SAVCA PE CONFERENCE 2024

# SYNERGY

## WITH COLLABORATION

A JOURNAL OF ACTIVITY AND TRENDS IN SOUTHERN AFRICAN PRIVATE EQUITY

2024

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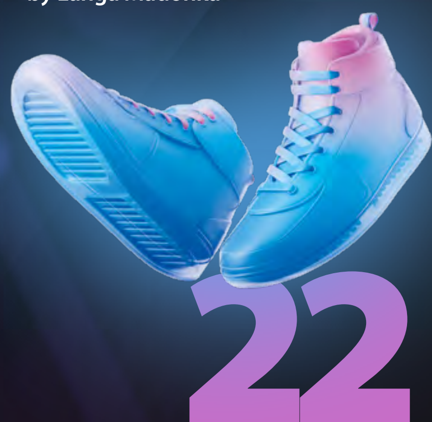











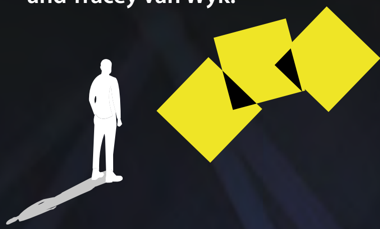







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CEO'S NOTE

# Year of SYNERGY; Year of Collaboration

By Tshepiso Kobile, *Chief Executive Officer, SAVCA*

It's hard not to be optimistic about the year ahead. And seemingly, I am not the only one! The morning after Bafana Bafana's remarkable win against Cape Verde, I was greeted during my routine school drop-off by cheerful little voices announcing that Bafana Bafana was in the quarter finals, inspiring confidence in most that they were very possibly on their way to the finals.

It struck me that if we set about investing in the time needed to ready ourselves, 2024 could indeed be an extremely opportune year. But what exactly does that readiness entail?

Well, for starters, at an organisation level, we must recall that an entity is much like the physical form – with a heart (the shareholders/members who guide the organisation's Why), a head (which guides the What), and limbs (that drive the How), and all these critical parts must operate in perfect SYNERGY. As we encountered many changes throughout 2023 at SAVCA we remain resolute in our efforts to connect with all these parts and direct them all towards achieving SAVCA's vision.

A big part of our work in 2024 will entail spending more time listening to, nurturing healthy relationships with, and leveraging synergies that exist among our various stakeholders. The insights from these engagements will continue to shape how we craft our programmes for years to come. I am therefore excited about the LP-Only Breakfasts that we re-launched last year in partnership with the GEPF, which provide an excellent opportunity for peer-to-peer learning among LPs. We hope to see many of our LPs participate in these sessions in 2024. During 2023, we further hosted the first Economic Infrastructure roundtable with the public sector, as part of the #InvestingForGrowth stakeholder engagements. These roundtables are intended to facilitate COLLABORATION and problem-solving that enables the asset class to support the policy reforms underway within the various infrastructure sectors.

At an industry level, we must remember that our economy will not operate at its full potential without private sector driven investment and the meaningful participation of all its citizens. Readiness thus requires targeted efforts to unlock investment by business, at scale and accelerated speed, to ensure the growth of SMMEs, and consequently, much needed employment and innovative solutions.

At a national level, it would be good to remember that while the upcoming elections may create a sense of uncertainty, the groundwork has already been set over the years to guide policy and harmonise the activities of all the different parts of our society, and that is the NDP. Moreover, our country has a solid constitution, strong institutions, a well-developed financial services sector, thriving entrepreneurial culture, and enviable "survive-against-all-odds" attitude.

It has been so heartwarming to see our members taking part in the PE and VC Surveys, both of which saw a record number of participants in 2023. We encourage members to continue with this commitment into 2024, as the industry trends and performance published in the Southern Africa PE Performance Report are crucial sources of data for benchmarking decision-making by multiple stakeholders The SAVCA Industry Awards, which were held over till 2024, as we moved the PE Conference to an earlier date, will be held on **9th May 2024.** These awards serve as a reminder to all of us of why we do the work that we do, which is to ensure that high potential businesses of all sizes benefit from access to risk capital and the many benefits that a SYNERGISTIC relationship with their fund managers provide.

SYNERGY is only possible when the different parts of our organisations and our society, successfully COLLABORATE to open the opportunities fan and lead to the most efficient outcomes.

We are so grateful to the sponsors who have collaborated with SAVCA to bring you another thought-provoking and gripping PE Conference. Thank you to our members who have shared their insights in the articles herein! We thoroughly enjoyed the content from contributors, which ranges from unpacking the opportunities which the private markets present, mechanisms to enhance performance, to exploring ESG and inclusion, advocating for showing up authentically which can sometimes mean sneakers in the boardroom. To see the variety in perspectives, experiences, creativity, and passion come together is pure magic.

These are just a taste of what we have in store for all the delegates in the conference programme. We thank our media partners and conference speakers who've made it possible to package what we hope will be a riveting two days!

