SAVCA CONFERENCE 2020

Connect. Collaborate. Commit.

A journal of activity and trends in Southern African private equity

SAVCA

SOUTHERN AFRICAN VENTURE CAPITAL AND PRIVATE EQUITY ASSOCIATION

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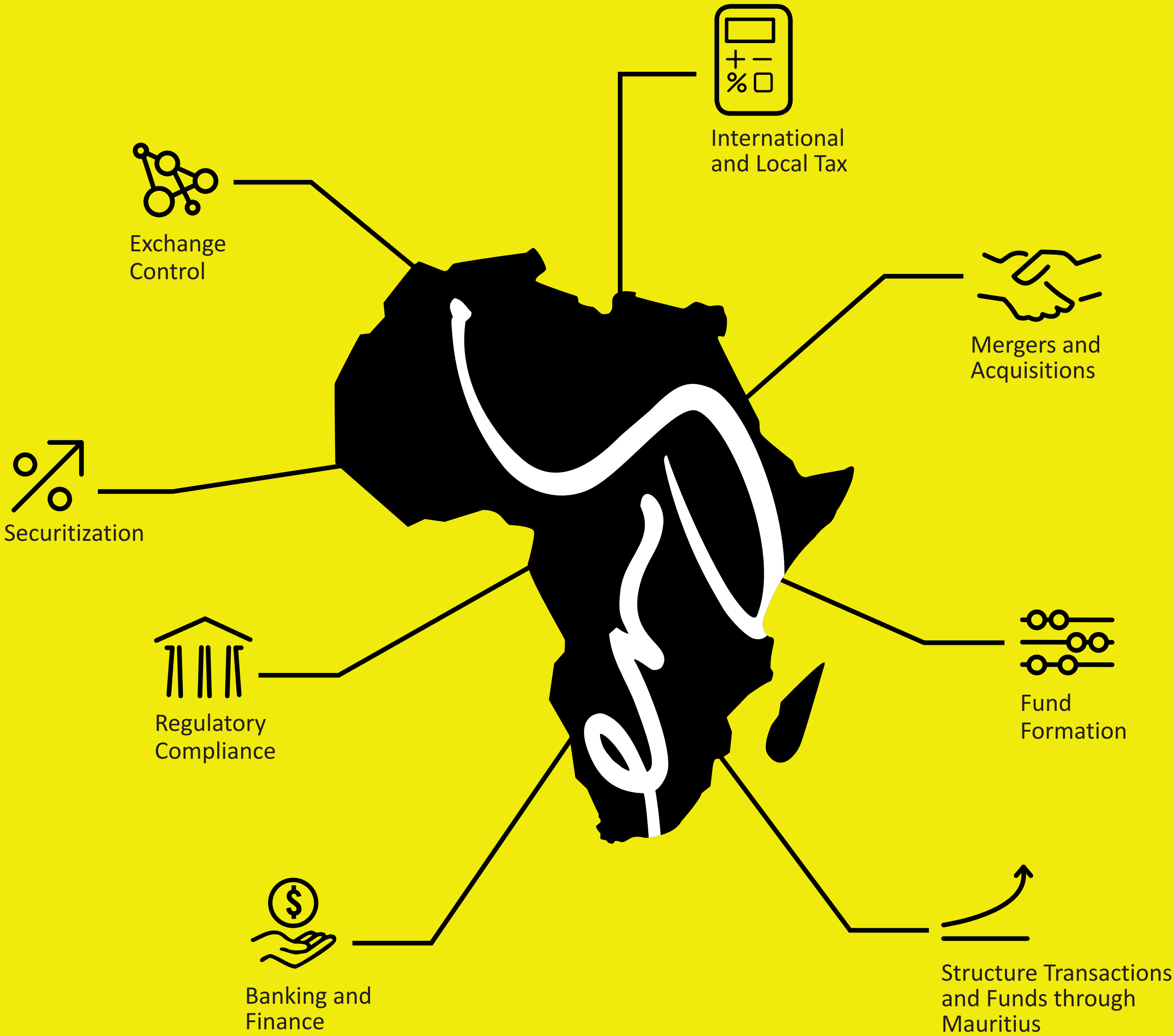

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Here's to 20Plenty!

Tanya van Lill
CEO: SAVCA

The theme and foundation of the SAVCA 2020 Industry Conference hopes to usher in a decade of 20Plenty. We are not entering this new decade with as much enthusiasm and excitement as we did in 2010 when South Africa hosted the FIFA Soccer World Cup. However, 2020 does feel like a new beginning and an opportunity to wipe the slate clean.

With our theme of **Connect. Collaborate. Commit.** we want to set the tone of a new era where people, companies and countries will be more connected than ever before with continuous technological advances. We suspect increased connectivity will open up more opportunities for collaboration and give proof to the adage that it takes a village to raise a child. Or in our case, that it takes an ecosystem to raise an asset class. Finally, in order to get things done we need to commit – whether on a personal, organisational or country level. We need to ask ourselves, what are we going to commit to and do differently to make sure the 2020s are better than the 2010s we were all so eager to leave behind?

This journal may help with some insights into what we can do differently, but in true SAVCA fashion, our journal wouldn't be complete without some reflection and looking back at what 2019 had to offer. Looking forward the conference theme is further explored through various lenses and touches on aspects such as co-investment, gender balance in the asset class and value-adding strategies, to name but a few.

At SAVCA, our focus in 2020 is going to shift from merely promoting the asset class, to a more concerted effort to improving our members' ability to raise capital in what has been a very difficult macro-economic climate globally, and subdued economic growth locally. For us it is important that SAVCA embodies the values we have put forward for the year ahead and with this in mind, we aim to:

- Connect in a meaningful and fruitful manner with our members and stakeholders;
- Collaborate and form partnerships that will help the industry to grow and flourish; and
- Commit to being a force for good.

We want to thank our members and contributors who generously offered their time and expertise to ensure we have a quality publication. I am always astounded by how willing our members and stakeholders are to share their knowledge and insights with us. Lastly, I would like to thank SAVCA Chairman, Craig Dreyer, who will be stepping down this year. Craig has been involved with SAVCA from the onset and has selflessly contributed many hours to building it into the reputable association that it is today, together with playing a critical role in SAVCA's advocacy efforts on behalf of the industry. Craig will be missed and we would like to wish him all the best for the future.

And to all, thank you for Connecting, Collaborating and Committing with us!

Tanya van Lill

CEO: *SAVCA*

COnnect.
COllaborate.
COmmit.

Craig Dreyer
Chairman: *SAVCA*

At the dawn of a new decade, the Southern African Private Equity and Venture Capital Association (SAVCA) celebrates the progress and growth made in our industry over the past ten years and the annual industry conference aims to set the tone for the decade to come. The inspiration for this year's industry conference theme: **Connect. Collaborate. Commit.** is forward-looking in nature and focuses on the characteristics the industry will have to embody to ensure continued growth and success, especially in this tough economic climate.

Connect

Technological innovation has made it easier for us to stay connected to the rest of the world. However, to connect and remain connected requires meaningful engagement and on a deeper level, the ability to connect the dots and be comfortable with change. As an industry, we are constantly at the heart of the eco-system connecting with each other, with investors, with capital seekers and the like. The conference will explore the meaning of connectedness and how, as an industry and region, we constantly need to adapt to a connected world.

Collaborate

Looking back at some of the milestones SAVCA has achieved over the years, our growth would not have been possible without partnerships and collaboration. One of the driving forces of this year's conference is to evaluate the various collaborations which take place within the industry, and how these planned or unexpected connections can create value and become a key ingredient of success.

Commit

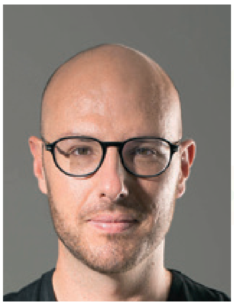
We have seen a growing trend by investors to realise the impact and reach of the investments beyond just the financial returns. Our industry is primed to contribute towards economic growth through sustainable long-term investments. Our commitment at both individual and organisation level will constantly be under the microscope as to how we deliver on these objectives.

Over the last 22 years, I have been fortunate to be part of the SAVCA family from inception and have proudly watched it grow into the association it is today. The growth and reach that the association and the Executive Office of SAVCA has achieved, has significantly exceeded expectations. After serving on the board for many years and as the association's Chairman the last three years, it is with some nostalgia that I conclude my chairmanship. In this, my final Chairman's note, I would like to wish SAVCA, its members and industry affiliates all the best for the future as we continue to *Connect. Collaborate. Commit.* thus ensuring the industry continues to grow from strength to strength.

Craig Dreyer

SAVCA: *Chairman*

CONNECT



Dave Duarte,
founder of social marketing consultancy: *Treeshake and Young Global Leader*

Make Your Social Media Connections Count

Whenever I'm feeling stuck in my life or my work, I have a phrase that I use to snap myself out of it: "Connect to Change". It's a reminder to get out of my own head, and into my network. It means that when I connect with people who see things differently, I see things differently. When I connect with people who can make things happen, sometimes they help me make things happen.

To paraphrase Reid Hoffman, the founder of LinkedIn: *"Opportunities don't just float out in the sky; they are attached to people,"* You think you're looking for an opportunity, but you're actually looking for a person. Your personal and professional networks are very often the hidden driver of success, and yet, I believe, most people aren't strategic in their approach to growing, nurturing, and pruning these networks to ensure they thrive.

Harvard Professor Albert-László Barabási conducted perhaps the largest ever study of success, and he found that while most people think of success in terms of how well they perform, it is actually more often a result of the networks people are recognised in. For example, you can be the most incredible artist, but if you don't get picked up by the right galleries or critics your genius may go unrecognised and unrewarded.

Everyone you know and want to work with is accessible via an online platform, whether it's LinkedIn, WhatsApp, Twitter, Instagram or any of the thousands of niche platforms that exist to connect us. Here are my top three tips to ensure you are making effective use of your social media networks:

1. **Have a reason for being on the platform:** Don't just use these platforms without intention, as they can quickly become an incredible time suck. If you don't have a purpose for being on the platform, you're going to come across as unfocused and random.

