

SAVCA PE Conference May 2022: Day 2 in review



The Fluidity between Investing for Climate Change and Social Impact

Day two of the SAVCA PE Conference 2022 opened with a panel discussion about the potential conflicts between investing for climate change versus the need to create jobs and invest in fundamental services. Sitting on the panel was Louise Naudé, Programme Manager: WWF South Africa; Todd Micklethwaite, Head of Strategy & Impact: Sanlam Investments (Alternatives); Kathryn Fletcher, Director: Control Risks and Nathaniel Nyika, CIO: Norsad Capital. The panel was moderated by Terry Wyer, Senior Vice President of Investment Programs: Heifer Impact Capital who questioned whether the tension exists at all.

While some panellists believe social impact should come before environmental considerations – that we should be looking to create jobs and allow people to provide for themselves as a priority – others agreed that the two issues can't be separated, that social and climate challenges go hand in hand. It was posed that the apparent tension is a false dichotomy – that the real issue lies in inaction on either or both fronts. The panellists were aligned on their view that the transition to net zero in South Africa needs to be a just transition that doesn't come at the expense of the livelihoods of those working in fossil fuel industries especially. It was suggested that there's capital available to make this happen, given the capital set aside for us at COP26.

How to Go with the Flow

The next session was led by Prof Jamie Anderson, Professor of Strategic Management: Antwerp Management School and Visiting Professor: London Business School. He illustrated with some exercises during an interactive session how natural it is for us to think linearly, rather than creatively. He suggested the world is in crisis precisely because we don't think creatively enough about the immense challenges we face today such as climate change, digitization and pandemics. He also put forward the view that the best way to tap into our creative cognitive ability is through deep thought, which requires time, something investment professionals often don't have enough of. But quiet, reflective time in a safe and non-distracting environment can really activate a creative mindset that is better able to problem solve, according to Jamie. "We need cognitive fluidity to deal with volatility and uncertainty. Make more time to think, question things and work smart – it helps you look after your health and wellbeing," said Jamie in closing his highly engaging presentation.

Infrastructure Debate: Team SA vs Rest of Continent

After a brief tea break, another panel was on stage to debate the merits of infrastructure investment in South Africa versus the rest of the continent. This "wrestling match" was moderated by Peter Attard Montalto, Director & Head of Capital Markets Research: Intellidex. The panel in support of SA investment consisted of Makole Mupita, Co-Founder: Mahlako Financial Services & Fund Principal: Mahlako Energy Fund; Kasief Isaacs, Senior Investment Principal (Private Markets): Mergence Investment Managers; Dr Anthony Costa, Investment Lead: RSA Presidency and Fulu Makwetla, Managing Director: Third Way Investment Partners.

They pointed to the benefits of SA's more mature and more familiar regulatory environment, which offers investors an element of predictability and certainty compared to the rest of the continent. The panellists mentioned experience as another reason to invest in local infrastructure – there are numerous companies and investors that have trod this path already so there are plenty of lessons to be learned from others' experiences. Rural infrastructure, water and green hydrogen were listed as some of the infrastructure opportunities we should look to invest in.

The "rest of continent" panellists included Lizeka Matshekga, Head of Implementation: Harith General Partners; Hugh Hawarden, Head of Infrastructure: Ashburton Investments; Vuyo Ntoi, Co-Managing Director: African Infrastructure Investment Managers; Bame Pule, Founder and CEO: Africa Lighthouse Capital.

They argued that the urbanization rate in the rest of Africa is greater than that in India and China, so infrastructure needs are vast and urgent, with transport infrastructure topping the list. They also dispelled the notion that the rest of the continent is a wild frontier where no one has ventured before and pointed to a long history and track record of public-private partnerships. The benefits of pension funds diversifying away from South Africa-specific risk by investing outside our borders was touched upon, as was the typically AAA-rated nature of projects undertaken in the rest of Africa, their generally high returns and their hard currency underpin.