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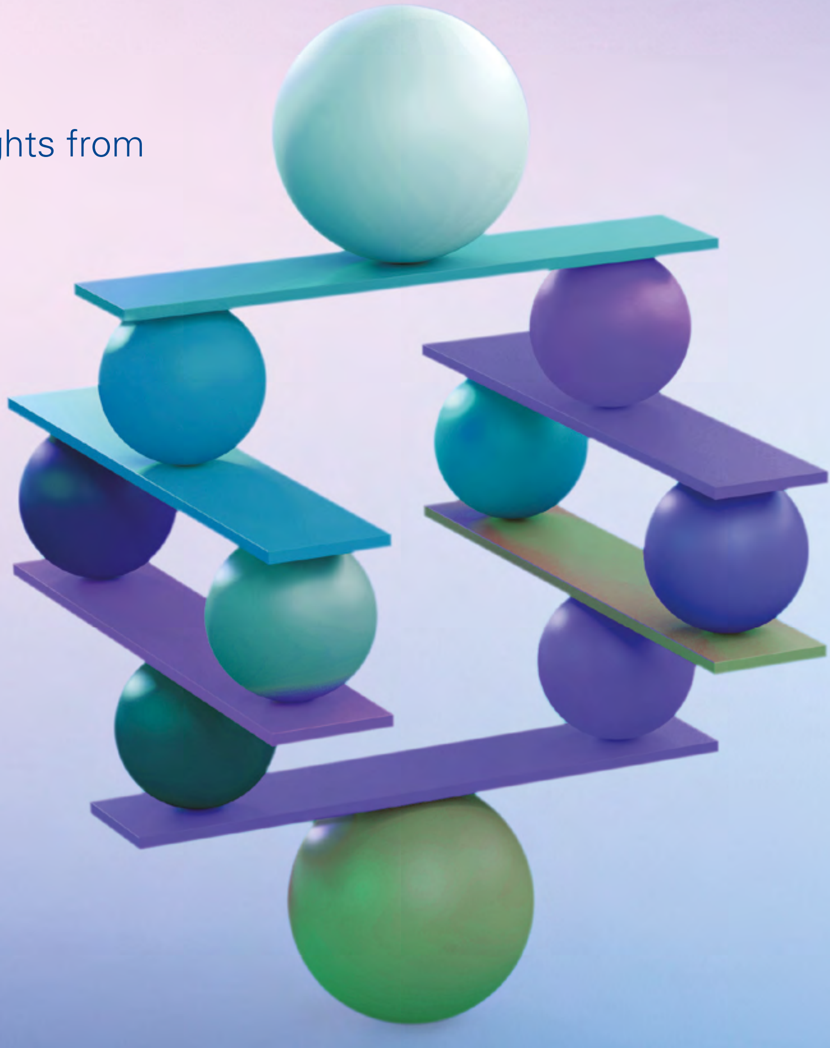

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SAVCA PE CONFERENCE 2024

SYNERGY

WITH COLLABORATION

# Looking ahead: trends shaping the VC and PE sector in 2024 and beyond

*By Vuyo Ntoi, Board Chairperson, South African Venture Capital & Private Equity Association (SAVCA)*

Over the past year, the local private equity (PE) and venture capital (VC) industries have been subject to many of the same challenges that have affected other players in the economy. The ongoing effects of a prolonged economic downturn, the impact of the cost-of-living crisis and socioeconomic issues such as unemployment were just a few of the stumbling blocks that stood in the way of sustained post-pandemic progress. However, PE and VC have remained true to their reputation as resilient asset classes, and they are poised to help the economy charter its way through the current storms. It is with unwavering confidence and optimism that the industry welcomes 2024.

### Real challenges met with real resilience

The turbulence of the local economic climate has disrupted the PE and VC market, and the effects have been tangible in recent years. According to the most recent 2023 SAVCA VC Survey, the value of VC deals concluded in 2022 contracted 14.5% when compared to the previous year. Yet, despite the obvious challenges, the PE industry saw the amount of funds raised in 2022 increase by 21%, in comparison to 2021 – although the number of investments remained below pre-COVID-19 levels.

Apart from the economic hurdles faced by both sectors, deteriorating public services and infrastructure has also posed a significant risk to industry growth. Heading into the new year, South Africa is still battling with issues relating to the maintenance, upkeep and staffing of major transportation modes including rail and port. These kinds of headwinds, compounded by ongoing loadshedding, have created uncertainty and hesitancy among the general investor community.

In the true spirit of innovation, many of these public service issues represent opportunities for innovation and entrepreneurial problem-solving; and PE and VC are certainly ready to take up the challenge. VC specifically, has seen the emergence of a range of start-ups that are well-positioned for profitability but are also able to intervene and alleviate broader societal problems. Likewise, PE-backed platforms could produce powerful public-private partnerships in addressing these needs and the industry can serve as a source of much-needed risk capital for companies to weather short-term economic storms and position themselves for growth.

To this point, and as revealed in SAVCA's 2023 PE Survey, investments in the infrastructure (36.3%) and energy and related (16.7%) sectors attracted the largest portion of capital once again – a significant increase from the year before. On the VC side of things, ICT – and specifically fintech – took up the largest portion of all deals still invested by deal value (12.3%). This is testament to the willingness of local entrepreneurs to formulate business ideas around the need to achieve important objectives such as financial inclusion in the region.