2. **Connect with intention:** Your experience on social media is totally determined by who you follow and what you respond to. Connect to people and ideas you want to see more of. Ignore and block ideas that waste your time and/or people who aren't aligned with your purpose.

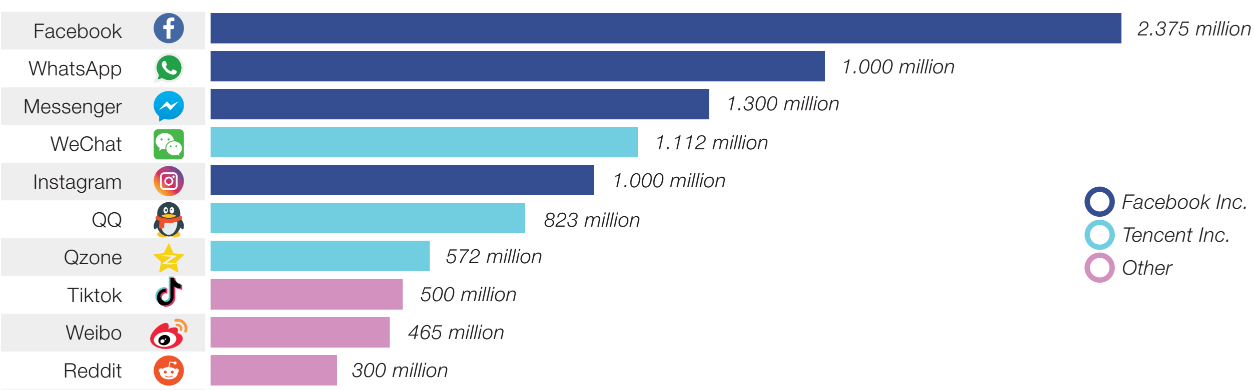
3. **Consistency is key:** Just like any investment, when you consistently put time and effort into nurturing your online networks, you will start seeing compounded returns.

My favourite professional network currently is that of WhatsApp groups. LinkedIn and Twitter are also excellent. Find your favourite network and work with it, but don't feel you need to be everywhere.

Social media is not the best place to keep up with important relationships in your life, and it probably shouldn't be your primary source of news. But when used intentionally, social media can give you exponential access to staying connected to networks, ideas, and opportunities. Just remember to keep it real.

Facebook Inc. Dominates the Social Media Landscape

Monthly active users of selected social networks and messaging services Worldwide*



Source: Company data via DataReportal Q3 Glogal Digital Statshot

Phatisa + Meridian = 3 x EBITDA + Impact²

Rinolan Moodley,
Partner: *Phatisa*

At the 2019 SAVCA Industry Awards, Meridian, an agricultural inputs business, received the coveted Chairman's Award in recognition of the company's exceptional financial and social returns.

Through its first food fund in 2014, Phatisa invested in Meridian – a group that operates in Malawi, Mozambique, Zambia and Zimbabwe – and exited the investment in 2019. At the time of the initial investment, Meridian's profitability was below its potential; it had a suboptimal organisation structure and inconsistent operating procedures and product offerings across the group. Phatisa saw an opportunity to transform an existing fertiliser manufacturing, blending and distribution business into a one-stop-shop for commercial and smallholder farmers.

Over the investment period, Phatisa implemented profit improvement programmes* including:

- a complete review of the fertiliser supply chain.
- prioritising capital investment in developing distribution networks.
- participating in the revision of the business strategy.
- repositioning the fertiliser brand and sub-brands.
- providing technical assistance to accelerate bottom-of-the-pyramid demand creation.

Significantly improved operating efficiency

As a result, Meridian's annual volume of fertiliser sales grew from c. 200 000 to c. 500 000 tonnes; permanent employees increased from 1 937 to 2 288 and EBITDA tripled through operating efficiencies. Meridian now offers access to a wide variety of inputs and implements, including fertiliser, crop protection products, seeds, basic household and FMCG items.

A further significant initiative made possible by the Phatisa-Meridian partnership was the establishment of the Farm Services Unit alongside the 110 retail outlets (Farmers World and Agora). Phatisa's Technical Assistance Facility (TAF) initiated this venture via a €600 000 pilot project, launched in Malawi. The goal was to sustainably increase the yield and income of smallholder farmers by providing them with access to soil-appropriate fertiliser and agronomic advice via Meridian's rural retail network.

Tailor-made solutions boost income

Malawi is one of the poorest countries in the world and its smallholder farmers – a vast majority of the country's population – have been using an outdated generic fertiliser consisting of a single basal compound formulated 30 years ago. Over time, the continued use of this blend had depleted the soil of much-needed nutrients, limiting productivity and potential income. In 2017, Phatisa mobilised TAF and this initiative provided smallholders with local mobile soil-testing capabilities, new customised fertiliser blends, training on best agricultural practices and ongoing advice and support, unlocking latent value in Meridian's existing fertiliser retail network and fertiliser brands. The tailor-made solutions support soil rehabilitation, enhance fertiliser impact and efficacy and have ultimately boosted the income of smallholder farmers. The TAF initiative was able to demonstrate crop yield increases between 23% and 37%. In addition, more than 13,000 smallholders were trained, 69% of which were women.

Phatisa has invested in and partnered with a competent and committed management team, exiting a successful and sustainable business in sync with its community.

* *With investment in local logistics and manufacturing infrastructure, cost savings were realised but importantly, this enabled a significant increase in fertiliser production, which in turn led to a tripling of EBITDA.*

Fundraising and fund launches by private equity in Southern Africa and beyond (2019)

Source: Africa Global Funds

- **15 Jan 2019** – *FIVE achieves third close*
- **24 Jan 2019** – *Ata Capital targets R1.5bn for its third BEE Fund*
- **25 Jan 2019** – *CrossBoundary mini-grid facility hits first close*
- **5 Feb 2019** – *Amethis Fund II gets €305m at intermediary closing*
- **5 Feb 2019** – *Partech Africa closes at $143m*
- **12 Feb 2019** – *IPAE 2 gets €25m at second closing*
- **19 Feb 2019** – *New impact fund launched to scale agribusiness in Africa*
- **4 April 2019** – *Meridiam closes its Africa fund*
- **10 April 2019** – *Cathay Africinvest Innovation Fund to raise €150m*
- **17 April 2019** – *PAPE Fund Managers gets new investor*
- **22 April 2019** – *KawiSafi Ventures raises $70m to invest in African energy*
- **28 April 2019** – *Kasada raises over $500m for new hospitality fund*
- **29 April 2019** – *FIVE achieves fourth close*
- **15 May 2019** – *LeapFrog's Fund III targets $700m*
- **19 June 2019** – *Agri-Vie Fund II closes at $146m*
- **20 June 2019** – *Amethis Fund II hits €375m final close*
- **24 June 2019** – *Velocity Capital closes €105m FinTech Ventures Fund and sees opportunities in SSA*
- **7 July 2019** – *Stichting Development Fund and Coöperatief Construction Equity Fund hit final close*

South African private equity activity in 2019

By Jaco Maritz, Editor:
Africa Private Equity News

South African private equity (PE) activity in 2019 has been symptomatic of the broader economy, which is struggling as a result of slow growth and policy uncertainty. According to industry insiders, deal flow hasn't been commensurate with the amount of capital held for investment, while fund-raising is taking longer than expected.

Because of the subdued local economy, fund managers are increasingly looking to invest in South African-based companies with a footprint and expansion potential in other high-growth African economies. At a conference in December, Eric Kump, Managing Director and Head of Carlyle Sub-Saharan Africa Fund, said when it comes to investments in South African assets, the fund predominantly looks for companies with a pan-African focus that can still benefit from our relatively established rule of law and strong institutions.

Where are PE companies investing?

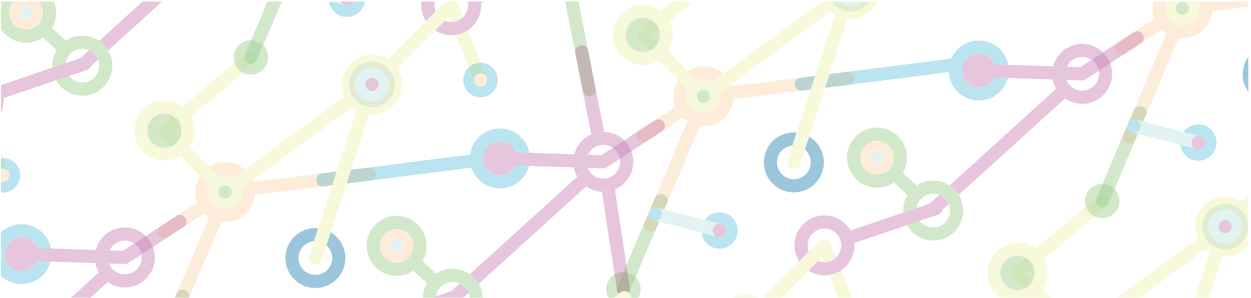
Business-to-business products and services have been prominent investment themes in 2019. For example, Agile Capital, through its PE fund with RMB Corvest, acquired a stake in Averge Technologies, a distributor of components to the communications and energy sectors; while Carlyle bought a majority interest in IsoMetrix, a South African-headquartered environmental, health and safety (EHS) software vendor. In addition, Ascension Capital Partners acquired a 40% interest in technology distributor Westcon Southern Africa.

The ICT infrastructure space also saw deal-making activity. Metier participated in the recapitalisation of Vox Telecom to support fibre rollout throughout the country and French investor STOA Infra & Energy backed fibre network operator and internet services provider MetroFibre.

Education continues to be an attractive segment as parents prioritise learning for discretionary spend to invest in their families' futures. In the education sector, Sanari Capital concluded a R28 million investment in Edulife Group, the largest independent school group in the Free State Province. South African education technology company Snapplify also secured $2 million expansion capital from venture capital (VC) investor Knife Capital and the Hlayisani Growth Fund.

Investments in the banking and financial services sector were directed to potential industry disruptors and fintech plays. One of the most prominent deals was Ethos Artificial Intelligence (AI) Fund's participation in a R200 million investment in digital bank TymeBank.

