

SAVCA Conference 2021: Day 2 in review:

Day 2 started with our MC Zipho Sikhakhane providing an insightful recap of some of the main themes and learnings from the powerful conversations and debates held on Wednesday.

Session 1: PE Re:imagined, the lasting impact of COVID – case studies

In the first session of the day, which was moderated by Tanya van Lill, CEO of SAVCA, we looked at an array of diverse Private Equity (PE) case studies that illustrated some of the ways in which the industry is operating and had to adapt.

After a brief introduction from each panelist, Tanya posed a series of questions to each one.

We heard from Sam Tennant, Principal at Edge Growth, on how the passion and desire to solve a real challenge within the SA economy drew his team to their investment in Lula Loop, a company that provides a range of transport-related services including corporate ride-sharing and small parcel deliveries.

“We shared Lula’s belief that safe, reliable and cost-effective transport shouldn’t be a privilege – it should be a right. The energy of the Lula team, their innovative solution and the very real impact we could see it having on South Africans really drew us in,” he said.

Velani Mboweni, Co-Founder & CEO of Lula, described the numerous ways in which the various investors in his company has supported its growth, even amidst a crisis.

“We are very blessed to have investors from all over the world supporting us in different ways,” he said. “They’ve provided us with helpful introductions to potential customers who need transport-related solutions and most importantly, have given us invaluable frameworks in which to run our business.”

Velani acknowledged that they don’t teach you in business school how to lead in a pandemic but that Lula found their investors’ insights really helped keep the company focused on the right things and enabled them to pivot the way they did.

Next up was Kelly Joshua, Head of Education Investment at Old Mutual Alternative Investments who talked us through why Old Mutual decided to enter the independent education space with their two education impact funds.

“I think we’d all agree that education is a key pillar in economic development. But the sector has traditionally been seen as quite risky and hasn’t attracted that many institutional investors,” she said. “But Old Mutual saw an opportunity to build quality education facilities in the townships to service the increased demand from an expanding middle class which wanted more for their children.

The fund is a way to contribute to bridging the gap in our education system while providing investors with an opportunity to achieve risk-adjusted inflation-beating returns”.

Onto a more controversial industry, Kasief Isaacs, Head of Private Markets at Mergence Investment Managers discussed how Lesotho-based MG Health, one of Africa’s largest licensed producers of medicinal cannabis, has adapted to COVID-19 lockdown conditions.

He also outlined how the development of a world-class facility in Lesotho has boosted the prospects of 250 individuals.

“In an area in which no real economic activity took place, we now have a community of 250 full-time employed staff that can enjoy the infrastructure MG Health has brought to this remote destination,” he said. He explained how WiFi and healthcare have been brought to the area too. “We’re about to unlock hard currency revenues, things that were not on the radar in this industry as little as five years ago. From an impact perspective, we’re seeing a meaningful change in people’s lives every day,” he said.

It’s not only cannabis that’s been in the limelight, on a different tack, Andrew Johnstone of Climate Fund Managers outlined why climate change has recently gained a lot of traction.

“We’re seeing evidence of climate change affecting all parts of the world in an extreme manner, while lockdown has also shown us what a climate stable world could look like,” he said. He also pointed to the re-entry of the US into the climate debate as a reason for the world’s greater interest in the issue.

Andrew explained that blended finance is one of the key ways we’re going to make headway in dealing with the problems posed by climate change. “Blended finance is a unique way of aggregating capital from the public and private sectors, and combining it in such a sophisticated way that the sum of the parts enable that capital to be deployed at scale,” he said.

The speakers also ran us through some of the lessons they’d learned through the COVID-19 experience which included the importance of frank conversations, how leadership is not just about capital – it’s about the value add, and how technology has changed the way we educate.

Coffee Conversations

A break followed this riveting panel in which delegates were encouraged to either stretch their legs or attend a Coffee Conversation.

One of the Coffee Conversations was on managing distressed assets in times of uncertainty. Delegates discussed how leadership is the single most important factor in determining the success or failure of a turnaround. Marco Visser, Turnaround Director of Mars Hill Capital, expressed his opinion that the hardest part of a turnaround is convincing leaders to buy into initiatives because they are jaded from past attempts at turning their businesses around. He highlighted that 70% of turnarounds fail primarily because of leadership issues.

Another Coffee Conversation was on Special Purpose Acquisition Companies (SPAC).

