

re:imagine

SAVCA
conference
2021

SAVCA Venture Capital Conference 2021 in Review

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The 2021 SAVCA Venture Capital (VC) Conference kicked off on 15 November 2021. A hybrid event, the physical component took place at Eureka Wine Estate, Durbanville while also being streamed to a virtual audience attending from across the country.

In a continuation from the March conference, the overarching theme was “re:imagine” as we work towards reimagining the part VC can play in rebuilding our economy.

Sisters Matsi Modise and Mosidi Modise, who praised the enabling role SAVCA plays in the VC industry, provided a warm welcome to the event and introduced the first session. This was an interview between Ketso Gordhan, SA SME Fund CEO and Mmboneni Muofhe, Deputy Director-General: Technology Innovation (Department of Science and Innovation) on the role of government in enabling an innovative and vibrant VC ecosystem.

Fireside Chat: The role of government in enabling an Innovative and Vibrant VC ecosystem

Gordhan began by emphasising the importance of government support in the rise of the VC ecosystem. He pointed to Silicon Valley and Israel as examples of government policies that have underpinned successful and innovative VC industries.

Muofhe highlighted the strong foundation that the SA government has laid for doing something similar here by investing in research and development (R&D). He cited research that shows the South African government funds more than 50% of the country's R&D. This contrasts to other countries where governments' contributions are typically closer to 33%.

“We need to continue to strengthen R&D as a foundation for a thriving VC ecosystem,” he said.

He went on to illustrate the urgent need for innovation in SA. “There is no better time than now to strengthen the VC ecosystem, support start-ups and those coming up with good ideas and new solutions. Ultimately, we need innovation to get us out of our economic rut,” he said.



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Debate: To invest or not to invest in VC? Is it feasible/pragmatic for a South(ern) African institutional investor?

Next, we heard a debate on the practicality of investing in the South African VC industry for institutional investors.

The opposing front consisted of David Moore, Head of Alternative Investments: Alexander Forbes; Andile Keta, Group Executive, Investments and Corporate Finance: Rand Mutual Assurance and Mathabo Zandile Makhaya, Chairperson - Investment Subcommittee: Mineworkers Provident Fund.

They argued that high VC fees, illiquidity, volatility, difficulties with valuation and regulatory requirements were the main impediments to VC investing.

"Our clients don't like high fees," Moore said. "VC managers are expensive by virtue of what they do and that is a challenge for us".

Makhaya's view was that there's a need for capital allocators to improve their understanding of the VC industry. "There's a gap in education in that capital decision-makers don't always understand VC structures. The negatives of VC investing are well-known but we need to learn more about how to work around these issues", said Makhaya.

Keta (one of the opponents) agreed there's an education element missing. "We have to start inviting asset managers to present their strategies, get our investment committee comfortable understanding with the assets. We need to work together to be creative in coming up with solutions that enable us to match our long-term liability profiles," he said.

Nchaupe Khaole, Chief Investment Officer: Mineworkers Investment Company (MIC), who sat on the proponents' side of the debate responded that collaboration is a way to mitigate some of these perceived risks. He said: "Because the industry is at such a nascent stage of development, industry players are very open to idea sharing so as to drive the industry forward."

The other proponent, Henri Zietsman, Startup Business Development: Amazon Web Services (AWS), was also supportive of the idea of collaboration. "The way I diversify is by collaborating with venture firms, especially with accelerators like Grindstone", he said.



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Showcasing Competition

The next session was a new addition to this year's conference – a showcasing of six early-stage investors and their portfolio companies to demonstrate how their deals make a positive impact on society and the environment.

The first three were showcased in the morning: AURA, FlexClub and Matter. AURA is a marketplace for on-demand emergency response services, making on-demand emergency services accessible, inclusive and affordable. FlexClub offers a subscription model for mobility assets like cars and motorcycles while Matter digitizes remote infrastructure assets, facilitating efficiency and sustainability through real-time monitoring.

The afternoon's showcase consisted of FinFind, an online platform that matches providers and seekers of small business finance, HomeFarm, provider of indoor farms and gardens to consumer and commercial markets, and Tripplo, who is creating a new standard for African road freight.

The showcasing component of the conference was held as a competition, with delegates invited to vote for their favourite early-stage start-up – Tripplo took the top spot.