Partech's Africa Tech Venture Capital Report states the total value of South African tech and digital VC deals was $205 million in 2019, down 18% from the previous year. However, South Africa was the continent's top performer in terms of total deal count at 66, a 78% year-on-year increase.



It has been suggested South Africa's VC industry shouldn't compare itself to Silicon Valley but rather look to Israel for inspiration. Israel has become a global tech powerhouse by exporting its innovations to the rest of the world. South Africa, similarly, doesn't have a large domestic market but does have the capacity and infrastructure to build tech-enabled solutions that can be deployed internationally.

Trends in 2019

One of the interesting trends from 2019 was that of several public-to-private deals, such as Phatisa's Food Fund 2 which recently acquired a significant stake in chemicals group Rolfes, delisting the business from the Johannesburg Stock Exchange (JSE). Torre Industries was also taken private in April and the business was separated into two entities: Torre Analytical Services, which was acquired by Ethos Mid Market Fund, and Torre Industrial, acquired by Apex Partners. In another potential transaction, US-based PE firm Housatonic Partners has made an offer to acquire and delist South African information management specialist Metrofile.

Capital raising deals of note in 2019

While fundraising has taken a hit from general negative economic sentiment towards South Africa, several funds announced new capital raises:

- PAPE Fund III closed at R950 million.
- 27four's Black Business Growth Fund attracted R200 million from the National Treasury's Jobs Fund.
- Tamela Mezzanine Debt Fund 1 in August revealed its first close at R420 million.

In an encouraging development, the SA SME Fund also backed several VC and PE funds during the year.

Pan-African fund closings included:

- EXEO Capital's Agri-Vie Fund II (final close at $146 million);
- Metier's Sustainable Capital Fund II (first close at $113 million); and
- Cape Town-based Inspired Evolution's Evolution II Fund (final close at $216 million).

Muted exit activity could pick up this year

One of 2019's more prominent exits saw Ethos selling its stake in pan-African telecoms tower company Eaton to American Tower Corporation.

In other exit news:

- Denham Capital disposed of its shareholding in South Africa-based renewable energy business BioTherm to Actis;
- EXEO Capital's Agri-Vie Fund I sold HIK Abalone Farm to African Pioneer Group; and
- Newtown Partners exited its shareholding in on-demand home-cleaning platform SweepSouth, reportedly achieving a 10x return on its original investment.

While exit activity was muted in 2019, this could soon change. John Bellew, head of PE at Bowmans, recently mentioned in an interview that several funds are coming to the end of their lives and they should be looking to dispose of portfolio companies that may offer attractive buying opportunities.

Finally, the conclusion is that although South Africa's private equity industry remains robust, the local economy is unlikely to see a dramatic turnaround in 2020. This means PE firms cannot count on the macro-economic environment for support, necessitating an entrepreneurial approach to fund management activities.

Growing Venture Capital investment in South Africa

Claudia Manning,
Principal: *SA SME Fund*

Venture capital is a key driver of innovation and growth yet the South African Venture Capital (VC) market is too small. We are deploying too little capital into too few deals. Last year SAVCA reported investments of approximately R1.5 billion in VC in 2018, made up of 181 deals. Whilst VC investing is on the rise, the numbers remain miniscule for an economy of our size.

The VC industry needs to be both widened and deepened – more capital needs to be directed towards emerging VC fund managers as well as established fund managers who require deeper pools of capital to scale their portfolio companies to compete globally.

Small allocations could lead to dramatic landscape shifts

A change in the mindset of capital owners and allocators towards considering VC as a viable asset class could fundamentally change the VC market. For example, a mere 0.1% allocation of pension fund assets would result in over R4 billion being available for investing in VC, more than triple the total investment in VC last year. Such a shift, while largely immaterial to pension funds individually, would dramatically change the VC landscape in South Africa.

Global evidence shows that venture capital has played a critical role in driving innovation in many economies, backing start-ups that are disruptive and offer new solutions to problems. Silicon Valley and Israel, the world's leading VC destinations, are home to the world's most innovative businesses, many of which would not be around today were it not for pools of venture capital prepared to back them. As an illustration, 42% of US public companies were backed by venture capital in their early years – these companies now account for 35% of total US employment.

Critically, VC investments in emerging countries are often in high-impact sectors and product markets, with VC-backed entrepreneurs typically focusing on solving problems affecting their communities. This often results in VC having an out-sized development impact in key areas such as health, education, agriculture and environment.

Profits can co-exist alongside meaningful impact

The common misconception is that investing in VC requires a trade-off between impact and financial performance. The data does not support this. In fact, investors in VC can make money and make a difference. This is certainly the case in mature VC countries, where the asset class is considered an essential part of a diversified portfolio for institutions as varied as pension funds and university endowment funds. This is particularly relevant given the muted returns from other alternative asset classes such as listed equities.

Although the VC industry is still nascent in South Africa, the number of exciting local startups is growing. By investing in these businesses, asset owners not only provide these entrepreneurs with the capital they need to scale but gain exposure to a quality set of opportunities within a diversified portfolio.

How do we de-risk the VC market?

The new Fund of Venture Capital Funds being raised by the SA SME Fund will be structured to mitigate many of the risks associated with VC. The new fund will:

- operate as a Fund of Funds, investing in established and novice VC fund managers;
- offer investors portfolio diversification across sectors, investment stages, and fund manager experience;
- provide capital of R50 million on a first loss basis to provide downside protection to other investors; and
- be subsidised by the current fund, which means investors will not pay fees for the new fund.

We anticipate that attracting more capital into VC through the new Fund will play a catalytic role in invigorating the South African venture capital industry.

Background on the SA SME Fund

The SA SME Fund is a R1.4 billion fund, capitalised by South Africa's largest corporates and the PIC. The Fund is 80% committed and will be fully committed by March 2020. With over 50% of our fund deployed into Venture Capital, we have become one of the largest institutional investors in VC in South Africa.

How do you connect with LPs?

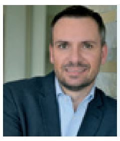
At its core, connecting with limited partners (LP's) on behalf of a fund looking to raise capital is essentially about building and maintaining relationships that will be mutually beneficial for a long time.

Most LPs have a variety of funds to choose from and standing out from the crowd can be like screaming into a vacuum. However, experts in investor relations believe there are three things that allow a fund to attract potential LPs:

1. **Make sure there is a history of good performance.** Zain Laher, founding partner of Kleoss Capital says that "a track record of performance will attract attention in any fundraising climate."

"A track record of performance will attract attention in any fundraising climate." – Zain Laher

2. **LPs are drawn to specialisation.** This creates an environment where an LP is attracted to the fund because of its expertise and knowledge. "LPs do have more choices. Metier focuses exclusively on two niche investment strategies with a targeted investment style and approach, both of which we have an extensive and successful track record in," J-P Fourie, head of investor relations at Metier Capital says. He adds that Metier focuses on resource-efficient infrastructure and clean energy, as well as mid-market growth capital investing with entrepreneur partnering. Yolande Tabo from Convergence Partners says a focus on tech sets them because it "enables us to attract capital that is looking for specialisation."



"Metier focuses exclusively on two niche investment strategies with a targeted investment style and approach, both of which we have an extensive and successful track record in." – J-P Fourie

3. **Position the fund so that it adheres to the accepted legal frameworks.** "To attract institutional capital you need to be compliant with the regulatory requirements, which means being licensed by the FSCA and also being a member of an association such as SAVCA," Langa Madonko, investment principal at Summit Africa emphasises. He says the reason for this is because it is the first test in any due diligence of a potential LP and "speaks to the fact that you are accountable."

"To attract institutional capital you need to be compliant with the regulatory requirements, which means being licensed by the FSCA and also being a member of an association such as SAVCA." – Langa Madonko

Access to an LP can still be tricky and Madonko says this can be done through networking, especially at conferences and thought leadership events.

Strategies must be in sync or match

All the experts believe it is imperative that your strategy and that of the LP fits. "It is incumbent on the GPs to make sure to find the right LPs, which is a combination of understanding what LPs are looking for and how the GP's product offering matches that," Tabo says. Laher agrees adding that "targeted LPs need to be matched with the fund strategy."

"It is incumbent on the GPs to make sure to find the right LPs, which is a combination of understanding what LPs are looking for and how the GP's product offering matches that." – Yolande Tabo

Another way to access LP's is through investment consultants who are the advisers to the fund. "This avenue is by far the easiest as consultants are generally always looking to remain on the cutting edge of knowledge and make time to hear about new solutions," Madonko says.

Nurture relationships

Once there is initial interest from an LP, the next step is crucial – relationship management. Whether LPs invest or not, nurturing the relationship is vital as you never know in what way or form their experience, expertise and networks can be valuable.

Tabo reiterates that cultivating and managing the relationship with LPs is a resource that needs constant investment. "It's not only a matter of mandate fit, trust built up over time is a key ingredient," she says.

Laher believes maintaining close relationships with existing investors and targeted investors is an ongoing process, while Fourie says that at Metier they are consistently in contact with LPs. “We provide regular info updates via face-to-face meetings, calls or publications to LPs that are not invested in our funds. For those invested in our funds, fostering a partnership has served us well,” he says, adding that they also provide updates outside of formalised, regulated reporting.

Madonko agrees saying “it helps to be a source of quality and credible learning.” This, he adds, is because “the ability to positively contribute to the fund, whether they are invested or not, is the greatest tool for remaining connected.”

