollution of our oceans.

The dominant model of capitalism practised today is more than two centuries old. Our problems have changed and so too must our response.

This moment calls for nothing short of a revolution, for a new approach that asks the question: how can we reach our financial goals while also doing measurable good?

Cue the impact revolution.

Capitalism as we practise it is deeply flawed but not hopeless. When it comes to how we invest there is an exciting shift under way, one that takes current thinking about financial risk and return and adds a third dimension, impact, that measures positive outcomes for society and the environment.

Using this new financial model, social impact matters just as much as a company's earnings. This inspires us to maximise both profit and impact at normal levels of risk, to create the kind of world that everyone wants to live in. Together, we are reinventing modern finance and reshaping modern business.

The private sector is the cause of any number of social and environmental ills but it is also fundamental to solving them. Innovation, risk-taking, achieving scale and the dogged pursuit of measurable results — these are hallmarks of entrepreneurs and the private sector. They are also key to solving complex problems and enacting changes quickly and efficiently.

The tech revolution showed us what happens when private capital meets scrappy and disruptive entrepreneurs. It is time we took a page out of its book. By introducing impact, the risk-return impact model brings out the best in entrepreneurs and the private sector in addressing our urgent social and environmental problems, which governments and philanthropists are unable to handle by themselves.

Valuing impact does not have to mean sacrificing profit. On the contrary, we can deliver high rates of return because of impact, rather than in spite of it.

The millennial generation is different from its forebears. Millennials want to do more than collect their pay — they genuinely care about doing good. They want to shop, work, launch companies and invest in ways that express their values. And investors, including large asset managers and pension funds, are moving in the same direction. Businesses are taking note. There isn't a boardroom on the planet where the subject of social impact hasn't come up.

If impact investing is our rocket-ship to social change, impact measurement is our navigation system. We need to rethink it. For too long we have measured social impact in ways that are imprecise, inconsistent and incomparable. ▶

Many people dismiss impact measurement as impossible. The truth is, we can measure social impact with greater accuracy and rigour than we do financial risk. We just need to be serious about doing it. The absence of measurement leads to a huge failure of our system to deliver social and environmental improvement, at great cost to the world.

Over the past 20 years, we have seen numerous initiatives to establish a standard for impact measurement. One of the most promising, advanced by the Global Steering Group for Impact Investment and the Impact Management Project, is to weight conventional financial accounts for impact. It involves applying coefficients to sales, employment costs, cost of goods sold — all the way down to the profit line — and doing the same for the balance sheet.

Impact-weighted financial accounts will allow for reliable measurement and comparison by investors. When every company publishes impact-weighted accounts alongside financial ones, impact will have assumed its place in investment and business decision-making.


We are seeing promising changes. Investors and businesses are becoming socially and environmentally conscious. Impact

entrepreneurs are gaining access to the capital they need to bring brilliant, life-improving ideas to scale. Governments are seeing the value in harnessing the innovation of the private sector, channelling its talent and capital to find better solutions to society's challenges. Philanthropists are beginning to fund the delivery of measured outcomes.

It is time to accelerate these changes, and demand more.

The G20 leaders committed in their declaration to “endeavour to further create enabling conditions for resource mobilisation from public, private and multilateral resources, including innovative financial mechanisms and partnerships, such as impact investment.”

Impact investing means evolving capitalist systems to build a better world, one that values social impact just as highly as profits. It means exposing the myth that social good comes at the expense of profit. And the accompanying myth that impact cannot be reliably measured and compared.

Ending the plight of billions of lives and the decline of our planet depends on our urgent, collective action. There is a way. There has never been a greater need or a better time than now. 

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ARTICLE

Accelerating transformation in South Africa's private equity industry



SAVCA has launched a Fund Manager Development Programme in partnership with FNB and the SA SME Fund, to drive transformation in the industry through a combination of mentorship and education initiatives.

The value of assets in South Africa's private equity industry managed by black- and women-owned funds remains low, despite notable progress over recent years. To support the sustainable transformation of the industry, SAVCA works to accelerate the entry of black- and women-owned fund managers, attract new talent into the industry and change mindsets around transformation.



"It is the time, expertise, creativity and capital of these enterprises that are helping to stimulate the economy and create jobs"

Michael Sage

"The private equity industry needs to be representative of the demographic makeup of the country. In addition to the importance of addressing the historical imbalances, there is also a business case for diversity with numerous studies showing that more diverse companies perform better and generate higher returns," says Lungile Mdluli, Principal at Metier.

SAVCA's flagship transformation initiative is the Fund Manager Development Programme, which aims to support the growth of black- and women-owned fund managers. The programme is funded by SAVCA, the SA SME Fund and FNB.



"The private equity industry needs to be representative of the demographic makeup of the country"

Lungile Mdluli

"At FNB we are acutely aware of how important small business owners and entrepreneurs are to the success of our country. It is the time, expertise, creativity and capital of these enterprises that are helping to stimulate the economy and create jobs. We are humbled to be SAVCA's trusted partner in helping budding fund managers invest in these enterprises that provide innovative, contextual, financial solutions," notes Michael Sage, Executive: Corporate Advisory, FNB Business.

Through classroom-based teaching, one-on-one coaching and support from industry stakeholders, the programme will offer new fund managers the knowledge and tools to overcome the barriers associated with entering the industry

and growing a thriving business.

"The programme we've put together covers all the components of operating a successful fund to fill in any of the gaps fund managers may have"

Rory Ord



The programme's goal is to not only assist new fund managers find their feet but also to stimulate the development of large black- and women-owned firms. "If we really want to move the needle in terms of transformation, we have to support new entrants as well as the scaling of some of the established black-owned private equity businesses," explains Daniel Hatfield, CEO of Edge Growth.

"It takes very long to raise a fund and while you are in the process you are not getting any fees, which means the team can't draw salaries"

Yvonne Maitin



"Most people trying to raise new funds come from within the industry – typically from other private equity funds, banks, accounting firms or corporate finance houses – but they generally only have experience in one area, for example, deal-making. The programme we've put together covers all the components of operating a successful fund to fill in any of the gaps fund managers may have," says Rory Ord, Head of Unlisted Investments at 27four Investment Managers.

"We have to support new entrants as well as the scaling of some of the established black-owned private equity businesses"

Daniel Hatfield



Capital raising is a major challenge for new fund managers, particularly as they don't always have a standalone track record. For LPs to part with their money, a fund requires a clear mandate and game plan together with a team able to execute the strategy. "The programme will support the fund managers to better articulate their proposal and demonstrate complete consideration of the infrastructure that is required to deliver on this proposal. It is about making ▶

sure all aspects of fund management are considered, so when they present to an investor, it is something viable and investable,” says Thiru Pather, Investment Principal at the SA SME Fund.

The programme will also offer training in several other areas, from mastering due diligence and risk management, to establishing the optimal fund structure and building a team culture.



“It is about making sure all aspects of fund management are considered, so when they present to an investor, it is something viable and investable”

Thiru Pather

Another common constraint facing emerging fund managers is access to working capital. “If you are an individual employed at a corporate and you would like to go on your own, the biggest barrier is the fact that once you leave your corporate job, you don’t have any income to support you until you’ve raised a fund and that could take a good 18 to 24 months, if you are lucky. It takes very long to raise a fund and while you are in the process you are not getting any fees, which means the team can’t draw salaries,” notes Yvonne Maitin, CEO of One Africa Capital Partners.

Several industry partners have also committed to provide preferential rates for services such as legal, accounting,

marketing, IT and recruitment, to name a few. Both ‘aspirant’ (typically those who are yet to reach first close) and ‘growth’ (those who are looking to scale having already established a track record) fund managers will be selected through a robust application process. “Each of these two segments will receive a tailored programme as early-stage fund managers require a different type of support than those who are more established and looking to grow their firms,” says Hatfield.

The intention is not to flood the market with hundreds of new private equity firms, but rather to assist a group of high-potential emerging fund managers who can contribute to the broadening of the overall industry. Programme participants will be well-placed to benefit from new sources of funding coming into the industry, particularly from government-backed initiatives.

“When we delve into the history of South Africa’s private equity industry, almost every prominent fund manager – white, black, male, female – has been incubated in some way,” says Ord. “One of our largest firms came out of one of the banks. And another well-known early black-owned fund manager was initially given working space and back-office support from another large private equity player. It is actually a very common phenomenon. Those fund managers that have made it have always received assistance from somewhere. What we are trying to do with the Fund Manager Development Programme is to make this assistance available to people who might not have the networks to make it happen informally.”