### Macro trends and market dynamics

Moving forward, legislation can – and will – play an increasingly vital role in attracting investor attention to the PE and VC sectors. Most recently, we saw the impact that changes to Regulation 28 had on allocations from pension funds to PE investment managers. The amendments allowed for a separate and higher allocation to PE assets of 15% – a welcome increase from 10%.

These developments have boosted sentiment and increased investor confidence, with at least 67% of the 2023 PE Survey respondents reporting increased investor engagement around the impact of these regulatory changes. Following this, over 80% of respondents are expecting increases in allocation as a result.

The evolution of tax legislation, such as Section 23M, which concerns the tax treatment of shareholder loans, is also an area of great focus. SAVCA and other industry bodies will continue to engage with regulatory stakeholders to ensure that policy is optimal for the fiscus but does not detrimentally affect investment momentum.

PE and VC industry leaders will remain focused on the broader macroeconomic climate. Like other investors, the PE and VC sectors are susceptible to major geopolitical developments. For example, in 2022, the onset of the Russia-Ukraine conflict as well as its related geopolitical impacts, caused widespread supply chain disruptions.

More recently, the Israel-Hamas war and related disturbances around the Red Sea and Suez Canal caused further disruption and have heightened the call for more diversified and robust supply chains. This, in turn, could lead to greater demand for South African companies to be brought into global supply chains, attracting more investor appetite to local markets.

Furthermore, the recent end of quantitative easing, coupled with the resurgence of inflation and interest rates in developed markets, has caused a shift in investment dynamics. These dynamics will have a yet indeterminate impact on global appetite for investment in emerging markets such as South Africa.

The PE and VC industries are an integral part of South Africa's broader financial services vertical. These industries have the resources and potential to boost GDP and drive economic performance. They can do this through making an all-important contribution to stimulating the job market, augmenting tax revenue, and creating livelihoods for communities. The significant investment into infrastructure-related projects from the PE sector, in particular, has shown the ability to bolster regional development and meeting national climate goals.

This, coupled with the ability of PE and VC to provide for portfolio diversification as a buffer against risk, makes for a compelling, not-to-be-missed investment proposition.

INFORMATIONAL

# What's happening in 2024

By Khanyisa Phika, *Independent Macro and Risk Advisor* and Langa Madonko, *Co-Founder, Summit Africa*

**2023 was indeed an eventful year in South Africa and the world in general, marked by some extraordinary feats and accomplishments, such as the Springboks successfully defending the Rugby World Cup and bringing hope to the country while at the same time earning us all a free holiday in December, the month of joy. The year was not without its challenges either as we continued to see global unrest and continued inflationary pressure leading to interest rate hikes and disruptions in global supply chain activity. Safe to say, as the year came to an end, we started to see glimmers of hope and to look forward to a better 2024.**

**So, what can we look out for from the year that has just begun and what does it herald for business and Private Equity in South Africa?**

**In this article, we look at the most significant trends from a macro-economic perspective and how they will impact business and Private Equity, in particular.**

## Elections galore

This year is a significant watershed for democracy with an estimated seventy elections taking place worldwide and more than half the global population set to vote. Investors will have their eyes fixed on the US presidential elections with Donald Trump's return to the political scene showing he has a 33% chance of regaining the presidency. Notably, the odds of a second Trump term are quite high with global consequences that will likely affect climate change policy, as well as military support for war-stricken allies such as Russia and other international relations.

In South Africa, it is exactly three decades since the beginning of democracy and voters remain concerned about high unemployment, corruption, and the elevated cost of living under the current government's leadership. Policy uncertainty has risen amid prospects of a coalition national government should the outcome of the elections result in the ruling ANC party posting below 51% majority of the votes.

As has been the approach in various environments where there are significant political movements, the first half of the year will see countries continue with a business-as-usual approach. We do not anticipate significant adjustments to policy and legislation with the only exception on matters such as national budgets and monetary policy announcements. In SA, it is unlikely that the most important pieces of legislation for financial services and Private Equity will be impacted. For example, the CoFi Bill, the Public Interest Guidelines or the New Companies Act and immigration or visas regulation are not likely to be finalised by the current administration or even this year. More so, political pundits suppose party coalitions will require intense haggling to find the middle ground with business post-elections.

When assessing the coalition government outcomes of the key metros and how service delivery and economic activity has stalled, there is a growing fear that a similar process of governing at a national level will impede key decisions. This means it is more probable that we will live with the current legislation for the near future. Against the backdrop of the historic uncertainty on policy in SA on multiple fronts, this might be a welcome change.

## Geopolitical conflicts and looming cold war

The ongoing geopolitical uncertainties will continue to impact growth, inflation, the confidence of consumers and investors, international trade, supply chain efficiencies and capital flows. The polarisation of global conflicts has continued since the Russia/Ukraine war cemented itself, with turmoil brewing in the Middle East, as the fight between Hamas and Israel intensifies. This, together with the volatile disputes over the South China Sea, is likely to escalate and accelerate deglobalisation and force Western countries to reduce their dependence on China. These developments raise concerns for global trade, technologies, security, and supply chain interruptions, promoting localisation and nearshoring.