The principles of relationship management

Some of the principles in relationship management that Fourie and Madonko believe must be cultivated include:

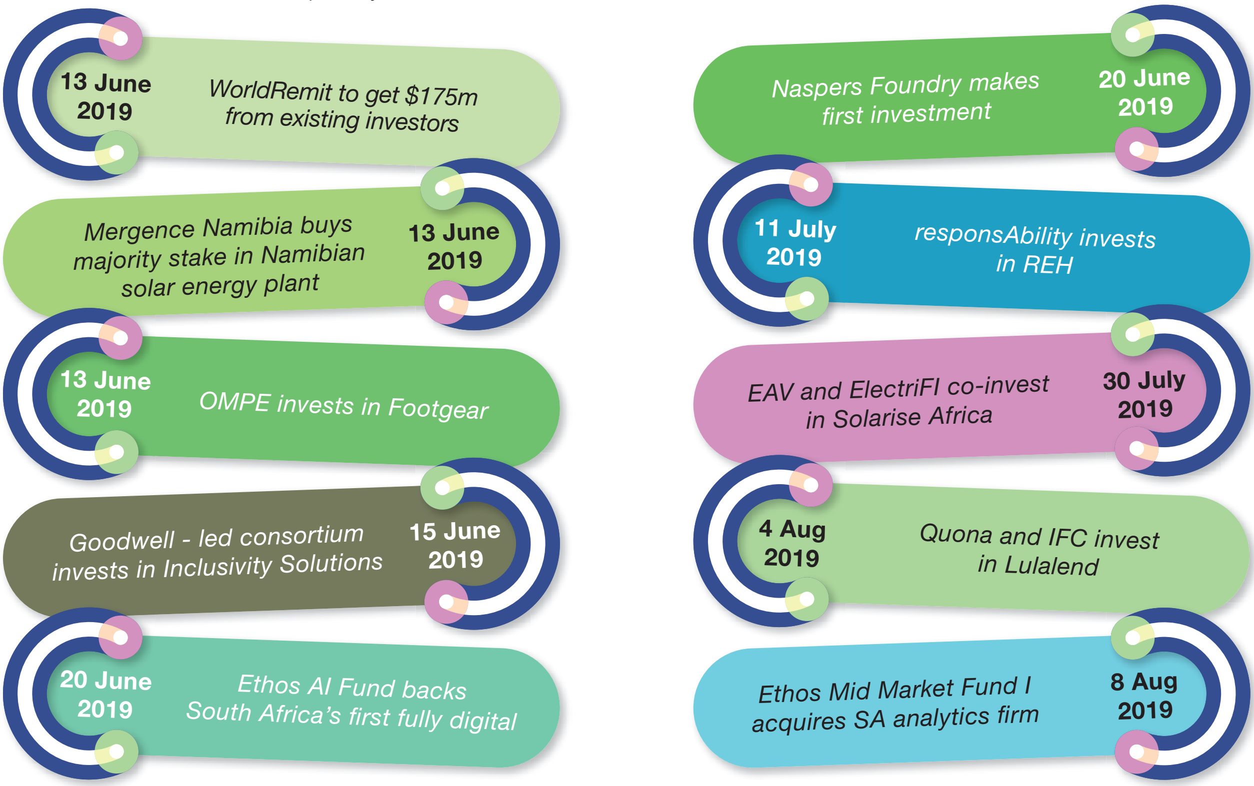
- telling the tough news early;
- being sincere;
- treating LPs as partners; and
- acting with integrity.

As a fund you are dealing with large sums of money and LPs want to ensure their investment is in safe hands. By nurturing these principles you can create an environment of transparency and openness that translates into a trusting working relationship of excellence.

With all these important considerations the big picture must still be kept in mind, as Laher states: “always be in fundraising mode even when not fundraising.”

Private equity transactions in Southern Africa (2019)

Source: Africa Global Funds and publicly available data



The Agile Capital Private Equity Team

Londeka Shezi

Agile is proud of the achievements of our co-founder Londeka Shezi, who is sorely missed.

Londeka passed away in July 2019. She was inestimably committed to asserting meaningful change by encouraging the success of black businesses and empowering women in the workplace. SAVCA's theme, "connect, collaborate, commit," explores the invested levels of engagement Londeka gracefully applied across her professional career.

A woman who followed her passion

Londeka knew how to listen, assess, and ultimately, how to commit to her own path. Despite a full scholarship to study medicine, she chose the field of accountancy, graduating from the University of the Witwatersrand before qualifying as a Chartered Accountant at PWC. Forever looking for new challenges that would contribute to her growth, she went on to pursue an MBA with the Gordon Institute of Business Science, having already built up a considerable track-record as a deal-maker within the financial sector.

At 32, Londeka co-founded Agile Capital with CEO, Tshego Sefolo. Our name was specifically chosen for its multiplicity of meanings across languages: "agile" being Sesotho for "build", in addition to meaning "responsiveness" in English. This succinctly captures the vision of collaboration and inclusivity that Londeka held when serving on numerous boards as a director on behalf of Agile.

Entrepreneur of the Year 2019

Londeka served in her personal capacity as an independent director on numerous boards and sub-committees and was an active member of the African Women Chartered Accountants (AWCA). She was recently posthumously honoured by AWCA as an Entrepreneur of the Year for 2019.

In giving so generously of her time, Londeka had specific advice for women: "When combining career and family, if you find that you can't work long hours, don't. Crunch some numbers and negotiate flexi-time. And don't even try to do all the housework yourself –it takes a village to raise a child, so get some help on the home front."

Londeka connected people with opportunities. For disadvantaged communities, she ensured the formation of the Agile Foundation to grow literacy and offer practical upliftment. In business, the right black economic empowerment (BEE) partner had to provide more than simple credentials for Londeka – we had to deliver the list of essentials each business required of an ideal partner.

A lasting legacy

While private equity was her passion, Londeka saw the bigger picture when she said, "I knew the industry was male-dominated – but I believe that breaking the barriers and putting a foot in the door will open opportunities for other black women to enter the ranks and bring a different perspective."

Thank you Londeka, for opening up the space. We honour your vision and values and we are proud to continue your legacy at Agile Capital.


AN ALTERNATIVE ADVANTAGE
Ethos has an unparalleled record of sustainable, superior investment returns across multiple economic and political cycles.
Ethos has built a renowned platform over its 35-year history that has provided the scale to develop a multi-fund offering.
With a constant focus on renewal, Ethos has innovated extensively around its business model, origination activities and sources of funding. The product offering has been expanded in recent years to include a Mid Market Fund, a Mezzanine Fund and an AI Fund.
ETHOS
An Authorised Financial Services Provider.
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COLLABORATE

Christof Gros,
Vice President:
DEG Equity Africa team

Co-investing: What you need to know

What is an equity co-investment and what are some of the entry points to co-investing?
From DEG's point of view, co-investments are pooled investments into emerging markets' corporates led by a fund manager or other lead investor, and involving "his" private equity fund along with one or more additional investors. Co-investments enable fund managers to increase the investment tickets they would otherwise be able to underwrite and allow direct access to co-investor value-add in a specific target company. With an African portfolio of approximately US$ 2 billion in debt and equity, DEG is an active co-investor in the African PE space.

Our mandate is to provide companies with growth capital in order to generate employment, local income and improved access to goods and services. Equity investments contribute towards these goals in a meaningful way. Being a shareholder has the further advantage of direct access to other co-owners and management in order to agree on and implement improvements in environmental and social management as well as corporate governance. DEG can support this through tailor-made corporate governance or technical assistance programs and adds further value by opening its networks and mandating internal and external board members.

What are the returns on co-investments?
Co-investments as a sub-asset class perform well for us and are an important element of the portfolio. Further benefits from a portfolio construction perspective include:

- the fast deployment of capital vs "idle" fund commitments still going through their J-curves ; and
- careful alignment of all parties towards implementation of a value creation plan; and exit in typically five to seven years post investment.

Our internal valuation team performs discounted cash-flow valuations based on our business case and a cost of equity derived according to industry standards. This return hurdle must be met and provides for entry pricing discipline in the process.

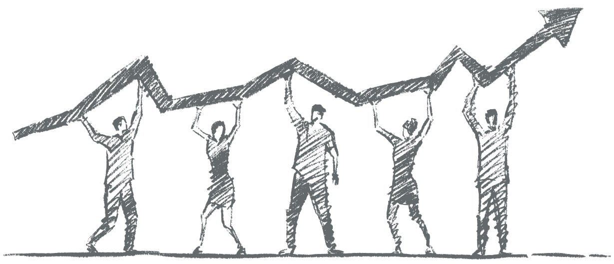
Prior to allocating to a fund, we like to engage on pre-fund co-investments with a potential partner. This process helps us gain detailed behind-the-scenes insights into a fund manager's workings, build a strong relationship and we ultimately use this as part of our fund due diligence.

What are the challenges and opportunities around co-investing?
As co-investments are typically on a tight timeline, this can represent challenges for institutional investors. Looking back on our co-investments, our main lesson has been the need to align on process and expectations early on. Key points that play part of this include:

1. Leadership by a senior member of the fund manager.
2. Full and timely access to well documented due-diligence-results.
3. Economic and structural alignment and upfront agreement on minority protection rights as well as mandate related elements.

On our side, we prioritise co-investments in order to manage external and internal teams and safeguard swift execution.

What are some of the trends of co-investing in 2020?
Looking forward, we expect the appetite from investors for co-investment opportunities to further increase with execution capability and value-add being the main differentiators. Against this backdrop, we remain close to our GPs through our presence across Africa to understand their pipelines and needs. We pro-actively discuss promising business models using our experience and networks across Africa and emerging markets and finally, we will continue reviewing and optimising our internal processes for faster execution.



Collaborating, co-operating and connecting for growth

Clinton Wolder,
Partner: *Deloitte Africa*

In light of the economic, social and political change brought by the Fourth Industrial Revolution, "going at it alone" is no longer an option. This has been our global experience at Deloitte, where Industry 4.0 has seen many seek alliances and opportunities for collaboration and partnerships.

With Deloitte having helped to make an impact worldwide for 175 years, many lessons have been learnt through our history. The most important one, as penned by our global CEO, Punit Renjen and global board chair, Sharon Thorne, is this: "Solving the most intractable problems, in business and in society, requires collaboration, co-operation and connection."

Why is collaboration important?

Economic and business benefits of collaboration in the modern economy are widely documented in business literature and range from improved productivity, innovation and employee engagement to cost reduction and helping organisations to increase growth. Collaboration can happen in the workplace, but also through relationships between businesses, as well as public-private partnerships.

In South Africa's economy, the concept of collaboration is nothing new. Domestically, a more collaborative approach has been proposed for several years, particularly between the public and private sectors. This includes initiatives incorporating collaboration on training and job creation to a more collaborative approach to industrial strategy and policy formulation, and social compacting.