Deal Tracker | Telecommunications

PE FUND	Kleoss Fund I
TARGET COMPANY	Dartcom SA (Pty) Limited
INDUSTRY	Telecommunications
DEAL VALUE	Not Disclosed
% SHAREHOLDING TAKEN	Significant minority
DATE	30 May 2018

COMMENT

Dartcom, founded in 1978, is a specialist value adding distributor of fibre optic, radio frequency and related products, communications products, specialised cabling, outside plant and standby-battery solutions to the telecommunication sector OEMs, infrastructure providers and their turnkey contractors. Dartcom also operates a fibre cable manufacturing plant which was commissioned in November 2017.

Deal Tracker | Food & Beverages

PE FUND	Ethos Mezzanine Partners 3
TARGET COMPANY	Chibuku Products Limited
INDUSTRY	Food & Beverages
DEAL VALUE	\$17.8 million
% SHAREHOLDING TAKEN	n/a
DATE	August 2018

COMMENT

Ethos Mezzanine Partners 3 made an investment in Chibuku Products Limited, a traditional African beverage (opaque beer) and non-alcoholic beverage company that has a 75% share of the formal market in Malawi. It operates four brewing and distribution sites strategically positioned across Malawi.

Chibuku Products Limited is a safe, affordable beverage made from locally sourced maize and sorghum. It is a low alcohol alternative to illicit spirits and traditional homebrews and plays an important role in the health and traditional customs of local communities.

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Venture capital: a meaningful contributor to job creation

With an unemployment rate of 27.5% at the end of the third quarter last year, South Africa has much to gain from the venture capital industry, which not only encourages business development but enables entrepreneurs to expand their businesses, enhancing employment opportunities.

Venture capital (VC) has a significant role to play in addressing unemployment in Southern Africa. Small businesses are important job creators, but to do this they need growth capital. And because young companies generally don't have access to more traditional sources of funding, such as bank loans and capital markets, investments by VC firms become an essential form of financing.

According to SAVCA's 2018 Venture Capital Survey, 97.1% of VC-backed businesses would not have existed or would have developed slower, were it not for the VC investment. The same study found that for 77% of companies which have received investment from a VC firm, it has increased the business' capability in terms of increasing the number of full-time employment positions.

Janice Johnston, Fund Head at Edge Growth, says since the firm's formation in 2007, its portfolio companies have created more than 2 500 jobs. She explains that early-stage companies typically don't hire that many people as they are focused on cost control and improving their business models; but as they enter the growth phase their payrolls start to swell.

Economic activity leads to further knock-on employment opportunities

Not all employment is created directly at the portfolio companies. For example, Edge Growth has invested in SweepSouth, an on-demand online platform for booking home cleaning services, which has more than 4 000 cleaners registered on its platform. "There is a lot of opportunity in the gig economy," says Johnston. "SweepSouth has allowed domestic workers to increase their earning potential and provides a flexible option for them to augment their existing working arrangements."



"Investment in emerging technologies increases the number of knowledge workers, which is correlated with higher levels of economic growth"

Llew Claasen

Likewise, Newtown Partners has invested in several start-ups operating two-sided marketplaces. One of these investments is Bloomable, which connects more than 170 florists with buyers. "The platform has allowed florists to earn more revenue and to hire additional employees. While Bloomable itself has relatively few full-time employees, its impact on job creation is really about the 170 florists and their employees who benefit from the website. It is not so much a question of how many employees a start-up employs, but rather the economic activity the start-up enables," says Llew Claasen, Managing Partner at Newtown Partners.

"SweepSouth has allowed domestic workers to increase their earning potential"

Janice Johnston



Technology-related jobs are typically high-value with strong multiplier effects, adds Claasen. "Investment in emerging technologies increases the number of knowledge workers, which is correlated with higher levels of economic growth. Someone earning R40 000 a month, as opposed to R4 000, is in a better position to support their family and provide them with decent education to ensure the next generation can positively contribute to the economy."

Although VC is typically associated with investments in technology-enabled companies, in Southern Africa the asset class encompasses a range of sectors. In 2017, Edge Growth provided funding to Nova Pioneer, an independent school network offering preschool through to secondary education. According to Johnston, Nova Pioneer has been rolling out more schools, which means it is constantly adding to its staff complement. "With every new class and every new campus, they are creating new jobs."

South Africa's VC industry has received a considerable boost from amendments to Section 12J of the Income Tax Act, which allows taxpayers to deduct 100% of their investment in approved venture capital companies (VCCs) from taxable income. This has led to the establishment of numerous VC funds operating across a wide variety of sectors, further



contributing to job creation. For instance, Johannesburg-based Grovest manages a Section 12J fund through which investors can invest in Mdluli Safari Lodge, situated in the Kruger National Park. Grovest CEO Jeff Miller says the lodge provides several employment opportunities for the local community.



"I think the Section 12J incentive has been phenomenal for the country as there is a lot more capital coming into VC"

Clive Butkow

"We are upskilling the community for the building of the facility, and then training and employing them to run the facility. The hotel industry creates a huge number of jobs, and it is not only in construction and operations: there are several downstream income-generating opportunities for tour operators, transport companies, food suppliers, and photographers," he explains.

The positive impact of Section 12J

Clive Butkow, CEO of Kalon Venture Partners, concurs that the Section 12J legislation is having a positive impact on employment in South Africa. "I think the Section 12J incentive has been phenomenal for the country as there is a lot more capital coming into VC. We should really take our hat off to the National Treasury and the South African Revenue Service for getting Section 12J off the ground. Kalon's investee companies have created many jobs since the equity investment."



"We are upskilling the community for the building of the facility, and then training and employing them to run the facility"

Jeff Miller

At the end of 2017, the Southern African VC asset class had a total of R4.39 billion invested in 532 deals. In addition to funding, VC investors also provide valuable support and mentorship to their portfolio companies, which helps them to grow and ultimately employ more people. While VC is not a cure-all for unemployment in the region, its impact on creating work opportunities is certainly meaningful. 

Deal Tracker | Infrastructure

PE FUND	IDEAS Managed Fund
TARGET COMPANY	A portfolio of 6 renewable energy project companies from Sun Edison
INDUSTRY	Renewable Energy
DEAL VALUE	R9 billion
% SHAREHOLDING TAKEN	50.01% equity
DATE	August 2018

COMMENT

AIIM has, through its IDEAS Managed Fund, acquired stakes in six new solar plants in South Africa.

When all six power facilities are fully operational, at the end of 2020, they will provide an additional 400 MW of renewable energy capacity into South Africa's national power grid. The power facilities will deliver about 925 GWh annually.

Through IDEAS' position as the lead sponsor of the projects, AIIM facilitated social and economic benefits which include 100% SA ownership of the projects, 50% direct black ownership, greater than 65% overall black ownership (direct and indirect) and 40% black participation in engineering, procurement and construction (EPC) contracts, and the transition to majority black-owned operations and maintenance contractors.

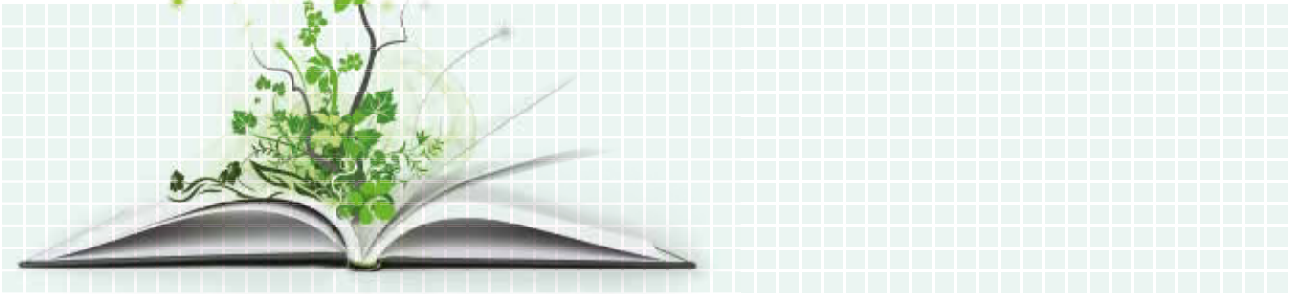
PE FUND	Vantage Mezzanine III Pan African Sub Fund Partnership
TARGET COMPANY	Pédro Ivoire S.A.
INDUSTRY	Oil and gas
DEAL VALUE	€19 million
% SHAREHOLDING TAKEN	N/A
DATE	03 December 2018

COMMENT

The Fund provided €19 million of mezzanine debt funding to Pédro Ivoire S.A. Established in 1994, Pédro Ivoire is a top 3 distributor of oil & gas products in Côte d'Ivoire with a network of 72 petrol stations across the country. It is the third largest oil distributor (with an 8% market share) and the second largest gas distributor (with a 21% market share).