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Global Private Equity Trends

We then heard from a number of experts about the current and future global private equity trends that may influence how we do business in South Africa. A pre-recorded message from William J. Kelly, President & CEO: CAIA and Elana Manola-Bonthond, CEO: CERN Pension Fund suggested there is international optimism about the opportunities available to PE investors looking for alpha and positive returns in Africa.

The live discussion was moderated by Andile Khumalo, CEO: KhumaloCo and took place between Christopher Mauss, Member of Management: Partners Group, Edmund Higenbottam, Managing Director: Verdant Capital and Elliot Refson, Head of Funds: Jersey Finance. Trends they identified included an increase in allocation to alternatives, particularly PE, and greater regulatory pressure which is resulting in increased compliance costs. The speakers also noted the shift in the roles of public and private markets as traditional asset classes. Having been seen as a more opportunistic investment strategy, private equity investing is becoming more mainstream and established, and is now viewed as a "traditional" asset class in the same way that public markets were viewed in the 1980s and 1990s. The importance of ESG reporting was another trend identified in the discussion, as was the rise in smaller, more specialised PE funds that can really make a difference and drive operational efficiencies. By way of example, Edmund pointed to that fact that \$3 billion of the \$6 billion capital deployed in Africa, had been invested into fintech or other tech companies.

Portfolio Management and Value Creation in Difficult Economic Times

After lunch, Sihle Gumede, Principal: Sanari Capital took to the stage to moderate a panel consisting of Joao Rodrigues, Operating Partner: Ethos Private Equity; Janice Johnston, Partner: Identity Partners and Michael Railton, Principal: Kearney. They discussed portfolio management and value creation in difficult economic times. Creating robust relationships with key stakeholders and genuinely understanding the underlying fundamentals of a business, as well as ensuring accurate and timely communication to stakeholders came out as key ways to create value in the volatile and uncertain economic times we find ourselves in today. Ensuring an agile board, a high level of product differentiation, the ability to pass through higher input costs in an inflationary environment to the end-customer and a diversified supply base emerged as important ways to create value. Appointing diverse and inclusive teams was also highlighted as driver of strong performance and innovative ideas as was the importance of balancing resiliency with cost efficiency. The panellists emphasised the need to have a value creation roadmap set out at the initial stages of interaction and the increasing importance of ESG to genuine value creation.

How to Blow the Operational Due Diligence out of the Water

The penultimate session of the day unpacked some of the practical ways in which to approach the operational due diligence process. Sindi Mabaso-Koyana, Chairperson: AWCA Investment Holdings moderated the conversation between Marde van Wyk, Private Markets: 27four; Stuart Bradley, Managing Partner: Phatisa and Peter Rowse, Director: Metier. The group discussed the importance of establishing trust between the manager and the LP undertaking the due diligence, and highlighted that the process should never be viewed as a tick-box exercise. Rather than a means to an end, or a task that can be crossed off the list, the operational due diligence process should be seen as a pre-cursor to the big event: a trusting and transparent long-term relationship between manager and LP and should become part of an organisation's day-to-day life. The group also advised overcommunicating during the process and treating the LP as a direct shareholder.

Still Waters Run Deep

Lastly, delegates heard from Olympic medallist, Tatjana Schoenmaker who shared some insights into the mindset of a champion. She talked about the importance of loving and enjoying what you're doing, working on the small things and making adjustments where necessary, and of focusing on a higher purpose rather than just the win. She reminded those in attendance that there's far more to a medal than the race – the 16 years' worth of swimming training she put in before her Olympic record-breaking victory was what got her into the pole position. When asked what keeps her motivated to keep pushing for more when you're already at the top she said: "you might have been the best on the day, but there is always someone out there that could beat you to it the next day". Her passion for empowering people through sport was clear, as was her genuine desire to use her achievements as a platform to give hope to other South Africans.

Farewell to our CEO

SAVCA Chair, Lelo Rantloane sadly announced that this would be SAVCA CEO, Tanya van Lill's final conference and paid tribute to her strong leadership and many achievements at the helm of SAVCA.

We thank all our delegates for joining us at our first in-person conference since before the pandemic landed on our shores. The turnout was phenomenal and thoroughly enjoyed hosting this event and providing the opportunity for important networking to take place.