Given the country's prolonged slow economic growth performance, low manufacturing sector activity, rising unemployment levels as well as fiscal and structural challenges; cross-sector co-operation, improved public-private partnerships and collaboration between businesses (even in the same industry) are acknowledged to be important drivers of growth and sustainability going forward.

Societal impact has become a top measure of success

A more collaborative approach to growth has been front of mind for many of our clients. When asked to rate their most important measure of success in 2018, global CEOs' top priority was the impact their organisation has on society, including income inequality, diversity and the environment. Societal impact was most often mentioned as the top factor used to measure success when evaluating annual performance.

Linked to this, Deloitte, in 2018, identified the rise of the social enterprise as a key trend globally – an "organisation whose mission combines revenue growth and profit-making with the need to respect and support its environment and stakeholder network." The social enterprise is further defined as one that "shoulders its responsibility to be a good citizen, […] serving as a role model for its peers and promoting a high degree of collaboration at every level of the organisation." The 2019 edition of the same report saw this trend become more acute, forcing organisations to move beyond mission statements and philanthropy, to reinvent themselves with a more human and collaborative focus.

The role of the shared value concept

Collaboration is a powerful means through which to build and strengthen local economic clusters and the ecosystem. Particularly, the concept of creating *shared value* (a strategic choice made by organisations to apply their profitable business model in a manner which creates economic profits and prosperity for its shareholders as well as benefiting society) depends heavily on collaboration between the private sector and government, as well as the communities in which companies operate.

Some governments have attempted to balance company profits and competitiveness with benefits to society by introducing specific policies and regulation. While this has resulted in an increase in corporate social responsibility spend, the ▶

historical impact has been limited, with high levels of unemployment, poverty and wealth inequality remaining.

Creating impact that matters

To address continuous compliance and socio-economic pressures from regulatory bodies, Deloitte's *Value Beyond Compliance* offerings are intended to assist clients with delivering greater impact, efficiency and effectiveness from their compliance requirements. Collaboration through *Value Beyond Compliance* ensures more effective local socio-economic development planning, community development projects, stakeholder consultation, as well as participation with a single, holistic view on priorities.

With resource shortages and lower than required levels of economic growth, increased levels of collaboration enable companies to make an increased socio-economic impact. One way that Deloitte is doing this in South Africa is by collaborating locally with Knife Capital and the SA SME Fund on a structured entrepreneurship development programme – the Grindstone Accelerator Programme – to support entrepreneurs behind innovation-driven and scalable tech businesses in South Africa. With 80% of South African IT businesses not growing beyond four full-time employees, this partnership has assisted scalable local businesses to reach their growth potential.

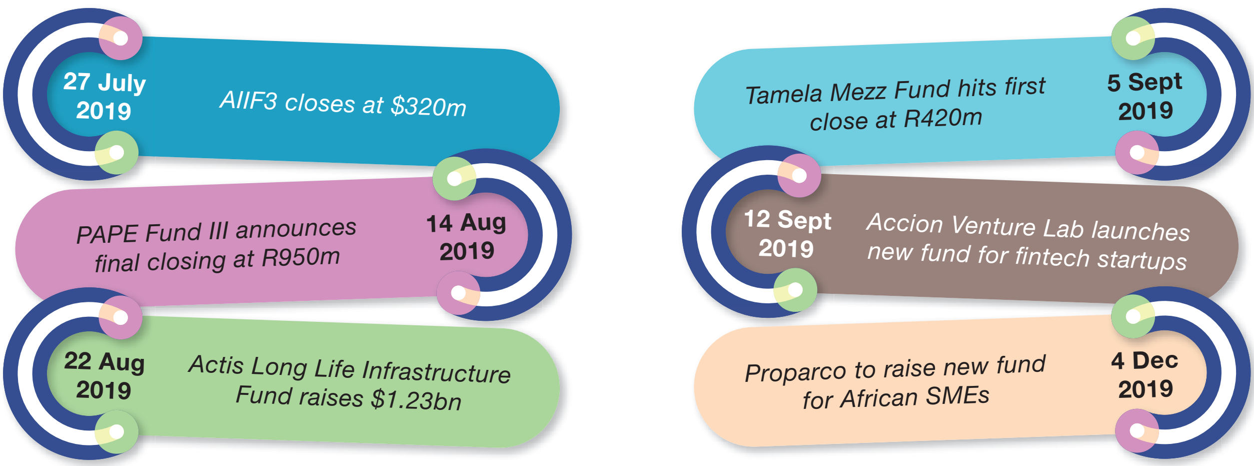
With a proven model and committed partners, the Grindstone Accelerator Programme is now in its fifth intake. Through collaboration, the programme not only ensures that scalable businesses target exponential growth, but also contributes to developing home-grown innovations that may also be powerful enablers and catalysts for unlocking new growth momentum in South Africa.

Our purpose at Deloitte is "making an impact that matters", and we believe this can only be achieved through collaborating, co-operating and connecting for growth.

Continued from page 11

Fundraising and fund launches by private equity in Southern Africa and beyond (2019)

Source: Africa Global Funds



Achieving more as a collective

Esther Mukumbo & Lebogang Ramokone:
Malkia Investment Holdings

From left, *Nomonde Dubase, Esther Mukumbo, Nomusa Mufamadi, Lebogang Ramokone and Lindokuhle Tau.*

"The new dawn is very promising for the black woman of South Africa, the inception of promising gender regulations and policy frameworks promised justice and fairness to all". This is a quote from a white paper by BM Akala, Challenging Gender Equality in South African Transformation Policies, published in 2018.

The truth is, countless policies and frameworks have been developed but how many of these have come to fruition? In January 2019, according to *Moneyweb*, there were no female CEOs running any of the country's 40 largest listed companies and this remains accurate to date.

As early as 2013, the government introduced the National Development Plan (NDP) 2030 as South Africa's long-term socio-economic development road map. This policy was adopted as the cornerstone and blueprint for a future economic and socio-economic development strategy for the country. Almost seven years to the date nothing significant has been achieved. If the target is 2030, that will be a total of 17 years for the policy to be effective and/or for there to be tangible results.

Partnership and collaboration yield results

Successful people will tell you no one can do everything, but everyone can do something. The reality behind this truth is that the greatest businesses this world has seen have stemmed from strategic partnerships and/or successful collaborations. The Small Enterprise Development Agency (Seda) noted that 72% of micro-enterprises and 40% of small enterprises are currently owned by women. To access funding there is a minimum "own contributions" requirement which usually inhibits or is a barrier to entry for many brilliant female entrepreneurs.[1] In the US, a recent study by The Diana Project of Babson College found that, "contrary to existing perceptions, many fundable women entrepreneurs had the requisite skills and experience to lead high-growth ventures. Nonetheless, women were consistently left out of the networks of growth capital finance and appeared to lack the contacts needed to break through."[2]

Working towards goals as a collective

Malkia Investment Holdings (Pty) Ltd also known as Malkia, was founded by three young black women in October 2016. As working professionals who had the opportunity to work in the banking sector, The Malkia founders realised that young black women were excluded from most of the economic activity and we certainly didn't have 17 years to wait in hope that a policy would come to fruition. As working professionals with a wealth of knowledge and experience, we realised that most women don't have the financial muscle or capital to access some of the available opportunities. An African proverb says *"If you want to go quickly, go alone. If you want to go far, go together."* This espoused our belief that we could only achieve our goals as a collective. We realised that if we joined forces and found other women who shared the same vision we could build something formidable. To realise our dream, we had to recruit other women. We recruited our friends who we believed would add value, experience and qualifications to the sectors in which Malkia would invest. By the end of October 2016, Malkia had grown to a shareholding of 25 black women. ▶

Working together raised more than R1 million

In a world where women entrepreneurs face so many challenges, the ladies in Malkia have managed to raised more than R1 million to date via ongoing monthly contributions. The mechanic or buy-in we used was in the form of a set monthly contribution. The first contribution of R2 000 was to purchase a share in Malkia, thereafter each R2 000 that a member contributes is a shareholder loan to Malkia. Like any business Malkia has also experienced its own challenges. Ten of the original 25 members have left for various reasons, however, we still have 15 strong women who are committed to Malkia in the long-term and who will uphold its vision of playing an active role in the industries we choose to invest in, such as mining, energy, agriculture, telecommunications, property, fintech, transport and logistics.

Our focus is to invest in companies that have been in operation for at least five years, with a turnover of between R10 million to R300 million per annum. The funds raised to date will be used to leverage and raise further funding. The sectors were chosen based on the expertise of the shareholders and the role that these sectors play in the development of the African continent. Malkia has a competent board of directors with diverse skills that guides its governance and strategic direction.

The new dawn is finally upon us. Armed with endless possibilities of a concerted effort we, at Malkia, realise that the small strides we have achieved will not only encourage other women to unify and come together but will also directly impact generations to come.

"You don't make progress by standing on the sidelines, whimpering and complaining. You make progress by implementing ideas." – **Shirley Chisholm**. This is the tenet that has guided us to date.

[1] *Seda Women-Owned Enterprise Development Information Booklet*

[2] *Article obtained from https://www.marketwatch.com/story/women-owned-businesses-face-a-lack-of-funding-and-heres-how-to-change-this-2019-03-08Seda*

Morgan Jones,
Mergers and Acquisitions
Partner: *PwC*

Keshini Pillay,
Value Creation lead
Associate Director: *PwC*

Value Creation a key focus in PE deals

Private equity fund performance across Africa continues to be monitored closely by institutional investors, especially given the need to carefully weigh private equity allocations.

Firms are increasingly under pressure to deploy capital, as well as demonstrate successful exit delivery, but with competition for assets fierce and the business climate uncertain, identifying and executing profitable deals has become more complex. Conversely, an environment where corporates are divesting assets, and restructuring, can offer significant opportunities for private equity.

Opportunities abound, however firms need to focus on creating value

The opportunities presented by technological disruption and enhancements, changing customer expectations and new business models, are real. There are also opportunities to be at the forefront of consumer and market shifts such as the drive for sustainability.