Creating value for good

Dr. Charlene Lew, Senior Lecturer:
Gordon Institute of Business Science



Adam Smith taught us that “[value] is adjusted...not by any accurate measure, but by the haggling and bargaining of the market...” As we enter a new era of investment, a time to create value for many, it is important to reflect again on the quality of investment decisions. The impact of such decisions spans many decades and it is only much later that all the seeds sown, whether good or bad, sprout.

Everyone has become acutely aware of how value had been obliterated for the likes of Enron, Equifax and Steinhoff when what seemed like good decisions by those making them, had the vilest of self-interested intent at their core. The negative impact of these actions were so poignant that most investors reading these words would never imagine doing anything similar.

However unethical investment decisions hardly ever start with malicious intent. They do not even start with creative ways to delay payments, trading on the back of access to confidential information, or a desire to deceive others for own financial gain. Often the seed of deceit lies within what seems to be a much nobler purpose – to create value for many, and gain while doing so. Embezzlements, insider trading and optimising profits without fair exchange may begin with something as principled as intent at bargaining; and justifying the means by a good purpose of value creation.

Sometimes investors celebrate the intelligence of, for instance, resourceful ways of escaping payment of family expenses, while losing sight of the ultimate harvest that this will bring about. Or they may see the immediate value of doing negligible personal favours, which seem good on the surface, but disregard that this may transgress a moral law of fair dealings. The gracious goal of creating economic value also holds the potential for incredible harm. Not all value creation is good value creation.

If highly intelligent, upstanding and judicious investors can make unbelievably harmful and bad investment decisions, what is preventing you from doing the same?

Academic literature on ethical decision-making shows us that our moral capacity may come from either moral reasoning, meaning rationally thinking about morality, or through an intuitive process. One perspective suggests that to make a good moral choice a person needs to be able to recognise a situation for the decision dilemma it presents, effectively evaluate the good option, commit to such a path and then act in a moral fashion. Another perspective holds that practicing morality, such as through mindfulness, brings about virtues recognised by society, such as selflessness or kindness. This would suggest that the quest for moral action begins with a deeper sense and cultivation of the values that make society work. There is nothing that prevents any investor from making bad decisions other than finding ways to tend and grow moral thoughts and ways of being, whatever those ways may be.

In the Adam Smith construct of market value adjustment, the one with the greatest capacity to negotiate gains the most value. This is an apt notion for economic growth, but a very limiting notion for sustained economic well-being. Simple moral philosophies call for investors to also produce the greatest utility for most; to maximise benefits while minimising harm; to be fair; to do what society expects; or to bring about the greatest good for the most people. Value grows sustainably when everyone gains.

Investors need to also consider that everything done in secret will one day come to light. 





OPINION PIECE

The *STRIVE* for transformation

Langa Madonko, Investment Principal,
Capital Raising and Investor Relations: *Summit Africa*

South Africans are learning that the road to transformation is as long, if not longer than the long walk to freedom. 25 years after the first democratic election, Langa Madonko, Investment Principal, Capital Raising and Investor Relations: *Summit Africa*, reflects on the powerful role of the alternative asset industry in advancing transformation.

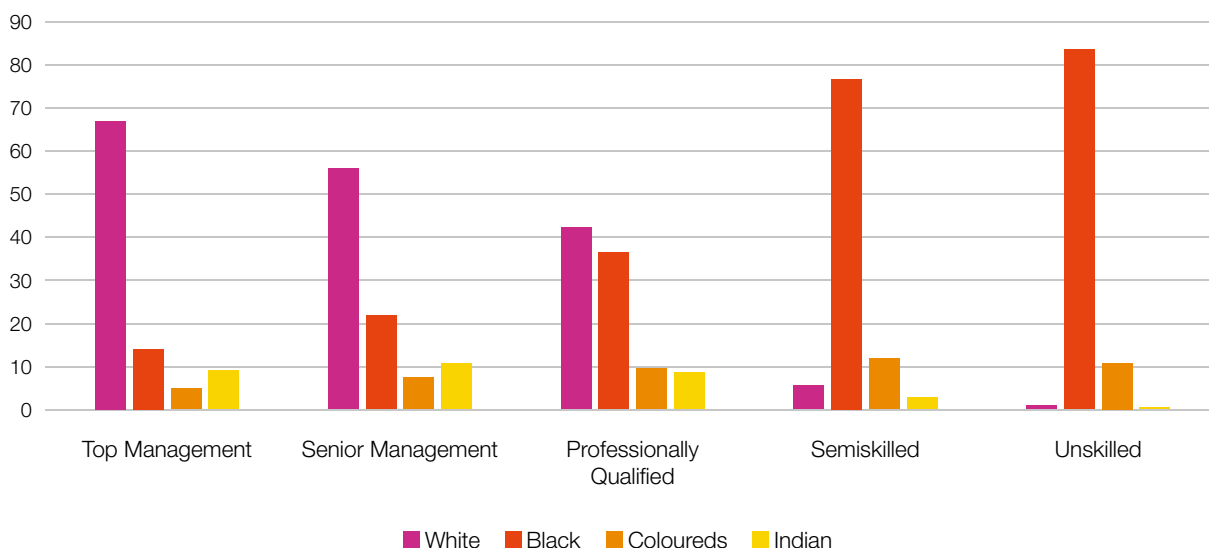
Imagine a country where everyone is truly equal. Unfortunately, South Africa remains a country that is divided. If we consider this concept through the construct of wealth, we find that right next door to the richest square mile of Southern Africa (Sandton) lies Alexandra Township, an icon of apartheid-era urban planning and a jarring reminder of the social and economic disparities that endure in post-apartheid South Africa. Sandton's leafy well-heeled streets juxtapose with the crowded shacks of an almost treeless Alex, affirming South Africa's status as the 'most unequal society in the world'. We must then ask ourselves: how, in a country that has legislated equal opportunity and fair treatment, is this still possible?

The evidence lies in the statistical narrative underlying the sluggish pace of transformation. Twenty-five years on, apartheid continues to cast a long shadow over the opportunities available to most of our population. The data is clear: lack of access to skills and opportunity for the regular person living in an 'Alexandra'-type rural setting remain our country's greatest barrier to building an inclusive and collective economy. Wealth inequality is exceedingly high, even higher than income inequality. The World Bank finds that 1% of South Africans own 70.9% of the nation's wealth, with the bottom 60% of South Africans owning just 7% of the country's assets. As a case in point, the B-BBEE Commission reported that

collectively black South Africans who make up 80% of our population owned only 27% of the JSE in 2017. Most of this was held indirectly through pension funds.

In 2015, more than 33 million South Africans were surviving on less than \$5 or R70 a day. A number that could have been significantly different had transformation gained the same traction in the private sector as it did in the public sector. Drawing on data from the Commission for Employment Equity (CEE), transformation is possible if we have the political will and leadership required to balance profits with social change. Current employment equity statistics show us that there is still a lot of opportunity and work to be done at the top layers of management:

The statistical narrative continues within the alternative industry. SAVCA indicates that 29.9% of industry professionals are black while 47.4% are white. Women also find themselves in the minority, making up 21.8% of the industry workforce compared to men at 78.2%. Although this figure is above the worldwide industry average of 13%, in South Africa women make up 45.3% of the working population indicating the degree of disparity between men and women in the industry. Considering the World Bank's statement that 'poverty levels are consistently high among female-headed households', there is a pressing need to do more in committing to gender diversity.




Considering the evidence, how do we strive for a more transformed and equal society? One of the most powerful reasons for the lack of progress is a simple one: we have blind spots when it comes to transformation. Income, access to education, location, and ownership of wealth are deeply affected by gender and race. Employers don't always grasp the barriers that hold previously disadvantaged individuals and women back in the job market, resulting in the current apathetic response to transformation. Companies should renew their efforts and place focus on skills training and mentorship, a process which takes planning, funding, and commitment on the part of those who can impart skills and mentorship.