Panel Discussion: The Business Case for VC

The penultimate session of the morning was a panel on the business case for VC. This consisted of Ketso Gordhan, CEO: SA SME Fund, Antonia Bothner, Capital Markets Lead at Endeavor South Africa, Ganesh Rasagam, Lead Private Sector Specialist – Finance, Competitiveness and Innovation Global Practice: World Bank Group and Llew Claasen, Co-Founder and Managing Partner: Newtown Partners.

Claasen's opening remarks painted a sobering picture of the SA economy by reminding us all of the dire state of employment. "The big picture is that we have 64% youth unemployment. VC promotes entrepreneurship for people who want to change their circumstances," he said.



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Gordhan's comments were along a similar line: "Backing entrepreneurs that are going to invest in science and tech is a key part of the economic solution in South Africa," he said. "We need three things to happen in order to achieve scale: we need more seed funding, to convince institutional investors to allocate to VC and to encourage partnerships, especially between the VC industry and government, in order to maximise use of South African intellectual property."

There was a general feeling that while the industry has a long way to maturity, growth needs to be inclusive. We're making progress on this front, but it's not enough.

Bothner said: "There does need to be more inclusivity and it's not just in South Africa, it's global. What's interesting from a gender perspective is that of our 30 entrepreneurs that we work with in our main portfolio, we have six female founders. Four of these produce 75% of the jobs, which is amazing. While this is just a statistic, it does indicate that we are seeing inclusive growth in some places".

She also pointed out that as South Africans, we are often limited by our imagination. "Sometimes we can't see further than South Africa – there's a strong investment case for VC in Africa as a whole," she said. Claasen also highlighted how difficult it is to invest in South Africa and mentioned that in the last 18 months Newton Partners have invested all over Africa, but not in SA.



Exclusive session for virtual attendees: How technology can facilitate the Venture Capital Investment Process to enhance operational efficiency

Over the lunch-break, the online delegates were treated to an exclusive session with Anup Kumar Adlakha, Founder & CEO: PE Front Office on how technology can help improve operational efficiencies in VC firms. While most rely on Excel, or on separate tech solutions for different parts of their operational process, he offers a secure end-to-end integrated technology solution that is low risk and flexible enough to customise.



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Interview: Case study: European Pension Fund successfully investing in VC

After the lunch-break, delegates were treated to a session hosted by Tanya van Lill, CEO: SAVCA. She interviewed Doris Blasel, Partner Alternatives Venture Capital: Siemens Fonds Invest GmbH, who provided a case study of a European pension fund that has successfully invested in VC, specifically early-stage.

Blasel emphasised the importance of experience in VC investing. "Experience is absolutely mandatory in overcoming VC challenges for a pension fund", she said.

She provided an interesting breakdown of how her fund is diversified across geographies. More than 50% of her portfolio is invested in the US which is the most experienced VC market in the world. There is no exposure to either Africa or South East Asia.

What would change a pension fund like Siemens' mind on investing in Africa?

"You want to see some successes in the VC market you're going to invest in, you want to see an environment where these successes are repeatable," she said. "This means you need to have critical mass of VC funds and entrepreneurial activities and an institutional investor base that can invest across stages."

She also highlighted the benefits of diversity. "I'm very interested in diversity. My experience has been that diverse teams are better teams – each person with a different background comes with a different history and slightly different views which is so helpful in venture capital".



Panel: Venture Impact

The final session of the day was a panel on the case for a greater focus on African venture impact with Mabinty Koroma-Moore, Founder and CEO: Legacy Impact Venture Enterprises Africa (LIVE Africa); Gladwyn Leeuw, General Partner: Kingson Capital; Anton Baumann, Co-Founder: Empowerment Capital and Sibonakaliso Mavuka, Manager – Special Projects: Tshikululu Social Investments.

Baumann emphasised the importance of the SME sector. "It's globally recognised as the engine of job creation. We must support the 'missing middle'. 80% of GDP comes from companies that hire between 10-20 people," he said.



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Leeuw commented on the myth that investors must sacrifice returns if they invest for impact. "There's a misconception that if you invest for impact you must accept lower returns. This is simply not the case," he said.

There was quite a focus on impact measurement. The panellists were asked what constitutes impact for them and the various answers underlined Mavuka's point that "There is a lack of standardisation in how to report impact."

Mabinty said: "It's important to identify key indicators to measure...and to look granularly at the type of employment opportunities you're providing."



VCFMP Launch Announcement

The conference closed with an exciting announcement of the launch of the VC Fund Manager Programme (VCFMP) in partnership with TIA & SAVCA. The aim is to grow and transform the VC fund manager landscape and in doing so attract more capital to the asset class.