The shift to localisation and nearshoring presents great opportunity for Africa together with the adoption of the African Continental Free Trade Area (AFTCA). This would encourage the creation of development hubs for specific goods and services in selected nodes of the continent, generating new avenues for business growth and in turn, spurring the expansion Africa so needs. While there has been a decline in foreign direct investment (FDI), prospects for sector innovations can be financed by local investment, especially with some companies already having a pan-African presence. There is also an opportunity to diversify the lines of economic activity including in the green economy and the drive for integrated logistics. Early signs of benefit can be traced to the increase in the size of funds focusing on catalytic sectors such as tech, infrastructure, financial services, food security, and energy.

## Economic uncertainty and diverging growth challenges

The International Monetary Fund projects the world economy will grow by 2.9% in 2024 slightly easing from the estimated 3% in 2023. Emerging market and developing economies are expected to see more than double the expected economic growth of advanced economies as the US and Europe grow below potential. The UK economy will also disappoint this year on the back of prolonged challenges in the household sector. Growth in Asia is likely to deflect a global hard landing with buoyant growth expected from India and, to a lesser extent, China which faces weak domestic demand and ongoing challenges in the property sector.

The brisk growth prospects for the Sub-Saharan Africa region of 4% in 2024 from 3.3% in 2023 will not come without challenges as a great majority of the region's trading partners experience modest growth. Inflation in the region remains elevated while public debt metrics are rising to unsustainable levels while reserves gradually deplete.

> *South Africa's economic growth will be impeded by both global and local factors.*

South Africa's economic growth will be impeded by both global and local factors. The ongoing infrastructural challenges that span across freight logistics and water supplies in addition to power shortages, continue to weigh down economic activity and undermine the country's growth potential, international trade, and competitiveness. More so, gross fixed investment remains below the required expansionary levels of 30% per annum despite the rapid growth in private investment particularly for mitigation of electricity and logistics constraints. The IMF estimates South Africa will have economic growth of 0.9% in 2023 and 1.8% in 2024 as energy security gradually improves and the implementation of the Freight Logistics Roadmap gains traction.

Against this backdrop, we anticipate that there will be persistent drive from government to encourage investment in Infrastructure. However, without incentive and legislation to promote this, investment is likely to be clouded by the rise in corruption, crime and input costs among other factors that have resulted in waning business confidence. Business will continue to invest as has been the case in the last 15 years, with trepidation and hesitance. Private equity investors have the opportunity to make a difference while bridging a business need, by simultaneously addressing social issues in the process.

## Clean energy transition will upscale green superpowers

Climate change risks continue to take the spotlight across the globe as the world weans off the use of fossil fuels. The transition has driven an increase in the demand for emerging market economies' cleaner energy sources. Commodities such as lithium, copper (used for grids and turbines), zinc and nickel take centre stage over oil and gas supply due to their importance in electrical vehicle and battery production. According to the International Energy Agency, solar and wind will account for 70% of global power generation by 2050 while the spending on fossil fuels relative to GDP will be halved. Notably, there are risks to the momentum of the energy transition given the risk of higher-for-longer interest rates and related high-input cost inflation.

Businesses operating in the green economy will be looking to government and the international community for policy direction, funding, and incentive structures. Coming from a mineral and natural resources rich continent, countries like South Africa are set to benefit from rising international demand.


## To a prosperous 2024

The new year promises to be yet another rollercoaster of risk entwined with opportunity. Here is to business harnessing those opportunities to create jobs and drive economic growth, enabled by good governance and practices of fairness in trade.

RESEARCH SHORT

# Establishing Synergies for Infrastructure Development

**By Dineo Kekana,** *CAIA, Partner at Mosaic Investment Consulting*

**While retirement funds have the financial muscle and regulatory support to invest in infrastructure development projects, they often face limitations due to the complexity of the products on offer. Meanwhile, asset consultants with expertise in alternative investments can advise retirement funds on the most suitable approach to investing in impactful, infrastructure opportunities.**

Institutional investors have appetite to explore investment opportunities as spending towards infrastructure development as a percentage of GDP has declined over the last decade. Infrastructure spending is at a relatively low 14%, as depicted in *Figure 1*: Gross Fixed Capital Formation. This rate needs to double in order to edge closer to the National Development Plan (NDP) 30% target by 2030.