The alternative asset industry has the power to influence this status quo and plays a vital role in accelerating the evolution of transformation. For instance, funds backing middle market companies and increasing the availability of growth capital to black-owned business enable a considerable step forward in their push for an inclusive economy. This process had gained momentum and, in 2017, 36.9% of investments made were in businesses with rating levels one to four of the Department of Trade and Industry BEE codes.

There is substantial room for pension and provident funds (institutions) to increase their allocations into alternative investments, contributing to the acceleration of transformation. The 10% cap on an institution's fund exposure to this asset class, as stipulated by Regulation 28 of the Pension Funds Act, equates to R400 billion being available for investment from these institutions. According to SAVCA, institutional investments in alternative assets currently constitute 10% of that or R40 billion with the balance of allocations primarily

invested into listed equities. The value of listed company contributions to the South African economy is indisputable, however, careful analysis shows that unlike alternative investments their transformative impact has a low ceiling.

An example of this is when we look at the international exposure of many of the big listed companies. Even though Regulation 28 stipulates a 30% cap on ex-SA exposure (up to 30% in international and 10% in Africa), the actual ex-SA exposure of current pension funds is substantially higher. Driven by a need for increased geographic diversification, growth, technology, and foreign-currency earnings many locally listed companies are more global in nature. Approximately 65% of revenue generated by these companies comes from abroad. Listed JSE shares as a regulated asset class may boost short-term profit-taking, but it diminishes the institutional asset owner's ability to influence the listed investee company's tangible contribution to South Africa's social and economic development, and long-term sustainability.

Pension and provident fund institutions are the primary investors in alternatives, and their confidence in the investment capabilities of the industry is key to its growth and transformative impact on the economy. I believe the alternative asset industry is the golden goose in turning the tide on South Africa's dim statistics and bridging the gap in inequality. Efforts to achieve equality benefit us all. Transformation leads to a more inclusive economy and in turn stronger business results. In the words of President Ramaphosa, 'An effort is required...to generate economic growth, address shortcomings...and generally ensure that all South Africans reap the benefits of prosperity.' 



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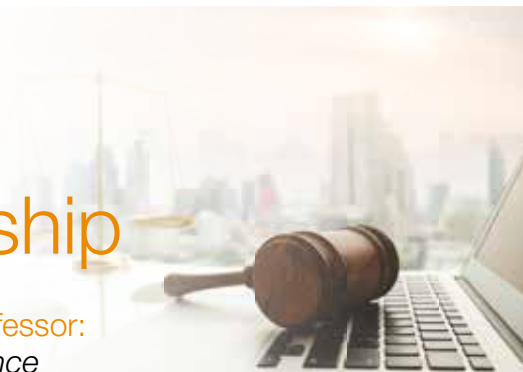
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OPINION PIECE

Ethical leadership

Prof. Gavin Price, Associate Professor:
Gordon Institute of Business Science



As we hurtle towards the end of another decade, the country and even the world seems to be riddled with corruption and mismanagement. Associate Professor at the Gordon Institute of Business Science, Gavin Price examines the qualities that are required for ethical leadership in this day and age.

When distilled, leadership is comprised of two constituents: knowing where to take people and the ability to lead them there. It is perhaps much easier to get others to follow avenues that are easily accessible commonly known as the low road – it takes less effort and fortitude to travel that road. It is the high road that is less traversed. Leaders who understand the advantages of the high road and who are able to influence others to join them on their journey may fairly describe themselves as ethical leaders.

It is not enough to be ethical yourself – ethical leadership focuses on ensuring your followers are ethical too. So, you must ensure that others follow your example. This is easier said than done, but let's take a look at how you could go about it.

What you need to be an ethical leader

To begin with, leaders should look to their character and focus on the three key virtues or qualities that will stand them in good stead should they seek to be an effective ethical leader. The first of these virtues is knowledge. Leaders have to truly know what the right decision is – not just believe or think or guess, but really know. This requires diligence and openness to learning, which leads to the second key virtue – humility. Leaders have to be humble enough to know that they do not have all the answers, and that their followers may have insights that may be useful. Leaders must also be humble and open enough to realise that others may not see the world through the same lens as they do. Just because you view something to be wrong, does not mean everyone else shares your view.

Many leaders fail to appreciate how followers are influenced more effectively through ongoing authentic relationships involving meaningful discourse with leaders who, like them, are fallible and do not try to hide this fact. Too many leaders, however, lack the third vital virtue, namely, courage. Courage

to let people know that they do not know, or to ask questions to better understand so that they can make the right decisions. Courage to do the right thing, even if it is not the most “profitable”.


While the character of a leader is the starting point to any leadership endeavour, it is their actions that are most decisive. Philosopher and poet, Ralph Waldo Emerson stated, “Your actions speak so loudly, I cannot hear what you are saying”. Followers have little tolerance for hypocrisy on the part of their leaders and nearly always take their cues from actions, rather than words. This is why leaders should always be mindful that followers are constantly observing their behaviour and will use any leader-influenced excuse to slide down to the low road.

Pitfalls to avoid along the way

To stay on the high path, some of the behaviours that ethical leaders should strive to avoid include:

- distorting the consequences of their decisions,
- avoiding responsibility for their decisions, or
- justifying their decisions with the logic that others have taken the same path before them.

Ethical leaders must have the courage to take responsibility, instead of faltering under the pressure of challenging circumstances and resorting to shifting blame.

This is especially important when leaders operate in tough economic conditions with tremendous pressure to deliver results in the short-term. Leaders who wish to rise to the high road must know what is best in the long term, be humble enough to consult, relate, engage and influence their followers on a personal level and have the courage to do the right thing where many others would not. 

IN MEMORY OF

Lance Grayson



Lance Grayson

The Old Mutual Private Equity Team

On 13 December 2018, Lance Grayson tragically passed away. Lance was a senior partner at Old Mutual Private Equity (OMPE) and a dear colleague and friend for 12 years. He was also a well-known and respected member of the South African private equity landscape during that period.

Lance was a special person. He was a gifted cricketer and played provincial cricket at various stages throughout his life. He was an avid golfer, enjoyed mountain biking and was very widely read and travelled. He qualified as an economist and CFA and excelled in academics throughout school and university.

As a colleague Lance was an exceptionally deep and wide thinker, had great judgement and a remarkable balance between the bigger picture and detail. He had an admirable tolerance for complexity and uncertainty combined with a strong work ethic. Lance strived for perfection, was a true gentleman who always sought the best in himself and others, and never took himself too seriously. He was a true family man and had a deep love for his wife and children.

Lance led a big life and will leave a big hole in the world. At OMPE we will miss him for some time to come as a close colleague, friend and brother. He leaves behind a legacy that his wife Nicola and three boys Spencer, Tristan and Travis can be proud of and hold dear.

That man is a success –

who has lived well;
laughed often and loved much;
who has gained the respect of intelligent men
and the love of children;
who has filled his niche and accomplished his task;
who leaves the world better than he found it;
who has never lacked appreciation of earth's beauty
or failed to express it;
who looked for the best in others
and gave the best he had.

– Ralph Emerson

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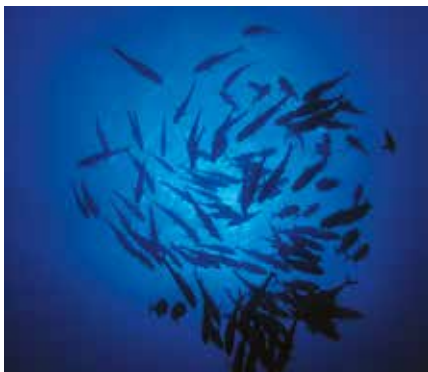
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renew. imagine. **strive.** evolve.

Evolve.
renew. imagine. strive. **evolve.**





Trends *RISING* to the surface in 2019

From evolving skill sets to a rapidly changing investor base, there are a number of emerging trends on the cards for 2019.

"Forecasting: the attempt to predict the unknowable by measuring the irrelevant; this task employs most people on Wall Street." The words of Jason Zweig, author of *The Devil's Financial Dictionary* and columnist for *The Wall Street Journal*, are particularly apt at this time of year.