Patrycja Kula, JSE Business Development Manager posed that the SPAC model for raising capital is an efficient vehicle to consider given its attractive acquisition structure.

“It gives you an ability to raise money from institutions with listed mandates and hence a deep pool of capital; speed to capital has been efficient,” she said. “If you look at the typical fundraising cycle

for a lot of PE funds, it's not always as quick as one would like. A lot of the SPACs which have come to the market have raised their capital in less than 12 months."

Gregory Voigt, Partner at Adlevo Capital cautioned, however, that SPACs are potentially less efficient for any organisation targeting a market capitalisation of less than R5 billion.

"You have extraordinary friction costs in a listing, and there are regulatory and compliance fulfilments which add costs to your listing opportunity. If your listing isn't R5 billion and north of that, I don't believe that the economics can be justified," he said.

Patrycja responded that SPACs are an ongoing conversation within the JSE, and that her team was currently working on a consultative market process in review of the various requirements.

The third coffee session was on the future of African risk management and was led by Duncan Keil, Managing Director: ICAP. The conversation was centered around cryptocurrencies and their role, or not, in risk management. Cryptocurrencies are attracting a great deal of attention from individuals, businesses and central banks and is gaining ground across the African continent for individuals and businesses looking to circumvent risks and also to reduce costs and complexities of transactions. Cryptocurrencies can be used to hedge against high inflation and volatility both of which are prevalent in Africa. The continent also has a far younger, faster growing population with greater digital penetration. However, lack of regulation and historical scams are a stumbling block in cryptocurrencies being recognised as a legitimate asset class. He noted that cryptocurrencies are an ideal antidote to political chaos.

Session 2: Industry trends and SA Inc Panel

Thereafter, the second platform session of the day kicked off with Cathy Goddard, CEO of FyreFem Fund Managers interviewing David Wilton, CEO of Zhang Partners.

David highlighted that SA used to be highly visible in the PE market as a crucial part of the BRICs five and a desirable destination to do PE in emerging markets. These days it's no longer viewed as a standalone destination, it's now seen as one part of the whole African continent.

"SA needs to see itself as part of the African story," he said. "Funds need to be positioning to be part of Africa, expanding through the SA base into the rest of the continent and doing cross-border transactions." SA funds aren't doing this at the moment and they need to be figuring out how they can make things work in the rest of Africa. "Think of expansion beyond SA as something you can do just north of the border, don't look to Australia or Europe first," he advised.

The second part of the session was a panel discussion featuring some of South African's biggest industry leaders. The discussion was moderated by Prof Nick Binedell who called on the speakers to share their thoughts on how South Africa should go back to basics in order to recover from the pandemic.

Ronak Gopaldas, Director at Signal Risk talked to the trifecta of debt, disease and dysfunction in SA that need to be urgently addressed. "The state is both the problem and solution in this country – that's a tension we're going to have to reconcile. A capable, agile and accountable state is going to be central to whatever this post-COVID future looks like," he said.

He discussed the trust deficit in SA between the public and private sectors and how we need to re:imagine this relationship, the social contract between these two entities. "Strong leadership that is more contextually aware of the changing domestic landscape is going to be key. We need

leadership that understands their party is only part of the solution, not the whole solution itself,” he said.

For Polo Leteka, ABSIP President and Chairman of IDF Capital, it’s the private sector which is going to have to lead the recovery. “The private sector seems to recognise the country’s digital skills requirement,” she said. “A massive drive to digital adoption, training and upskilling of our people is what’s really needed.” She pointed out that it was mainly the black youth and black women who have arguably suffered the most in the COVID-19 crisis and subsequent economic meltdown. Much of this can be blamed on the fact they don’t have the necessary digital skills – they’re in jobs that require them to be present at their place of work.

It was back to the role of the state with Anthony Costa, Investment Programme Lead of President of South Africa’s Investment Mobilisation Programme. He argued there’s been a good model of private-public co-operation as a result of responding to the pandemic. He ran through the good, the bad and the ugly of our current situation.

What’s been good is that the economic devastation that’s been wrought on the country hasn’t been as bad as originally feared. “We’ve seen revenue above projections, we’ve been saved by the commodity boom as well as having seen our budget hold the line and firm investment commitments from companies,” he said. “We have a real opportunity to leverage green money in SA’s reconstruction.”