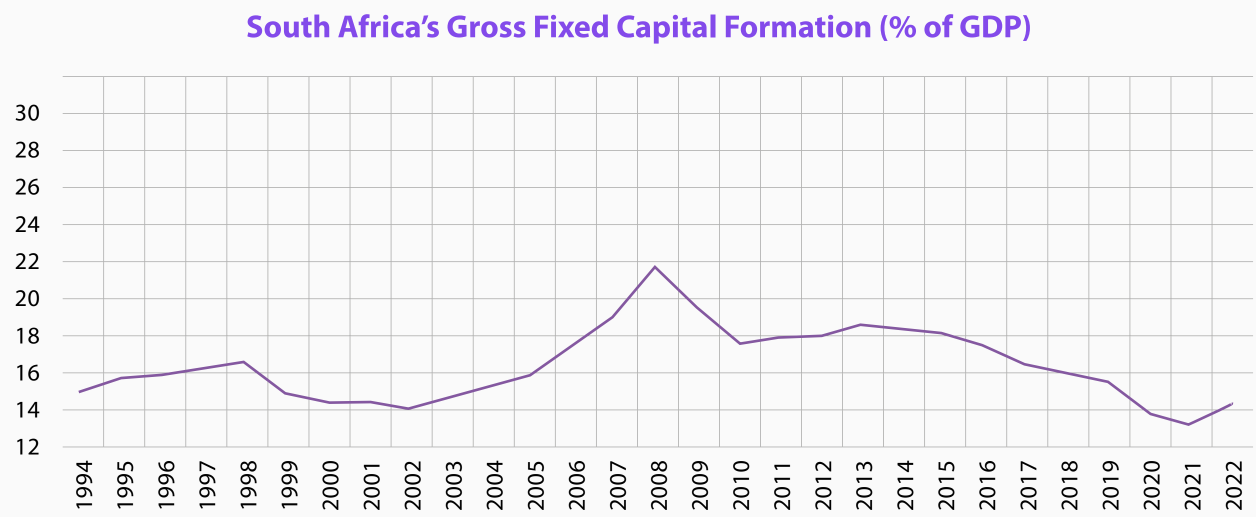



**Figure 1: Gross Fixed Capital Formation**
*Data source: World Bank*

The requirement for accelerated growth to reach the NDP target is driven by the need to improve the country's decrepit infrastructure and resolve the recurrent load shedding and logistics blockages, as well as improve access to quality and affordable social infrastructure.

### Impact and infrastructure investment opportunities for retirement funds

Numerous impactful investment opportunities, particularly in infrastructure, exist. These are projects which are commercially viable, realising competitive returns for retirement funds.

The private markets industry is equipped with the requisite skills to extract more value from the underlying infrastructure projects. For example, private markets can utilise their expertise and broad network within each sector to unlock additional and untapped market segments; along with improving and formalising infrastructure companies' corporate governance, financial management, and reporting systems. In addition, private markets fund managers can optimise the capital structure to reduce financial and execution risks. These initiatives improve operational efficiencies and ensure sustainability while maximising commercial and social outcomes.

The capital allocated towards these projects will not only maintain, but also fund the construction of innovative solutions. Ultimately, this presents tangible opportunities for retirement funds to make a direct impact in the lives of communities where their members live.

### Legislation supports impactful infrastructure investment

Notwithstanding the recent Regulation 28 changes allowing retirement funds to invest up to 45% in infrastructure assets and up to 15% in private equity funds, retirement funds have been allocating capital at a slower pace.

The regulatory changes support the cohesive collaboration between the retirement fund industry and the asset management industry to invest towards improving the country's socio-economic outcomes.

South Africa's retirement fund industry, with more than R4,6-trillion of assets, accounts for more than half of the country's GDP. This industry is well positioned to address infrastructure development needs by investing in existing opportunities.

### Challenges to investing in private markets faced by retirement funds

South African retirement funds' allocation towards alternative investments including private equity and debt has been reported at 2% even when the allocations were permitted to reach up to 10%. The challenges faced by retirement funds with an appetite to invest in impact and infrastructure investments are broadly related to:

- **The complex nature of the products:** These include the fund structure, valuations, investment terms, concentrated portfolios and risks associated with these investments.
- **Higher fee structures:** The typical 2-and-20 fee structure within private markets is deemed to be more costly relative to their traditional counterparts.
- **Lengthy due diligence and legal reviews**: This raises uncertainties relating to misalignment of retirement fund plans for cashflows, exposure to infrastructure assets and returns.
- **Slower capital deployment into underlying projects:** Relative to traditional assets where capital is deployed almost immediately, slower deployment rates within alternative investments may cause a fee drag on performance as fees are often initially charged on committed rather than invested capital.
- **Lack of liquidity (especially in the case of closed-ended private equity funds):** This typically precludes smaller retirement funds from investing as they could be in breach of mandate limits or fail to meet members' liquidity needs.

Retirement funds generally tend to be reluctant to take on these high perceived (and sometimes real) risks, primarily due to their fiduciary duty.