In such a rapidly evolving environment, it's not always easy to forecast what the future holds, but there are certainly some clues as to what we might expect in the coming year. SAVCA sat down with experts in their respective fields to decipher these clues and turn them into a picture of what trends 2019 holds for private equity (PE) general partners (GPs) and their portfolio companies and entrepreneurs.

- **Skill set:** Of all the trends rising to the surface for GPs, the evolving skill set of fund managers is right at the top.

Global leadership advisory firm Egon Zehnder is at the heart of the conversation around executive and CEO search, board advisory, CEO succession, executive assessment and development, team effectiveness, culture, and organizational transformation.

Xavier Leroy, advises on talent strategy, CEO succession, and board effectiveness across multiple industries for Egon Zehnder and he believes the ability to master the art and science of storytelling is coming to the fore.



"I am a complete believer in the financial being a given and not a differentiator"

Samantha Pokroy

"The new skills that private equity practitioners will require revolve around storytelling and the narrative," explains Xavier Leroy. "And you can't tell a story if you don't have facts and you haven't put your mind to it. For people involved in impact investing: if you do have an impact, through your portfolio companies in particular, you need to have data to demonstrate that, so you need to spend time generating that information."

And it's not a skill readily available, according to Xavier Leroy.

"Most of the PE professionals I tend to talk to lack some of that storytelling skill. They need to add a dose of inspiration,

a dose of charisma; something that appeals to emotions and to people's hearts. Today, investors and family offices particularly, pay lot of attention to this. You are leaving money on the table if you aren't skilled at storytelling and the true impact you have on employment and the environment and so on."

Allied to this so-called soft skill is the need for private equity practitioners to be mindful of the psychology of the entrepreneurs or management teams they work with.

"The new skills that private equity practitioners will require revolve around storytelling and the narrative"

Xavier Leroy



"I am a complete believer in the financial being a given and not a differentiator," says Samantha Pokroy, Founder and CEO of Sanari Capital.

"More than half my time is spent dealing with the psychology [of entrepreneurs] particularly because we focus on founder-run businesses," she adds. "There are times, where I want to say to my CEOs, would you like to come lie down on my couch, because that's where the magic is. You have got to do the numbers, the value-add, the strategy, all of that, but shifting the mindset to be able to transition from these entrepreneurial businesses, where entrepreneurs have loads of baggage - that's our differentiator. We help entrepreneurs' transition from those businesses to more professionally managed businesses."

- **The changing nature of the investor base:** This is another key emergent trend. Not only do more pension funds want to access the asset class but so too, do an increasing number of family offices and impact investors and they come with their unique demands on the GP.
- **Increased transparency:** "Specifically this wave that is just will engulf all of us and that's transparency – of intent, of investments, what you actually do and everything is going to be shared with the media and public. Maybe not all the details, but whoever invests in anything will have to respond to the questions that will come," explains Leroy. Investors will question why certain investment decisions were made, whether the long-term consequences of ▶

that investment were considered and one of the interesting debates will centre on how much the industry can share versus how much it will be forced to share.

- **Pension funds are starting to appreciate impact investing:** Southern African Venture Capital and Private Equity Association (SAVCA) CEO, Tanya van Lill, says another trend gathering momentum is that of pension funds wanting impact to underpin their investments, beyond just returns.



"The whole African model for private equity has been under discussion for several years and we are definitely seeing it evolve"

John Bellew

"[Last year] the sorts of inquiries we got at SAVCA were from investors who had not yet allocated to the asset class but were doing their due diligence because they are starting to see the value and question why they haven't made allocations in the past. This is coming particularly from pension funds wanting to make a positive impact on the lives of their current and future members.

"If you look at some of the pension funds investing in private equity, they don't only invest in private equity funds that show good financial returns but also in funds that do work in infrastructure development that will benefit the lives of their members. An example is the truck stop at Harrismith that was created for the transportation pension fund and led to a decrease in the number of truck accidents on that particular route between Durban and Johannesburg."

- **The evolution of the African model for private equity:** John Bellew, Head of Private Equity at Bowmans' believes this will continue to attract innovative solutions. "The whole African model for private equity has been under discussion for several years and we are definitely seeing it evolve, with different managers employing different strategies," he says. "Many strategies are driven by the type of asset class, while factors such as real estate and infrastructure do lend themselves to longer term structures. We are seeing many more permanent capital vehicles because managers get weary of the cycle of going back to market every five years to raise funds and the uncertainty that that means for your business. That does not mean that a number of pure private equity players will not remain in the market, but we are seeing diversification. Particularly in the South African market we are seeing the move towards more 'deal-by-deal' type structures partly driven by the political uncertainty we've seen in South Africa. The nice thing about private equity and the type of structures we use is that they are very flexible, and they can accommodate different requirements."

"[Last year] the sorts of inquiries we got at SAVCA were from investors who had not yet allocated to the asset class"

Tanya van Lill



It's this sort of flexibility and adaptability that General Partners will be well advised to refine; be it in their fund structures, partnering with portfolio companies or when communicating with investors, in order to ride the crest of the new wave of trends that will wash over the industry in 2019. [🔗](#)

Deal Tracker | Financial Services/Retail

PE FUND iCubed Consulting (Pty) Ltd

TARGET COMPANY SwitchPay

INDUSTRY Financial Services / Retail

DEAL VALUE R7 million

% SHAREHOLDING TAKEN 10%

DATE January 2019

COMMENT

SwitchPay is a technology solution provider that specialises in switching technologies, specifically in the alternative payments market functioning in customer facing environments ranging from terminal services, online and mobile platforms.

PE FUND Ethos Fund VII and Ethos AI Fund

TARGET COMPANY Channel VAS

INDUSTRY Financial Services

DEAL VALUE R829 million

% SHAREHOLDING TAKEN 17.50%

DATE October 2018

COMMENT

Ethos Fund VII and Ethos AI Fund have invested in Channel VAS, a market-leading provider of airtime credit services to prepaid mobile phone subscribers in over 30 countries, mostly in sub-Saharan Africa. Working with major MNOs, the company currently serves over 650 million customers, providing financial inclusion to more unbanked people every day. The business uses sophisticated proprietary big data analytics tools and credit-scoring algorithms to increase the penetration of airtime distribution, while minimising default rates.

savvy

🔊 /'savi

Adjective

- shrewd and knowledgeable
 - perceptive and well-informed
 - keeping abreast of the latest trends
 - following the subjects relevant to you
 - having access to over 20,000 white papers
 - joining the world's leading knowledge network
-

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OPINION PIECE

The benefits and risks of investing in mezzanine debt

Ashley Benatar, Head of Mezzanine Finance:
Ashburton Investments

Mezzanine debt funds can be an attractive investment for investors looking to achieve regular cash distributions and potential high total returns with low volatility and downside protections.

Introduction

Mezzanine debt sits between the senior debt and the equity in a company's capital structure. It is typically used by mid-market private companies to finance leverage buy-outs, acquisitions, expansions, recapitalizations, and BEE transactions. Growth companies are best suited to mezzanine debt where shareholders wish to avoid the high cost of equity and the dilution that occurs when an equity deal is consummated.

The benefits of investing in mezzanine debt can include the following:

Regular cash distributions

The core of mezzanine is a debt instrument which has a negotiated interest rate somewhere in the mid-teens. The mezzanine lender will typically insist on a portion, if not all, of the interest being paid in cash and generally on a quarterly basis. These returns can then be regularly distributed to investors.

Potential high total returns

Due to the fact that mezzanine debt is subordinated to senior debt and usually only has second ranking security over the company's assets, it attracts higher returns. These returns are made up of an interest rate on the mezzanine loan and an equity kicker (being a share in the increase in the value of the company) in order to achieve total returns in the late teens or early twenties.

Low volatility due to the high contractual return

Approximately 60% - 70% of the return from a mezzanine investment is generated from the contractual interest component, with the balance being generated from the equity kicker. The high interest coupon, which is priced around 15% and mostly paid in cash, reduces the overall volatility of returns to investors. Even if there is no return generated from the equity kicker, the investment should still return a high contractual interest return.