However, the bad part is that we’re not sure what kind of impact the third wave will have, the fiscal outlook is still worrying given public sector wages and structural reforms are lagging. The ugly paints an ever-darker picture: “Unemployment is a pressing problem that has got worse. Some jobs have been restored but not necessarily the right ones,” he said. “It’s a nation crisis,” he warned.

Meanwhile, Ben Bierman, Managing Director at Business Partners drew everyone’s attention to the sorely lacking confidence in the SME sector. “We’re experiencing a triple deficit – but particular attention must be given to the confidence deficit that we’re facing, specifically among SMEs. We run a survey every quarter and it was devastating to see at the end of the fourth quarter of last year the extent to which confidence levels have decreased amongst small business entrepreneurs.”

He also cautioned: “The tail end of this pandemic is going to be longer than we anticipate.” He made an innovative suggestion that the corporate world uses its tax savings that will materialise from the latest Budget and channel them into improving unemployment.

Mark Sack, CEO Sally Williams also asserted that we can’t wait for government to pull us out of this mess. He walked us through a number of lessons his business has learnt through the crisis. “Trim the fat, retain your faith in the business, stay close to customers and get your hands dirty again,” he advised. Being able to pivot and execute quickly will differentiate winners and losers.

Knowledge Hub sessions:

A number of Knowledge Hub sessions were held before lunch. These covered a diverse range of topics, some of which we cover below.

Market Update: South African Transaction Liability Insurance

Willis Towers Watson provided an overview of transaction liability insurance and a market update for Africa. Insights were offered into recent trends from insurers and general M&A insurance market activity. The impact of Covid-19 on the M&A insurance market, how insurers are dealing with this in their policies and common exclusions were also discussed.

Business Rescue: The Comair Limited Case Study

One of the challenges which ASOCapital faced when overseeing the business rescue of Comair was that the entire process was done virtually. Difficulties included managing the various stakeholders, from management and shareholders to creditors and employees. Each group of employees was represented by various unions and the business rescue practitioners (BRPs) had to navigate the various interests represented by each group. One of the key things the BRPs did was to be transparent with everyone and to overcommunicate. “Regular communication keeps everyone happy,” Richard Ferguson, Director at ASOCapital said.

The Impact of BEE Regulatory Framework on Private Equity Transactions

ENS Africa Director Lydia Shadrach-Razzino discussed the PE transformation journey which shows that there are increased levels of BEE compliance by fund managers over a ten-year period as at 2019. Over 64% of fund managers are between BEE level 1 and 4, speaking to the good progress which the industry has made.

Sanjay Kassen, ENS Africa Director however said there are still challenges when it comes to the BEE regulatory framework around PE which needs to be addressed.

Trends in Fund Domiciliation and Capital Raising for South African Fund Managers

The Jersey Finance Knowledge Hub focused on their latest report that reported on the Trends on Fund Domiciliation and Capital Raising for South African Fund Managers.

One of the main drivers identified in the report that influence the decision to domicile is very much dependent on the LPs and their level of comfort with the jurisdiction. The panel also provided interesting comparisons between jurisdictions, and honed in on two key considerations for LPs: regulatory complexity and cost.

Tax and cross border features of management equity investment in portfolio

The Bowmans knowledge hub covered insights by industry experts Michael Rudnicki, Robyn Berger and Fazil Hossen Kahn, regarding items to consider in portfolio company management incentivisation, both within South Africa and through offshore structures such as Mauritius. Michael outlined the key aspects in the SA tax legislation that deal with granting of management incentives, including the potential for adverse tax consequences resulting from share restrictions granted to employees, if not adequately considered. Robyn explained the amendments set out in the recent Exchange Control circular issued in January 2021 relaxing loop structure restrictions, and the impact on South African private equity firms and investee companies. Fazil also provided insights on the offshore share incentives structures and changes to the Global Business Company (“GBC”) regime in Mauritius.

The two remaining Knowledge Hubs focused on:

- A benchmark analysis of the latest fund terms and trends for African-focused funds which was presented by Ashford Nyatumba and Nicole Paige, Partners at Webber Wentzel; and
- An EMPEA member perspective on global private capital.

Session 3: My Octopus Teacher, Private Market Insights and Disruption Amplified

The main platform third session of the day took place after lunch and was a moving conversation by Pippa Ehrlich, Director of “My Octopus Teacher” about the making of the Oscar-shortlisted Netflix original documentary. It was a powerful story about the very emotional journey undertaken by those involved in filming and producing the film and about how they all had to re:imagine themselves and their relationships with nature at different points in the journey.