### Mutually beneficial solutions

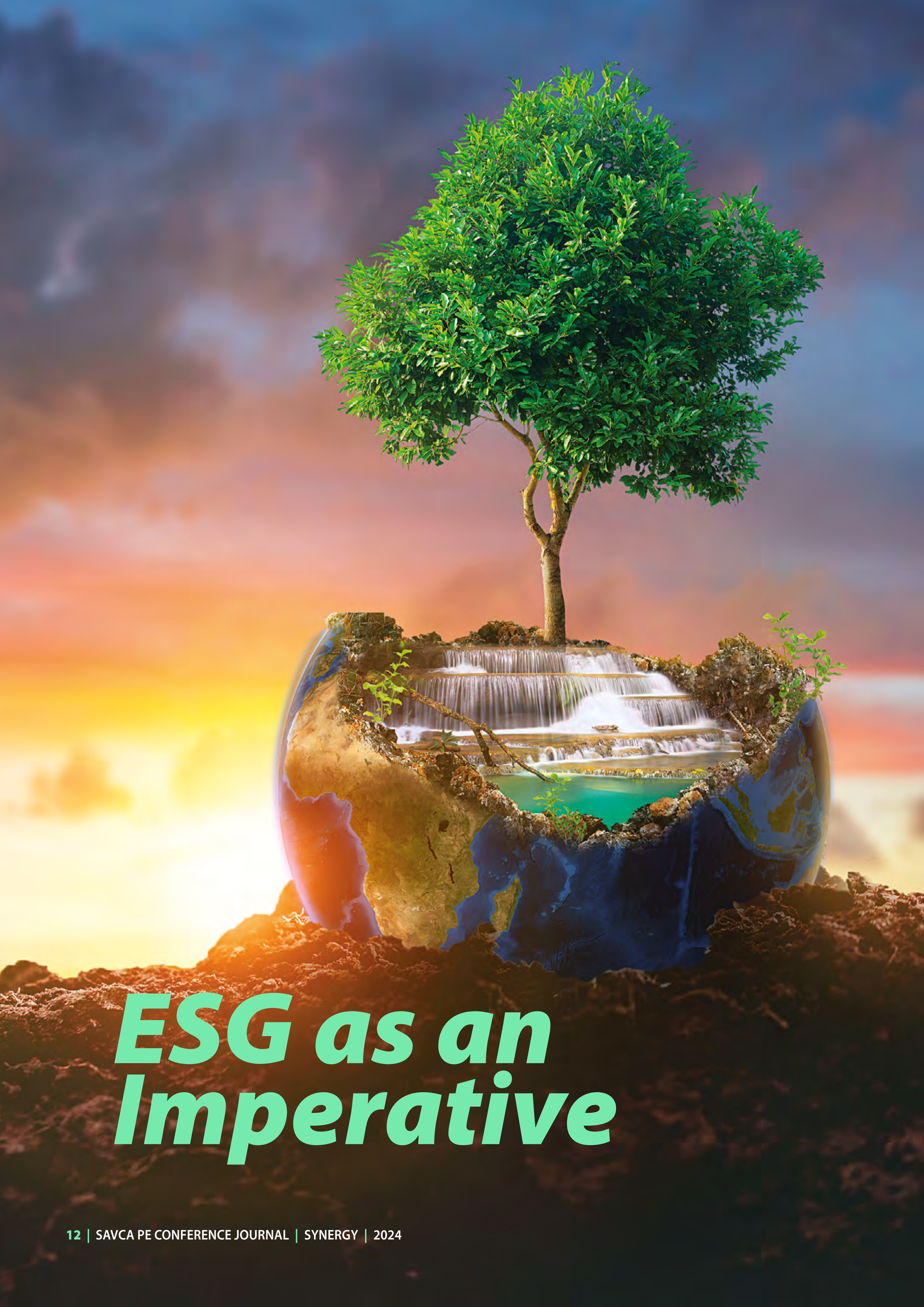
To address the complexity concerns and the need for diversification, the private markets industry needs to establish more fund of funds and multi-strategy funds. This has the potential to facilitate growth and support from smaller retirement funds.

Additionally, competitive fee structures are imperative to gain meaningful support from the retirement fund industry. The alternative investment industry needs the emergence of more open-ended and permanent vehicle structures for better liquidity management.

Lastly, there's a need for other product types such as private debt and mezzanine debt to address the liquidity concerns typically faced by smaller retirement funds.

Asset consultants with expertise in the alternative investments, and specifically impact investing including infrastructure funds, are well-suited to develop tailored programs that can contribute to the country's most pressing socio-economic needs while achieving competitive returns for members of the retirement fund.

*Mosaic Investment Consulting is an independent and an unencumbered asset consulting business with expertise in alternative investments, and specifically impact and infrastructure investments.*



# ESG as an Imperative

THOUGHT LEADERSHIP

# Investor lens review: using ESG as a proxy of readiness for exit

**By James Brice,**
***EY Partner, Strategy & Transactions***

**"Winners know when to stop" - the responsible gambling by-line – is a good mantra for responsible investing too.**

Knowing when to sell is about striking a trade-off between leaving value on the table for the next investor versus when one's value extraction has peaked. It's a tricky balance and every decision-making tool available to an investment committee should be utilised to inform their decision.

One tool that has not historically been utilised at all in Africa is using ESG performance as a proxy of readiness for exit. This is surprising as almost all Private Equity and listed investments in Africa have been generating ESG performance data for at least a decade given the importance of ESG to European DFI investors and domestic pension funds. More than 80% of PE capital is sourced from these sources (SAVCA, 2023).

It seems as though in Emerging Markets, almost all ESG DDs are performed for the buyer ("buy-side"). Over 400 buy-side ESG DDs have been performed by EY Sustainability in the last decade, but zero vendor ESG DDs (i.e. on behalf of the seller). This is in sharp contrast with the European market, where vendor DD's make up more than 90% of ESG DDs performed by EY.