Downside protection

As most mezzanine transactions are privately negotiated transactions, these transactions are tailor-made to suit the Company's growth and cash flows as well as to protect the mezzanine investor's investment. The investor achieves downside protection on a mezzanine investment through:

- (i) thorough due diligence and structuring of the mezzanine investment

- (ii) ensuring significant shareholder "skin-in-the-game"
- (iii) obtaining security (at least 2nd lien)
- (iv) financial covenants; and
- (v) monitoring of the company's performance, including receipt of the monthly management accounts, board materials, discussions with management and shareholders and taking an observer seat on the company's board.

Greater access to the company's information allows the mezzanine investor to detect a potential event of default earlier and to be proactive in protecting the investment prior to a default occurring.

As with all asset classes, there are some downsides to investing in mezzanine debt. These potential downside risks include:

Lack of liquidity

An investment in a mezzanine instrument is a long-term investment and is hard to sell or liquidate prior to its maturity. While there is a quicker return on capital, as compared to a private equity fund, due to the contractual interest payments and the self-liquidating nature of the equity kickers, investors have very limited alternatives in terms of exiting the investment before its due date.


Protected only to the extent there is equity or other guarantees

Mezzanine debt is generally subordinated to the senior debt in a company and will usually only have second lien security over the assets. In the event of a default, the mezzanine investor is only protected to the extent that the value of the company does not decline by more than the amount of its equity and other guarantees provided to the mezzanine lender.

Mid-market companies have lower governance and typically less seasoned management teams

As mezzanine investments are mostly made into founder or family-owned companies, these companies tend to not have the seasoned management teams that are found in large corporations. Due to their size they often also have a lower standard of governance and financial reporting.

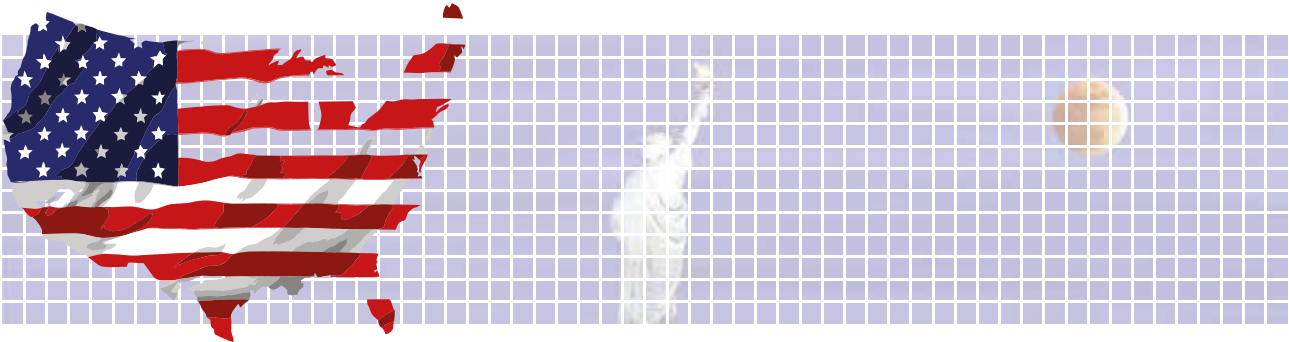
Conclusion

Given the low current yields of senior debt and the poor performance of the equity markets over recent years, mezzanine debt offers investors a compelling alternative to traditional assets on a risk-adjusted return basis. 



Transactors Talk

Medina Jett, Founder and President:
ICSGroup



What are some of the challenges the private equity and venture capital sectors may face in the US in 2019?

Speaking from a governance and compliance perspective, the greatest challenge for private equity and venture funds is being able to demonstrate that their governance and compliance infrastructures are consistent with US regulatory standards. Since the passing of the Dodd-Frank Act in 2012, the PE industry in the US has been under increased regulatory requirements and oversight. Though we expected otherwise from the Trump administration, there has been an increase in SEC enforcement actions under the current US administration.

The trend of harsher oversight of the investment advisor industry in general continues to be a challenge for all SEC registered firms, particularly those who are new to this heightened level of scrutiny. These heightened regulatory requirements translate into heightened LP expectations as well.

Increasingly, LPs are recognizing that their fiduciary obligations to their stakeholders require heightened scrutiny around governance and compliance in order to avoid headline or reputational risk. PE firms without strong operational infrastructures embedded with detailed policies, procedures and internal controls will have a difficult time earning the trust of US LPs.

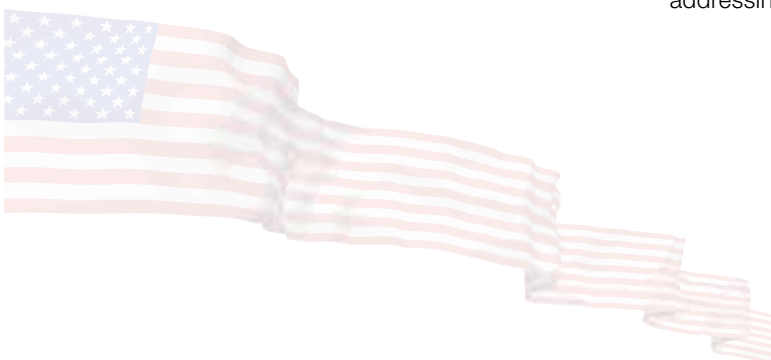
What are some of the opportunities within the private equity and venture capital sectors in the US in 2019?

Africa holds tremendous opportunity as one of the most promising emerging markets. I am excited by the growth potential that will be fueled by investment in infrastructure across the continent. Despite the exit of KKR's Africa deal team in 2017 and the recent news of the sale of Black Rhino by Blackrock, there still is global interest in investing in Africa and being a part of the growth. I see opportunity for the African PE and venture capital sectors to leverage that interest into US capital infusion by outperforming the US PE markets, and avoiding regulatory scandals which only serve to deepen US investors' governance and compliance concerns.

What is the US's regulatory outlook for 2019?

PE firms are being subjected to increasingly rigid compliance frameworks both in the US and on a global scale. Anti-Money Laundering, the Foreign Corrupt Practices Act and Cybersecurity will continue to be top of mind for regulators across the global financial markets.

Given Abraaj's governance weaknesses, PE firms' governance policies and procedures will naturally be subjected to more intense scrutiny by investors. Conflicts of interest, the Foreign Corrupt Practices Act, cybersecurity and ESG will all be challenges that PE firms should be focused on addressing in 2019 and beyond. [🔗](#)

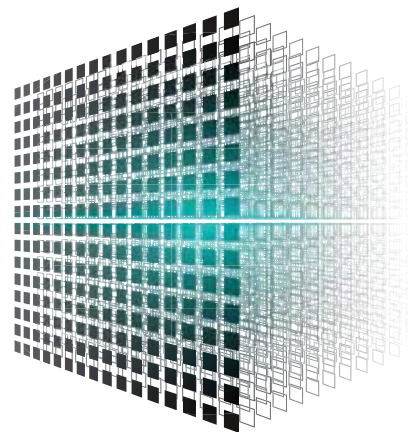




OPINION PIECE

Hello 2019

John Sanei,
Foresight strategist.
International keynote speaker.
Best selling author.
Singularity University Faculty Member.



We have a clear choice to make: do we want to be victims or architects of the expansive future that lies ahead?

Knowledge is power

Throughout history technology and disruption have continually shaped our future. Inevitably, those who are excited by change are open to learning new tricks. They are ready to run towards the future, not from it.

What a time to be alive. Our lives are getting better and better. With access to information at an all-time high and technology advancing exponentially, the phrase "*ipsa scientia potestas est*", meaning "knowledge itself is power" has never been more meaningful.

In a recent blog post by Singularity University, I read that a child in Malawi with a smartphone and an internet connection, has access to more information than the president of the USA in 1994.

This democratisation of knowledge is one of the main reasons why we're moving into an era of "technological socialism" – the idea that technology is breaking the capitalist divides which previously have limited access to products, services and education to those who could pay for it. Trying to imagine that the things we spend money on today will become more affordable (or even free) in the future, is almost as impossible as your grandparents having predicted that they could one day make calls without a landline telephone.

Photography is just one example of technology becoming more affordable. Old-school cameras were cumbersome; the number of photos you could take was limited and you had to pay to have every photo developed (even the bad ones). Just over a decade ago, we would not have dreamed of having your photos in your pocket, on your phone. Today, our phones have megapixel cameras and we can take as many photos as we like before sharing them with people all around the world in an instant - for next to nothing.