However, amid prolonged macro uncertainty and rapid technological change, not all deal activity is maximising value creation. Even in industries that are enjoying higher returns, structured value creation focus is still needed across investment strategy and post-deal integration and exit, including understanding and recognising human capital issues early on.

To continue to deliver attractive stakeholder returns, it is imperative for firms to enhance the way they identify potential investments, seek out and collaborate with new partners, develop operational capabilities to ensure their investments perform better and lead the dialogue on investment time horizons and investment structures.

Moreover, proposed investments must be combined with vigorous planning to ensure value creation remains the key driver behind strategic initiatives.

PwC survey shows dealmakers are recognising the importance of value creation through collaboration

Given the volume of deal making and the track record of the industry, private equity firms are in a great position to look at how a deal can create even more value. To understand the factors influencing performance, we interviewed 100 senior PE executives from a range of industries and geographies about their experiences in creating value through M&A. Our research found that if dealmakers were to do their deal again, they would prioritise value creation earlier.

The survey responses illustrate the collaboration required across the functional areas of the business to create value in a deal, varying from strategic repositioning and maximising top line growth to focusing on the incentives and cultural understanding needed to retain and motivate key talent. We also believe that advances in data and data analytics can be a huge enabler in value creation via the enhancement of business analysis and insights.

Key themes in the PwC study findings

More value could be driven by revenue enhancement	Strategic clarity is required from the beginning	A closer eye on talent retention and culture is critical	Ways to identify and boost value during exit should be formalised
45%	**80%**	**57%**	**91%**
Only 45% of PE dealmakers realise deal value through revenue enhancement	80% of deals that utilised a formalised approach to creating deal value delivered material returns	As many as 57% of PE dealmakers said cultural issues hampered value creation	91% of the dealmakers who say their divestment created value ran their exit process according to a formalised methodology

Pairing our survey insights with our own experience of helping financial investors navigate the deals landscape, PwC Value Creation experts can share meaningful ideas on how to enhance performance and boost multiples to best deliver the returns potential of a transaction.

The full report can be accessed via the PwC link – www.pwc.com/pe-report.

A sample of private equity exits in Southern Africa in 2019

Source: Africa Global Funds

- **17 April 2019** – *Vantage exits Thebe Timrite*
- **23 April 2019** – *Phatisa's AAF delivers first exit*
- **4 Aug 2019** – *Denham exits BioTherm Energy to Actis*
- **4 Nov 2019** – *Agri-Vie Fund I sells HIK to African Pioneer Group*
- **15 Nov 2019** – *Vantage exits its Genser Ghana investment*

Private equity transactions in Southern Africa (2019)

Source: Africa Global Funds and publicly available data

- **14 Jan 2019** – *Arise to acquire 29.5% stake in Moza Banco*
- **28 Jan 2019** – *Kalon Venture Partners invests R10m in Flow*
- **30 Jan 2019** – *Agri-Vie Fund II invests in local beverage manufacturer*
- **30 Jan 2019** – *Berkshire Partners to invest in Teraco*
- **21 Feb 2019** – *RapidDeploy raises $12m from GreatPoint Ventures and Samsung NEXT*
- **25 Feb 2019** – *DPI backs IFS*
- **16 Mar 2019** – *1K1V makes foray into digital payments sector*
- **27 Mar 2019** – *Viola Fintech leads $12m round for Rewire*
- **14 April 2019** – *Britam invests in Tiserin*
- **25 April 2019** – *ARC acquires stake in QED*
- **16 May 2019** – *IAPEF2 makes follow-on investment in wiGroup*
- **25 May 2019** – *Apis and Crossfin acquire Sureswipe*

SAVCA, FNB and the SA SME Fund work together to implement the Fund Manager Development Programme (FMDP)

Thiru Pather, (TP)
Investment Principal:
SA SME Fund

Mike Sage, (MS)
CEO: *FNB Structured Finance Solutions*

Melanie de Nysschen, (MdN)
FMDP Programme Manager:
SAVCA

SAVCA, the SA SME Fund and First National Bank (FNB) collaborated to successfully launch the inaugural Fund Manager Development Programme (FMDP) in 2019. Melanie de Nysschen, SAVCA's FMDP Programme Manager, Mike Sage, CEO of FNB Structured Finance Solutions and Thiru Pather, SA SME Fund's Investment Principal weigh in on the merits of the programme and why they have such high hopes for its success.

1. Tell us about the collaborative effort towards the FMDP aimed at transforming and increasing the value of assets under management by black and female-owned and managed funds?

MdN: Without the generous support of FNB and the SA SME Fund it is fair to say that SAVCA would not have been able to launch the SAVCA FMD Programme) in its current form. The enthusiasm with which both Mike Sage and Thiru Pather (engaged with SAVCA from conceptualisation to design, and ultimately, the launch phase of the programme; and their willingness to share their time and expertise has been fundamental in getting the programme off the ground.

MS: FNB Business sees the private equity and venture capital market as pivotal in promoting growth and employment in the small to medium enterprise space in South Africa. We were keen to get involved as soon as we were presented with the opportunity to work with SAVCA and the SA SME Fund on this initiative. The partners in the programme contribute unique skills and resources in running a well-rounded programme aimed at upskilling the participants. The programme provides participants access to partner networks to ensure that talented emerging fund managers are able to successfully raise and deploy funds in the market.

TP: Fund of Funds investments skills, experience and networks have helped develop a landmark programme that will assist in the sustainable transformation and development of the fund management space in South Africa. The funding support helps SAVCA deliver high quality content, mentorship and operational support at no cost to the FMDP participants.

The combined skills, experience and industry knowledge of the parties ensures the development of a fit-for-purpose programme and a robust selection process. One of the gaps we noted was that nascent fund managers were not able to effectively articulate their strategy and differentiating features. The FMDP provides fund managers with tools to better articulate their strategy and align their resources and infrastructure with the economics of their targeted fund size, giving them the best chance of fundraising.

2. What resources does your organisation bring to the programme?

MdN: SAVCA brings the support of its 180-strong membership base and extensive industry networks that play a big role in the roll-out of programme-specific content, as well as coaching and mentorship support. In addition, we are known for offering relevant training of the highest standard. From this perspective, hosting the programme within SAVCA is a perfect fit.

MS: Supporting black- and women-owned fund managers is a key focus at FNB Business, which is why we are more than just a financial sponsor. As a banking partner, FNB Business assists participants with access to bespoke banking solutions. We also provide access to dedicated relationship managers who understand the fund managers' requirements on a business and personal level.

TP: In addition to being a lead sponsor contributing financially to the programme, the SA SME Fund has been instrumental in the programme design and selection process. We are also assisting with the post-programme assessments of fund manager pitch decks and ongoing coaching.

It is incredibly valuable for the programme participants to have exposure to some of the most experienced Fund of Funds investors through the selection process as well as the fundraising roadshow scheduled for the final module of the programme.

3. Why is this collaborative effort so important in helping to foster deeper relations within the FMDP/investment space?

MdN: Fragmentation of good intent is the enemy of progress. The key to a strong eco-system supportive of sustainable growth is collaboration. Rolling out a programme in pursuit of the development of emerging fund managers without the support of the eco-system in which these fund managers will ultimately operate would be pointless. It would be tantamount to carrying around a faulty umbrella on a bad weather day; without some pretty robust stretchers that enables the canvas to stretch to full capacity once opened, the umbrella cannot fulfil its core task.

We are thankful for the industry's positive reception of the programme and the acknowledgment of the role it plays in ensuring an environment that is supportive of fulsome integration, and sustainable participation during and especially post programme roll-out.

MS: Just as SAVCA understands their members and fund managers, FNB Business understands entrepreneurs and investors. With this understanding we can pull together and bridge the gaps between the fund managers, their target companies and investors. Many newly established fund managers are seasoned deal-makers but few have run their own businesses and FNB continues to bring fund managers closer to their investee companies, which is critical to successfully generating return on investment.

TP: The FMDP provides a platform for fund managers to interact with each other as well as investors, pipeline companies and service providers in a collaborative manner.

Some of the most valuable experiences will be the sharing of lessons learnt with a view to fewer expensive mistakes being made.

4. Since the inception of the FMDP, what are some of the innovative ideas that have arisen?

MdN: In the spirit of making ecologically responsible decisions, we opted to implement an online, rather than a paper-based, application process. Not only was this the 'green' thing to do but it significantly improved the efficiency of the application process and ultimately the selection process given the high volume of interest. We are grateful to the team from Converge Solutions for providing technical expertise and hosting environment for the application process, at no charge.

We are equally grateful to the IFC for agreeing to roll out its Environmental and Social Risk Management programme to FMDP participants, also at no cost. The IFC's participation underscores SAVCA and its strategic partners' intent to enable an increase in the uptake of Environmental and Social Standards by industry participants, in support of sustainable investment. ▶

MS: When we embarked on this journey, it was important that the programme was different to other fund manager development or incubation programmes in that the participants left with a broad and diverse set of tools to help them become successful, well-established fund managers. Through collaboration, we have created a programme that is unique, wide-ranging and includes practical workshops that provide participants with technical skills, team dynamics, personal mastery as well as a mentoring and coaching.

TP: The FMDP was innovative even before its official launch. As part of the selection process participants were given 10 minutes (impromptu) to design a piece that depicted their fund in a creative way (using materials such as play dough and sand). This allowed the selection panel to quickly assess the team's collaboration and creative skills sets as well as the general team dynamic and cohesion. One of the most important screening factors considered by investors is the strength of the team and the ability to work together.

5. Given the tough economic climate, what are some of the challenges which exist for businesses moving forward, and how does a collaborative effort help to navigate these challenges?

MdN: Some of the biggest challenges facing businesses include empowering people with appropriate skills, access to market, and access to funding. There is no way to address these other than efficient collaboration between government, public-sector institutions, the private sector, investors and educational institutions.

Finger pointing gets us nowhere. A concerted effort that begins and ends with a 'what can I contribute to the collaborative effort', implying concerted innovative thinking at all levels, is the only effort that will move us forward in support of entrepreneurship and business development.

MS: It is vital to recognise that most SMEs are facing severe headwinds including limited growth, slowing cash flows and, at times, sporadic access to power.