Below we unpack the reasons why an ESG-Impact focused exit readiness exercise performed 18 to 24 months prior to exit provides a solid foundation for an optimised exit.


### What does ESG tell us about the portfolio company?

**Mature management systems will exhibit the following:**

1. **Resilience:** ESG initiatives are generally less urgent than other more pressing business priorities, especially in a high-inflation environment. Deep ESG implementation implies that all other "normal" management interventions have already been considered.

2. **Humility:** just as Enron and Lehman Bros proved that no company is too big to fail, the asset operates with deep stakeholder engagement and integrates ESG up and down their value chain. Management has developed tools of listening to their markets and responding timeously to equip their whole ecosystem to succeed. Shell and Greenpeace both had to learn new skills to meet each other halfway.

3. **Agility:** as the latest newcomer to the C-Suite, the Chief Sustainability Officer will flag emergent risks and opportunities never considered before in traditional business school curricula. There is an interesting principle of sustainability called the "precautionary principle", which recognises this. Since science is always playing catch-up with nature, the precautionary principle recognises that humans are always behind the learning curve and should therefore be cautious in their decision-making and broad in their consultation. Winning companies will therefore always be curious about what new risks and opportunities are on the horizon, and will be able to quickly pivot on new information.

### Why an ESG Vendor DD should enhance exit valuation

**If management has been sufficiently broad-minded during the holding period, sustainability initiatives should highlight the following three key characteristics of an exit:**

1. **ESG initiatives** will be well-integrated into operations, and are often "blurred" with traditional HR, legal, operational, maintenance, resource security, risk and other "non-ESG" aspects of the business.

2. **ESG/Impact performance is evidence-based:** i.e. any claims of impact or making a difference are well supported by multi-year datasets, usually in the form of ratio parameters which are benchmarked against peers. Green washing holds no flame to such progressive companies.

3. **Sustainability** forms part of the core strategy of the business, either by:

**a.** broadening capital markets (lowering the cost of capital),
**b.** growing market share by adding tangible added-value to customers,
**c.** improving margins through improved efficiencies of transformation of capitals (as per the six capitals model), or
**d.** boosting talent attraction and retention.

### Common pitfalls in ESG Vendor DDs

**The following are the most common errors when considering ESG as a value-booster prior to exit:**

1. **Green washing:** while apparently obvious, it is remarkably prevalent especially in poorly regulated markets such as Africa. EY research shows that green washing is the single biggest risk to sustainability implementation (academics writing for Harvard Business Review on the topic: "[…] when customers believe a company is greenwashing, it directly affects how they experience its products or services."). While your average investment banker wouldn't know the difference between a good or bad ESG report, it doesn't take much for an investor to poke holes in a poorly-constructed ESG value creation model that isn't based on solid data.

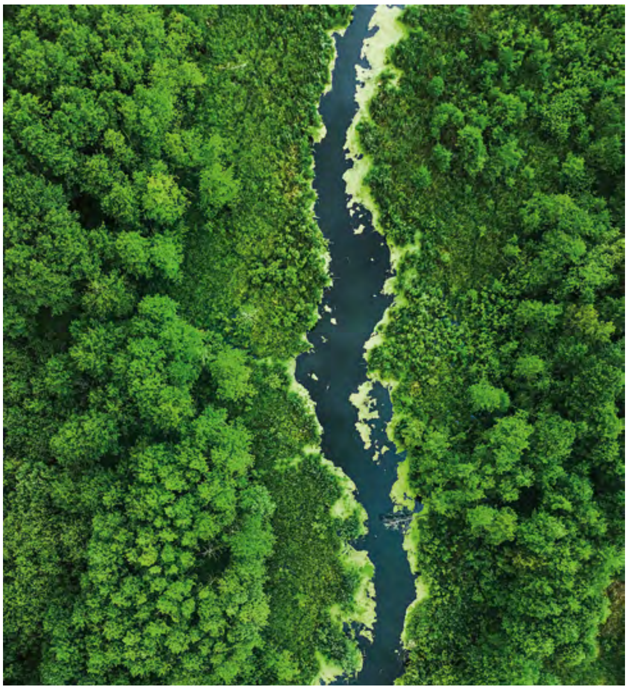
2. **Low-materiality:** too often management espouses aspects of their sustainability performance which are not linked to core cost- or revenue-drivers. Typical examples here include:

- Overstatement of CSI with no link to the core business of the business (e.g. an unsecured lender sponsoring health clinics);
- Reporting on progress towards meeting Sustainable Development Goals. SDGs is increasingly being regarded by the international investment community as a government wish-list with very limited application to the private sector.

3. **Confusing risk management (ESG) with impact:** in general, all ESG standards deal with protecting shareholder value through mitigating ESG risk. Minimising downside risk does not equate to creating upside value.