The proliferation of free Wi-Fi and an inevitable reduction in data costs, means that technological socialism is already a tangible reality. A quick look into developments within a multitude of industries including energy, transportation, communication, education, entertainment, clothing, food and medical care, will reveal real-life tales of increased efficiency, accessibility, innovation and cost-reduction.

If you feel pressed for time to research the incredible advances that are shaping our future, there are three key areas to keep a close eye on: quantum computing, artificial intelligence and block chain technology. These innovations are going to fundamentally change the way we work, how we use money and our approach to well-being and longevity. In the next decade, we will also need to swallow hard and grapple with new norms that will present themselves as a form of digital brains (as pioneered by the Swiss Blue Brain Project) and genetically engineered, designer babies.

Granted, some of these innovations may make you want to relocate to Mars because our minds are more prone to resisting change instead of forming new habits. However, the choice to adopt new perspectives is our own. Do we choose to be excited or damned by this future?

If we take on a victim mindset we will be damned, doomed and ill-prepared, rejecting change and wishing for the return of days past. But we can also choose to take on a victor mindset and be the optimist, dreamer, doer and operator. There are two ways to do this: first, stop feeling sorry for yourself and take responsibility for this incredible reality we will live in. Decide to get excited about change even though your habitual thought-patterns might argue against it. Second, expose yourself to this future by being informed about technological and scientific innovations, and then share these insights with family, friends, organisations and communities. Become the change-maker and help everyone prepare for change with open arms.

The time to collaborate and empower everyone is now and with these new tools at our disposal, accessing the global village and reaching your individual potential has never been easier. We just have to make one choice: do we want to be the victim or architect of this expansive future that lies ahead?

The quote "fortune favours the brave" resonates now more than ever before. Be brave in 2019 and embrace fortune by impacting billions of lives in a positive way. [🔗](#)



Transactors Talk

Muma Ng'ambi, Associate:
Pangaea Securities



renew. imagine. strive. evolve.



What are some of the challenges the private equity (PE) and venture capital (VC) sectors may face in Zambia in 2019?

A continuous challenge met by VC and PE firms in Zambia is what might be called capital absorption capacity. Most deals in Zambia are considered "too small" and the capital needs are in the \$500 000 – \$5 million range are simply too low for major multi-million dollar PE and VC funds to consider.

Another key impediment relates to illiquidity constraints. The Lusaka Securities Exchange (LuSE), though operated at the very high G20 standards is still has limited trading volumes. Illiquidity still remains a stumbling block and has negatively impacted PE funds as their exit strategies are restricted.

What are some of the opportunities within the private equity and venture capital sectors in Zambia in 2019?

Zambia is currently undertaking various steps to diversify its economy beyond copper mining and is attempting to unbundle non-traditional sectors with high growth and export potential. These sectors include agro-processing, non-traditional agriculture, renewable energy, tourism and the textile industry.


This provides great portfolio diversification potential for firms entering into the Zambian market and can offer

opportunities for attractive investment yields against the backdrop of lower performing developed nation markets. The Zambian government has acknowledged the funding gap of approximately \$200 million and we expect them to incentivize companies in these sectors through tax breaks and by lending support through policies that protect and promote investments in these sectors, all of which would be beneficial for PE and VC funds.

What is Zambia's macro-economic outlook for 2019?

In 2019, the economy is expected to experience slower but continued growth hinged on steady export performance from the mining and manufacturing sectors. Growth is expected to average 4% in 2019 compared to 3.5% for sub-Saharan Africa as a whole.

The replacement of VAT by sales tax in 2019 will negatively affect businesses and reduce profits. Furthermore, to try and tackle growing debt concerns, the government will embark on austerity fiscal measures which, in the short run, will depress the business environment, but in the long run will unlock stronger macro-performance.

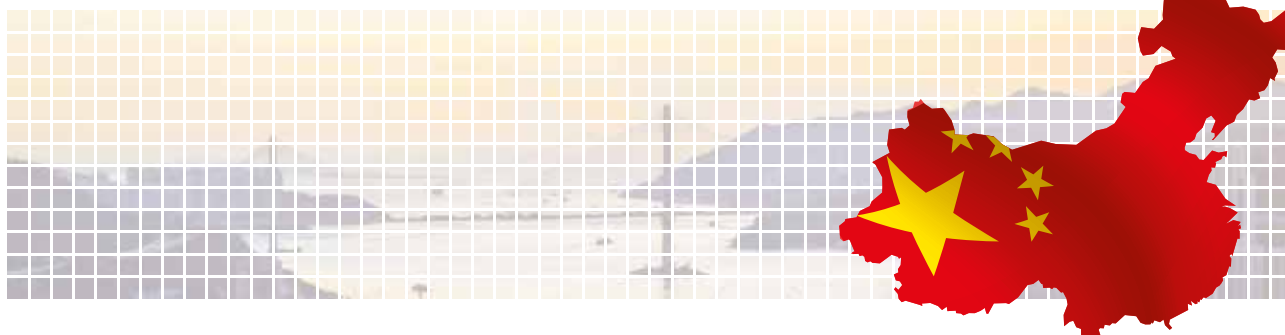
Despite the few economic hurdles, business optimism is very high. This optimism is due to the growing middle class, rapid urbanization, increased infrastructure demand, and technological leap frogging. Pangaea believes that this combination of factors makes Zambia an attractive investment destination. 





Lessons from China on renewing the African private equity industry

Sandile Dlamini, Business Management student:
African Leadership University



SAVCA interviewed Sandile Dlamini, Business Management student: *African Leadership University*, about his internship experience abroad and more specifically, the key take-outs that he brought back from China that could be applied to the African private equity industry.

Why was China your choice of destination for an internship?

Over the last five years, I have been on a journey to understand China. My interest in China began with an introduction to the story of how the country was able to develop in thirty years at an astronomical rate; while most African countries remained largely unchanged during the same period. I sought out opportunities to intern in China to learn about the culture, the language and the role that China is playing in Africa's story. I have been fortunate to have had the opportunity to intern with top organisations where I learnt about China from both a business and cultural perspective. During this time, I was able to craft my life's purpose of fostering Sino-Africa relations; a journey that will require continuous learning, patience, and discipline.

Why and how do you think China views Africa as an investment destination?

I would say China views Africa as an important investment destination. While interning with HOPU Investment Management during the last quarter of 2018, I had daily coffee dates with Chinese investment professionals to begin understanding why and how China views Africa as the place to invest. I can attest that everyone I engaged with showed an insatiable hunger to learn about our continent and how they could capitalise on opportunities – both realised and unrealised – on the African continent.

The importance of Africa also extends to the evolution of the Mandarin language. In 2015, while taking Chinese lessons in Beijing, I learned the character for Africa is fēi zhōu (非州); with fēi meaning 'nothing, empty, and no' and zhōu meaning 'land'. My Chinese teacher explained that the ancient meaning of these characters was associated with the physical attributes of Africa which at that time was bare nothingness. Presently, however, fēi has evolved to mean 'very big, very well, very important' which symbolises the increasing importance of Africa, not only in business, but also in Chinese characters. This attests to China's view of Africa as an important investment destination, not just today, but also in the long run.

How does China view risk differently?

With regards to China's views on risk, my various stints in China do not put me in a position to speak in general terms. However, I believe that when it comes to investing in Africa, the Chinese prefer to invest in something tangible which can be brought back to China. Currently, Chinese PE firms with interests in Africa are investing heavily in natural resources; it can be argued that they fear engaging in sectors that require their physical presence, such as restaurant chains. On the other hand, some of the Chinese business leaders I engaged with, showed their interest to partner and work with local people in exploring investment opportunities besides natural resources. As time progresses, and both China and African countries understand each-other's cultures, there will be an appetite for more opportunities – both risky and safe. ▶



What lessons can be learnt?

The key lesson to learn from China is the importance of foresight and striving to create an environment where PE firms can have an impact, especially in Africa where there is an urgent need to build companies and industries.

Additionally, having sound investment policies supported by policy makers, can promote the significance of private equity as a vehicle for economic growth; in addition to creating the opportunities that Africa needs to renew and evolve its narrative as the Chinese have done.

