

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.

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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.