It is important that all three collaborative partners use their strengths and networks to help support emerging fund managers navigate these uncertain times.

FNB Business looks to provide financial and technical support to fund managers as well as their investee entrepreneurs. We have a full value proposition to help companies from advisory services, access to capital through products such as invoice discounting and digital solutions to help increase efficiencies and drive down costs.

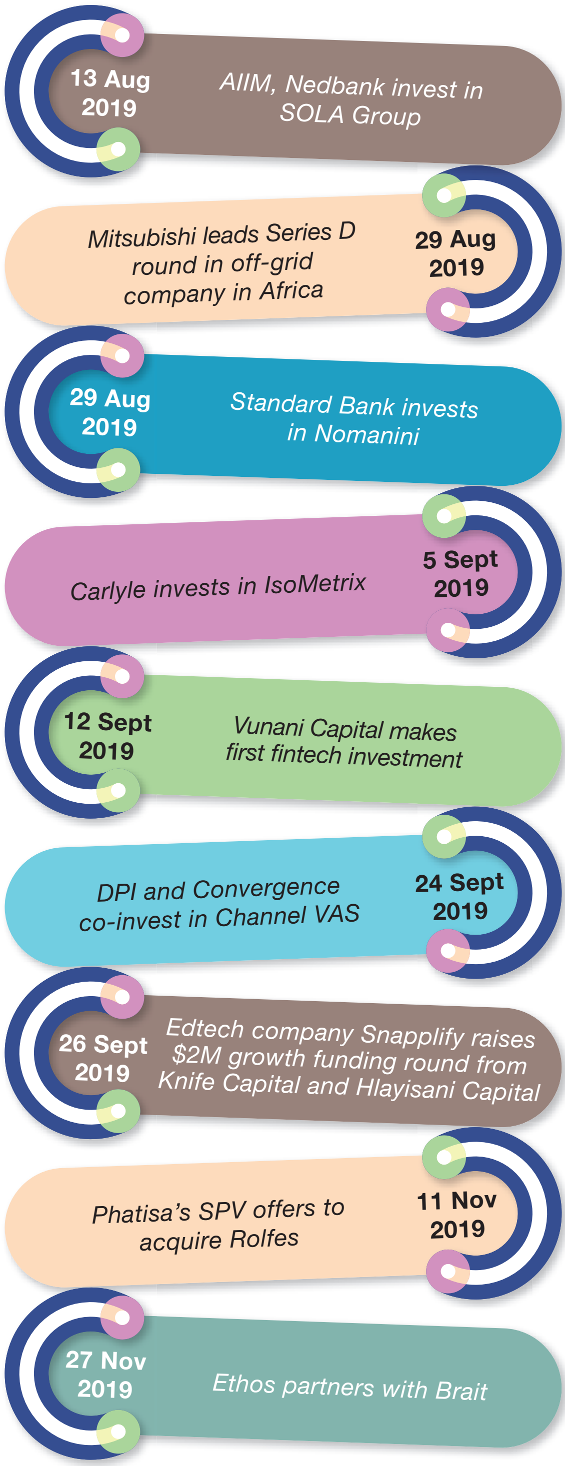
TP: One of the key challenges faced by portfolio companies is the ability to grow. The FMDP brings together a wealth of networks which will provide access to markets for portfolio companies to grow.

For the fund managers, the procurement of high-quality support services such as legal, accounting and compliance comes at a hefty price. To help with this SAVCA has obtained commitments from industry partners to provide these services to FMDP participants at more affordable rates.

Continued from page 29

Private equity transactions in Southern Africa (2019)

Source: Africa Global Funds and publicly available data



COMMIT

Dean Alborough,
Head of ESG: *Old Mutual Alternative Investments (OMAI)*

Impact investing takes ESG to the next level

Dean Alborough, Head of ESG at Old Mutual Alternative Investments (OMAI), talks about the importance of impact investments and his experience managing them for Old Mutual.

What is impact investing and how does it contribute to social change?
It is worth briefly contextualising the concepts of environmental, social and governance (ESG) and impact investing.

ESG can be viewed as sustainability or sustainable development, and is defined by the United Nations as 'development that meets the needs of the present without compromising the ability of future generations to meet their own needs. Good ESG practice is generally viewed as 'do no harm' and is largely characterised by risk management practices'. Impact investing can be viewed as a subset of good ESG practice. The International Finance Corporation (IFC) defined impact investing as 'investments made in companies or organisations with the intent to contribute measurable positive social or environmental impact, alongside a financial return'.

Impact investments generally have four key elements:
1. Intent.
2. Positive impact contribution.
3. Measurement thereof.
4. Financial return.

There is a shift beyond just 'do no harm' towards targeting a positive environmental or social outcome. Targeting these net positive outcomes, with intent, and driving that outcome with defensible measurement, means the business of investing can deliver real environmental and social change.

How does one evaluate impact investing opportunities?
The IFC identifies three dominant frameworks:
1. Impact target (actual measurement of defined metrics against a target/goal).
2. Impact rating (a qualitative assessment of the significance of the impact).
3. Impact monetisation (a quantitative calculation of the degree of impact).

It is critical to identify that there is a difference between 'measurement' and 'rating', and that they are not mutually exclusive.

OMAI's primary approach is impact target. This is the identification of goals with associated targets. Measurement of relevant metrics is undertaken to assess progress, or lack thereof, against these targets. It is, in some instances. to forecast potential impact outcomes given previous experience and benchmarks available

What are some of the success measures of an impact investment?
Simply, the investment would have an acceptable range of return to meet the intended environmental and/or social positive outcome to deliver on. Setting targets for both elements allows one to measure the success of the investment.

What are some of the challenges around impact investing?
Challenges in the alternative investments space include:

- raising capital outside of traditional development-focused financial institutions;
- finding bankable projects that meet the required return range and environmental and/or social positive outcomes targeted;
- having a common/standardised set of impact metrics across multiple stakeholders; and
- implementing a robust impact measurement approach and collecting the required data for it.

Lydia Shadrach-Razzino, Executive: *ENS Africa*

Tshepo Mathabathe, Business Development Manager: *ENS Africa*

Global and local political uncertainty puts the brakes on deals

With the imminent realities of Brexit at the forefront of the global economic outlook, the global deal landscape has seen some interesting shifts. The African deal environment has not been immune to this state of flux, as well as socio-political fluctuations within respective sovereign nations on the continent.

Post the South African elections in May 2019, some remain spooked and whispers in the industry are that a number of infrastructure deals are still on hold. Since about 2014, once the EU's debt crisis appeared to improve, news sentiment switched to a negative view of emerging markets. What has changed since then? Well, global investors are increasingly looking to invest in emerging markets and the yields we offer. Other emerging markets such as Brazil or Turkey are more unsettled than South Africa, but our South African institutions are still largely viewed as relatively stable and there is room for growth, as long as Eskom keeps the lights on. The mining sector has been in turmoil for the past 10 years, but industry stalwarts are cautiously optimistic about their future. In terms of fixed investment spend, the mining sector has increasing scope to invest, although deep pockets and patience is what's needed.

At the same time over the last 10 years there has been a great deal of uncertainty in South Africa and our economy has shrunk. Political uncertainty, instability in the mining sector, uncertainty relating to tax and lack of clarity on policies, all further exacerbated by the electricity crisis which started in 2008, have all contributed to a precarious economic outlook for South Africa. An environment of this nature makes for the perfect investment storm and resulted in some panic which has led to a gradual slow-down in the deal-making space.

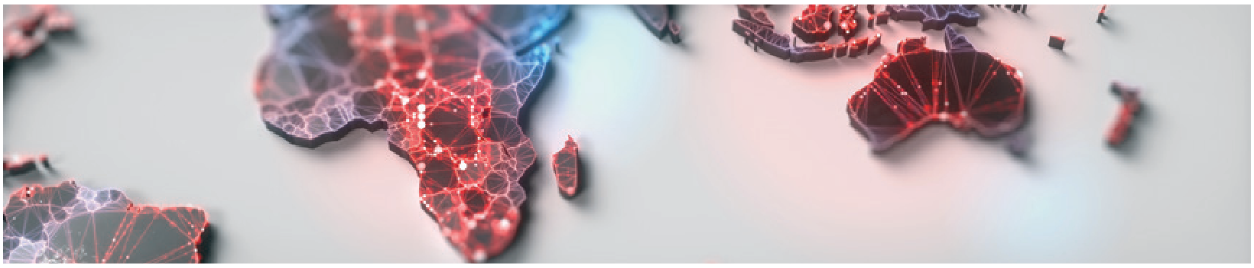
Billion-rand deals are few and far between

The large deals that we knew from the past were just no longer there. The most significant ones in recent years were:

- the Woolworths Holdings Limited/David Jones deal;
- the Mediclinic deal; and
- the Famous Brands/Gourmet Burger deal.

Unfortunately, these deals all subsequently resulted in negative outcomes. The Woolworths share price took a knock and the group took a loss of approximately R3.5 billion on its R6.9 billion David Jones impairment; Mediclinic is worth half of what it was and the Gourmet Burger deal also did not bode well for Famous Brands. These were all outward facing deals. The largest inward deal was SAB Miller and other than the aforementioned, we have not seen deals of any real significance.

Private equity is a sub-category under the 'general' deal-making banner and in the same vein, African private equity and South African private equity have not performed phenomenally over the last 10 years. Over the last two years in particular, key discussions with fund managers and transactors in the industry reveal that profits of portfolio companies have plummeted by as much as 50% in some instances. ▶



Where are the deals coming from?

There are two sources of deals in the market i.e. financial investors and listed companies buying and selling. Research shows that over the last 10 years, SA corporates have accumulated more than R1 trillion in cash on balance sheet. There are two ways to spend this cash:

1. distribute it to shareholders (whatever form that may take); and/or
2. use that cash to invest.

The deals that are happening can largely be attributed to the three following scenarios:

- capital must be deployed or it will be lost;
- mandates are ending and disposals must be done; and/or
- assets are distressed and must be sold.

Two deals that stand out in the disposals category are Rockwood's disposal of Tsebo and the disposal of Tessara by RMB Ventures to Carlyle.