About Sandile:

The greatest marginal impact I could have as a passionate African, is through working with China in investing and building African companies. I am on a mission to drive the next phase of Sino-Africa relations that would enable Africa to capitalise on the incoming wave of change. In my journey to understand China, I have been fortunate to have had opportunities to learn Mandarin in Beijing, work for McKinsey & Company in Shanghai as a Business Development Analyst and recently for a top Chinese private equity firm, HOPU Investment Management as an Investment Analyst for African projects. I also had the opportunity to interview more than 40 private equity experts investing across Africa on the changes needed to create sustainable African companies. [🔗](#)

Deal Tracker | Medical Devices

PE FUND	Agile Capital III
TARGET COMPANY	SA Biomedical (Pty) Ltd
INDUSTRY	Medical Devices
DEAL VALUE	Undisclosed
% SHAREHOLDING TAKEN	26%
DATE	1 August 2018

COMMENT

Agile Capital is pleased to announce this sizeable transaction that forms our initial entry into the medical devices industry. The medical devices market in South Africa is one of the largest across the continent, being valued at approximately US\$1billion in 2015 despite remaining underdeveloped.

SA Biomedical is a leading distributor of orthopaedic, spinal, surgical and vascular products focusing on the import, export and distribution of medical devices, instrumentation, consumables and medical equipment.

The deal sees Agile obtain a 26% stake in the business, with a long-term outlook as a shareholder of reference in the Healthcare sector. The purchase also provides a boost for the company's empowerment credentials.

Deal Tracker | ICT Industry

PE FUND	Sanari Capital, Convergence Partners, Nedbank Venture Capital
TARGET COMPANY	Snapt, Inc.
INDUSTRY	ICT
DEAL VALUE	\$3 million
% SHAREHOLDING TAKEN	Undisclosed
DATE	6 December 2018

COMMENT

Sanari Capital joined leading African funders, return-investor Convergence Partners and Nedbank Venture Capital in a \$3 million investment in globally scalable technology company, Snapt, Inc.

Snapt's products are designed to improve clients' virtual infrastructure, to ensure their websites and services are always online, lightning fast and secure. Snapt's best-in-class application delivery controller (ADC) stands out in a market of legacy offerings by providing a modern, software-only solution that is built for flexibility and performance.

Now in a rapid scale-up phase, Snapt will use this new investment to expand its global presence and halo customer base, whilst continuing to invest in its product offering.



PRIVATE EQUITY REGULATION

Is the industry ready to *RISE* to the occasion?

Shelley Lotz, Head of regulatory affairs:
SAVCA



Is South Africa's legislation up to scratch and is it operating the way it should? It's difficult to read the newspaper or listen to testimony at the various commissions of enquiry and answer yes to that question. Following the global financial crisis in 2008, the international community met to understand why the crisis occurred and what could be done to ensure it didn't happen again. Although very few people ended up going to jail as a result of the crisis (which hopefully won't be the case as a result of the various commissions currently being undertaken), the international community decided that financial regulation did not protect customers and ensure financial institutions were not taking unnecessary risk, resulting in a failure to safeguard customers' investments. Based on the regulation response, we can expect new anti-corruption legislation, enhanced corporate governance and ethical business practices for accountants to be the topics feature in the 2028 conference publication!

In the financial services sector, we are a little ahead of the rest of corporate South Africa, as the industry already has legislation in place to attempt to assess the character of the person who is appointed to provide advice to customers (Representatives) and the person responsible for oversight of the financial institution (Key Individual). This legislation sets out what it means to be 'Fit and Proper' in the context of the industry. The 'fit and proper' requirements were updated late in 2017, with the full impact on the financial services industry being felt in 2018 and 2019.

All private equity and venture capital firms that are registered with the Financial Sector Conduct Authority ("FSCA"), previously known as the FSB (Financial Services Board), are required to comply with new 'fit and proper' requirements. The main changes arising for the PE and VC industry, deal with the training required in order to perform functions as a Key Individual ("KI") and Representative ("Rep"). Upfront training in the form of class of business and product specific

training is only required for new entrants, and persons not previously registered with the FSCA or those under supervision, all KI's and Rep's previously registered with FSCA are grandfathered and therefore not required to complete the upfront training.

The most significant change for the industry is the introduction of continuous professional development, or CPD. All KI's and Reps are required to complete a certain number of hours of CPD activities as defined and set out in the legislation, either 6, 12 or 18 hours depending on what products and sub-products they are licenced for. A number of private equity (PE) and venture capital (VC) managers are already professionals, being Chartered Accountants (CAs), Chartered Financial Analysts (CFAs), actuaries, engineers etc, which often also require CPD to be completed in order to maintain their professional designation. Unfortunately, each professional body requires different criteria as set out in their specific CPD policies, and simply by completing these, does not guarantee you would meet the criteria to meet your regulatory obligations. The hours required by the regulatory fit and proper standards are all required to be verified and accredited by a professional body.

The good news is that SAVCA members have been granted at 50% exemption on their CPD requirement for the first year, ending 31 May 2019, and attendance of the conference should get you almost all your CPD! For those that haven't started, please don't leave it until the last minute. Tip: the SAVCA website has useful information on how to meet your regulatory obligations before 31 May 2019.

The other change is a new piece of legislation that was issued for public comment in December 2018, the Conduct of Financial Institutions Bill ("COFI"), which is expected to have a significant impact on how the industry is regulated. Under the Twin Peaks regulation reform, the legislation published ▶



and implemented to date has focused on the regulators and setting up the structures to support the change in legislation and the way financial services industry will be regulated going forward.

The COFI Bill seeks to streamline the legal landscape, specifically how customers are treated in the financial sector. As the current regulation is fragmented and not consistent across the financial sector, the legislative reform aims to harmonise the legislation and treatment of all financial services firms doing similar types of businesses and activities. The COFI bill is expected to have a significant impact and provide insight into how regulators are looking to regulate the PE and VC industry. This legislation represents a fundamental

shift in the way that financial services firms will be regulated, changing to an activity and principles based, outcomes-focused and risk-based approach.

The explanatory policy paper accompanying the COFI bill, clarifies that both pooled funds currently regulated under the Collective Investments Schemes Control Act (CISCA) and PE funds and Real Estate Trusts will be licenced under the COFI Bill framework. Although the full extent of the Bill is still being considered, and will be extensively commented on by all participants in the financial sector, including the PE and VC industry, we do know that regulation is changing and if we don't jump on board we may get left behind! [🔗](#)

Money is emotional

And, as much as this flies in the face of conventional wisdom, money has no value. It is intangible and it is only through perception that we add value to the intangible. It is how people feel about money that changes how and where they invest it.

At Brave, we know how to shape those perceptions. We believe that the new world needs Brave ideas to thrive. Ideas that reshape the world of investments and deliver real value for brands and business alike. We are a black-owned, fully integrated marketing and advertising group that believes in the power of investing in big ideas. And that's what we do at Brave Group. We create big ideas that make the world of money emotional.

BRAVE GROUP

www.bravegroup.co.za

Proudly championing private equity and venture capital



SAVCA is proud to represent an industry exemplified by its dynamic and principled people, and whose work is directed at supporting economic growth, development and transformation.

SAVCA was founded in 1998 with the guiding purpose of playing a meaningful role in the Southern African venture capital and private equity industry. Over the years we've stayed true to this vision by engaging with regulators and legislators, providing relevant and insightful research on aspects of the industry, offering training on private equity and venture capital, and creating meaningful networking opportunities for industry players.

We're honoured to continue this work on behalf of the industry.



YOUR FUNDS PARTNER



LEADING TOGETHER

We have expertise in the administration of both traditional and alternative asset classes with a strong focus on private equity, real assets comprising of real estate, infrastructure and renewable energy, hedge and debt. We also specialise and have built expertise in more niche sectors such as FinTech including crypto and ICOs.

We pride ourselves on the relationships we build with our clients, and as an independent, award-winning fund provider, we know we'll be the perfect partner for you.



JTC PLC
LISTED ON
 **London**
Stock Exchange
14 MARCH 2018

 **160**
NEW
FUNDS
IN
2018

C. 100
BILLION
USD

GROUP
AUA

 **GLOBAL
PLATFORM**

 **C. 650
PEOPLE**

AN ALTERNATIVE ADVANTAGE

Ethos has an unparalleled, 34-year track record of sustainable, superior investment returns.

Specialising in private equity and credit investments, Ethos was instrumental in establishing the asset class in the sub-Saharan region, with a particular focus on the South African market.

The firm's unique understanding of these regions sets it apart as a reliable and committed investment partner across economic and political cycles.



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