The most important lesson Pippa described to come out of her experience in this project was the realisation that the success of the octopus species relies on them being in tune with their environment. They have evolved and survived as a species for so long because they do what's best for the world around them at all costs, they think of the future and the animals that are coming after them and this universal message is something we should all be paying attention to.

"Biodiversity is the immune system of our planet," she pointed out and it's being lost at a rampant and terrifying rate.

It was especially interesting how much of what she spoke about tied into the themes we explored at the SAVCA conference. She spoke of how her team had to re:imagine the format of their storytelling, about how they had to inject humanity into the story (as Stan Slap advised us on Wednesday) and about how important it is to go back to basics and remember what drew her team to the story in the first place (as we discussed in Session 2 Day 2). Finally, it was through the execution of telling this story that they all grew and changed and ultimately succeeded in what they set out to do.

She implored us to re:imagine the way in which we engage with the planet through three lessons she learnt through her journey that we can apply broadly to the business and natural worlds we inhabit:

- To consider that every human is part of the story and has a relationship with the natural world;
- To work together as a hivemind; and
- To remember that everyone has their own brand of magic and contribution to make to re:imagine the future.

Pippa's presentation was an eloquent and personal message that concluded by reminding us that this is the last decade we have left to re:imagine our relationship with the planet.

FMDP and Conference Awards:

The participants of the SAVCA Fund Manager Development Programme (FMDP) then had the opportunity to introduce themselves. The programme, which was formally launched at the 2019 SAVCA PE Conference with strategic partners FNB and the SA SME Fund, commenced in November 2019 with technical assistance and support for the cohort of emerging fund managers. What was clear from the introductions was that despite the enormous uncertainty introduced by the pandemic into an already challenging market for emerging managers, the programme participants lived the definition of grit and was still able to extract full benefit from the programme.

This was followed by the inaugural SAVCA Conference Awards which acknowledged the excellence, dedication and innovation within the industry through a peer voting process. Congratulations to the winners of the various categories:

Acquisition – small/mid portfolio company: Sanari Capital (LightWare Lidar)

Acquisition – large portfolio company: Sanlam Investments (Cavalier Group)

Exit – large or small portfolio company: Pembani-Remgro (Octotel PTY LTD)

South African Institutional Investor Award: Alexander Forbes Investments (South African Private Markets Programme)

Fund Manager Award: Norsad Finance

Service Provider: SANNE Fund Services

Private Markets Insight

For the penultimate session of the day Tarek Mahmoud, EMEA Chairman of BlackRock Alternative Investors took us through some insights into an evolving private markets landscape. He expects investors to continue seeking higher returns by increasing allocations to alternatives. He listed a number of factors that will support this ongoing trend and the rising importance of sustainability in the investment world. The presentation also covered the four areas in which he sees the most opportunities because they've been amplified by the pandemic: distressed and stressed situations, PE secondary market, credit and hedge fund strategies.

Wrapping up the day in a truly inspirational presentation was Abdullah, Verachia, CEO, Author, Lecturer, Strategist at The Strategist.

"The canvas on which you paint today is very different to the canvas you're accustomed to painting on," is how Abdullah began his presentation on "Disruption Amplified." In essence, everything from the external environment to the individual choices we make, is changing, he argued.

"No president, prime minister, CEO or executive has the answers in terms of where we're going – this is a fundamental reset. But in no way should the absence of an answer immobilise us into indecision," he said.

He argued that we're in a "90s moment." In other words, in a similar vein to how the three years between 1989-1992 shaped the trajectory of the next 30 years. Right now we are in that pivotal moment, in his view.

He walked through the sectors that he believes are facing transformative change. These included the healthcare sector, travel, professional services, work in general and property.

Some of the other advice he offered included detoxing from technology, engaging with people outside your normal sphere of interaction and examining how to maximise return on time since it is, as he pointed out, the only real currency we have.

On this sobering note, Zipho reminded us that all good things have to come to an end. In her closing remarks, she noted that positivity was a consistent theme throughout the conference and that it was encouraging to see that many of the speakers focused on the opportunities that have emerged from the COVID-19 pandemic. After summarising the key take-outs from the afternoon's session she bid us farewell and closed what was a memorable and thought-provoking two-day virtual conference.