Cautiously optimistic forward outlook

While deals continue to happen in the market, deal flow remains relatively slow. There is still a 'wait and see' approach to deals currently. This could be due to a combination of factors, for example, buyers being very conservative in what they want to commit in a certain period and sellers looking at the market optimistically and wanting to sell at the highest prices. There are several players in the market still deploying, however, and the market remains competitive.

Calling on all men in private equity to Commit

(We're looking for gender champions)

Cathy Goddard,
CEO: *FyreFem Fund Managers*

The private equity and venture capital industries are making headway with creating gender diverse teams, but is it enough? While SAVCA's research shows that 30% of South African General Partners (GP's) are women, Preqin and IFC detailed data shows that senior female employees make up only 9-12% of the staff complement in the private equity and venture capital alternative asset classes. Cathy Goddard, founder and CEO of a women-led GP, shares some informative international research on the benefits of gender diverse teams.

Commit is a strong word and one that is usually associated with wedding rings and arrangements akin to prison sentences. But in this instance I don't mean that sort of commit. I'm asking you to make small changes in the way we do things at our South African GPs.

IFC published a report in 2019 entitled Moving Toward Gender Balance in Private Equity and Venture Capital which looks at the impact on returns of gender diverse teams at GP level and portfolio company level.

This IFC report shows that the internal rate of return (IRR)s from private equity portfolio companies led by gender diverse teams are around 20% higher than they are for companies with less gender diverse teams. For venture capital portfolio companies, it can be a whopping 40% higher. This is a significant finding.

Given these findings, we should be asking ourselves why it is that we aren't allocating capital to portfolio companies that have, or have committed to, gender diverse teams? "Gender diverse" is defined as having a ratio of at least 30:70 between genders (either way). The report finds that leadership teams made up of 70%-100% of one gender, significantly underperform in comparison to the diverse teams. Not surprisingly, the report also indicates that women investment professionals at GP's are nearly twice as likely to allocate capital to women-led portfolio companies than men. This is due to a factor called homophily (the drive to connect to people who are similar to you). Something which, as fund managers, we should be aware of as it will influence our investment decisions.

For instance, an all-male investment team may not understand the product as well as women might, and may be more likely to dismiss the growth potential and market reach of women-facing products.

Simply stated - diverse gender management teams in portfolio companies lead to higher IRRs and diverse gender investment teams at GP's are more likely to invest in women-led businesses.

Our sector, however, lags as an industry when it comes to gender representation. See Figure 5, extracted from the IFC report. We can see that in Sub-Saharan Africa women make up 29% of all investment sectors, compared to a mere 12% in Private Equity and Venture Capital. ▶

Given this shocking statistic you may ask what are the small changes that need to be committed to? It's really quite simple and here are a few suggestions:

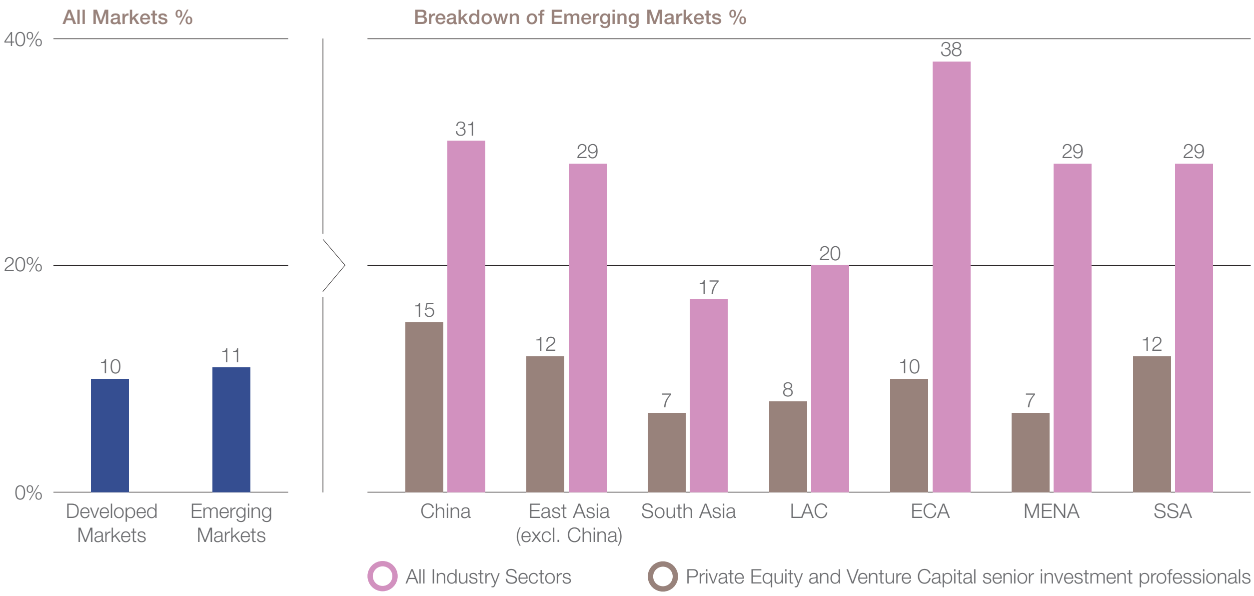
- Ask one senior man in your business to commit and champion gender issues. He, in turn, can drive some of the actions below. Of course, it's the responsibility of all senior management – it's just sometimes better to give one person the job.
- Get commitment at the top for gender diversity and set some goals after an honest look at the current state of play.
- Goals can include improving gender mix of new hires to, for example, 50% or to increase the proportion of employees that take and return from parental leave. Or how about aiming to have 20% of your senior team as women?
- When looking for recruits, actively look outside your existing networks to avoid more of the same (here we don't want homophily).
- Remember to be consistent with the interview questions and ask these to all candidates.
- Create a culture with equal parenting obligations.
- Formalise mentorship programmes.

Once you have built a diverse investment team, your firm will find that diverse deals will follow as new networks are tapped into. Until then, set goals to pro-actively look for female entrepreneurs and watch for unconscious biases that may undervalue gender diverse entrepreneurs during due diligence (make a note to brief your service provider on this bias).

Lastly, don't forget to measure your efforts and progress.

Here's to a gender-diverse 2020 – you have my commitment to that. We believe in this so much that we've recently changed our name from Firebird Fund Managers to FyreFem Fund Managers to reflect the team's profile and passion for creating gender equality.

Figure 5: Percent of Senior Investment Professionals across Private Equity and Venture Capital who are female



Source: *Aggregated Private Equity and Venture Capital firms dataset (including International Finance Corporation, RockCreek, PitchBook, Preqin and publicly available data).*

Note: *Senior investment professionals are defined as partners, C-Suite executives and managing directors. Share of senior roles (chief executive officers, managing directors, chairmen and other senior decision makers) held by women in other industry sectors are sourced from Grant Thornton (2017).*

Regulatory reforms: Actions speak louder than words

Shelley Lotz,
Head of Regulatory Affairs:
SAVCA

SAVCA continues to prioritise engagement with policymakers on industry-specific issues as part of its strategy and value offering to members. As a result of these continued interactions, in 2019 we experienced an increased appetite from policymakers to engage with SAVCA on improvements in the investment landscape in South Africa. But more importantly, we witnessed several regulatory reforms on issues affecting the private equity and venture capital space.

Some of the more noticeable reforms and SAVCA engagements with regulators and policymakers in 2019 included:

Retirement Fund Reform

SAVCA provided industry guidance on the application of Retirement Fund Reform, as it related to reporting by private equity funds, with respect to legislation which became effective on 1 March 2019.

Conduct of Financial Institutions - "COFI" Bill

SAVCA provided comments and participated in follow-up engagements with National Treasury and the FSCA on the proposed COFI bill. The COFI bill, once enacted, is expected to have a significant impact on the private equity and venture capital industry. For the first time in South African financial regulation, the legislation included a definition of an 'alternative asset'. Although the COFI bill is not yet finalised, it clearly indicates the regulators' intentions regarding all alternative assets. The explanatory policy paper accompanying the COFI bill, clarifies that both pooled funds currently regulated under the Collective Investments Schemes Control Act ("CISCA"), private equity funds and real estate trusts will be licensed under the COFI bill. SAVCA also participated in a closed-door follow-up session with the FSCA providing more context and input on the written submission provided in the first half of 2019.

Loop Structures and Exchange Control

SAVCA has engaged with National Treasury and the Reserve Bank over the past few years advocating for the relaxation/abolishment of Reserve Bank Loop Structure restrictions. As announced in the 2019 Medium-Term Budget Speech, South African individuals are now permitted to hold up to 40% of the equity shares and/or voting rights in a foreign company that holds investments or makes loans to a Common Monetary Area country (including South Africa).

Prior to the 2019 Exchange Control Circular, South African domiciled entrepreneurs encountered exchange control barriers due to the prohibition of loop transactions. This meant that entrepreneurs that wished to remain invested in the company following an investment from an international venture capital investor, were forced to sell their shares in the company and not benefit from any increased value in the company.

The recent relaxation will assist many entrepreneurs, who are supported by local venture capital funds, to attract international funding.

Additional SAVCA engagements and insights

- Engagement with the regulators and industry in relation to the definition of "encumbrance" as set out in the Insurance Regulations, as it relates to investment in private equity funds;
- Provision of comments on Section 12J (including presentations made to Parliament), and Section 8E included in the Tax Law Amendment Bill;
- Provision of comments on the Finance Minister's paper on Economic Transformation, inclusive growth, and competitiveness: Towards an economic strategy for South Africa; and
- Provision of input regarding the Financial Sector Transformation Council's development of the BBGF guidance note and review of the Financial Sector Codes.

Looking ahead in 2020, SAVCA will continue to make a concerted effort to engage with regulators and policymakers on matters affecting the industry, specifically exchange control policy. This will include promoting South Africa as a Regional Financial Centre and inclusion of private equity and venture capital regulation in the various financial sector draft legislation currently being considered. We are hopeful that these engagements will continue to result in meaningful changes to the legislative environment and translate into positive actions – which speaks louder than words!

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