4. **Missing or incomplete hygiene factors:** operational control procedures, management systems, culture, depth and width of appropriate ESG skills, maintenance, housekeeping, stakeholder engagement, and integrated reporting are all examples of the basic foundations of any ESG system worth its salt. There should be no low-hanging fruit when getting your investment dressed up to go to market.

5. **Going through the paces:** it is critical for any successful ESG program to have a significant degree of disruption associated with it. For example, it's inevitable that preparing for a decarbonised future involves ditching old business practices which relied on a cheap and abundant source of fossil-fuelled energy. Any prudent investor will be looking for evidence of management having applied a rigorous process to re-evaluating the assumptions underpinning their "business as usual" scenarios. In fact, one could say that any mention of "business as usual" in the 10-year business plan offered to investors should be highlighted as a red flag in any due diligence, so radical are the changes which will be brought about by climate change.



> *Forward-looking investors will assess any business in terms of the three intangible capitals: human, social, and environmental.*

### Different perspectives

Forward-looking investors will assess any business in terms of the three intangible capitals: human, social, and environmental. If management can explicitly highlight the value of such externalities, how they may be included in any exit enterprise value and how they will contribute materially to any out-performance during the next investment cycle, this will result only in upward pressure on the enterprise value. Instead of advocating for just a 'better working world,' we require a fresh lens to determine value in the new.

OPINION PIECE

# Effectively Embedding ESG in Impact Investing

**By Pravir Jeaven, ESG Lead:**
*Tax & Legal Southern Africa*
*Associate Director - KPMG*

**Over the past few years, headlines have been dominated by climate change and social disruptions and there is a growing awareness that the traditional ways of conducting business are no longer sustainable. The universal recognition is that all market participants, including private equity firms, must adopt the values of Environmental, Social, and Governance (ESG) factors throughout their investment objectives and along the life cycle of their investments, to make a difference in the new world.**

Private Equity's answer to this has been the "Impact Investing" strategy, which was first coined in 2007[1] despite being present for several years before. This strategy relates to the concept that one can generate financial returns and have a positive result. It involves deploying capital with the explicit intention of generating positive, measurable social or environmental impact alongside financial returns. This approach actively seeks projects and businesses contributing to sustainable development goals, addressing issues such as climate change, poverty, and inequality.

As Impact Investing becomes more prevalent, the deeper issue is to convince those who have not necessarily participated in such a strategy that one does not have to forego financial returns to make an impact in the world.

Interestingly, unlocking inherent value by utilising ESG concepts does not necessarily entail throwing money, but rather requires one to identify opportunities and activities that already exist or can easily be undertaken by the company itself. By identifying these opportunities, one can determine whether the stakeholders are aware and whether such activities are being fully maximised.

The high youth unemployment rate is a prevailing issue in the South African economy. National Treasury has attempted to alleviate this by providing an incentive to promote youth employment for qualifying employees. If a company wants to actively engage in trying to employ more youth, they could use this incentive to reduce their costs and potentially make a bigger impact on society by employing more youth. The youth tax incentive is just one example of how the cost to be more ESG-friendly can be subsidised.

Beyond the cost of performing these activities, another aspect of key importance is being able to portray the good that a company does to a variety of stakeholders. The collection of accurate data relating to the activities, as well as the initial identification of these activities enable a company to display and evidence the good that the company does to its stakeholders. The approach to portray and disclose information to the ordinary person also needs to be easy to read and impactful. By doing so one could potentially reach out to a future customer, supplier, or financier that would want to do business with someone that does good in the economy.

Another aspect to potentially unlock value in a company from an ESG perspective is the supply chain. Determining whether you are associated with partners that are aligned with your view of ESG and ensuring that they do not devalue the ESG value that you are creating as a business is of utmost importance. Looking at the physical supply chain and the impact that one has on the climate would also be an area to explore. For example, removing carbon dioxide emissions completely from a company may be hard to execute. However, off-setting such emissions against other sources that give back to the environment may not be that hard to implement. For example, if one has an office parking lot the use of a solar panel system installed on the roof of the parking structures could help reduce the use of electricity by replacing it with solar power. Once again, the capital outflow may be reduced by making use of incentives.

All these concepts require the board or the private equity house to be actively interested in ESG and the strategy of impact investing. These are several levers that make an impact on the companies that are being invested in, as well as the economy as a whole. The role of the private equity house and the board is that of custodians of the ESG agenda and appropriate time must be spent deeply analysing the various activities that are undertaken by the company and identifying ESG aspects that could be maximised, reported, or actioned.

What will be interesting to see in the coming years is how SAVCA, in collaboration with its members, keeps generating success stories as a result of impact investing or training initiatives that have far-reaching positive impacts on the economy, underpinning the ESG agenda. The synergy between portfolio companies and their private equity fund managers would be of key importance as learnings and experiences could be shared to create a positive impact, showing the importance of embedding ESG into the Impact Investing model.

[1] *The Rockefeller Foundation. "The Rockefeller Foundation: Building a Backbone to Accelerate Impact Investing, https://engage.rockefellerfoundation.org/story-sketch/ the-rockefeller-foundation-weaving-ties-and-building-a-backbone-to-accelerate-impact-investing/, [Last Date Accessed: 22 January 2024]*

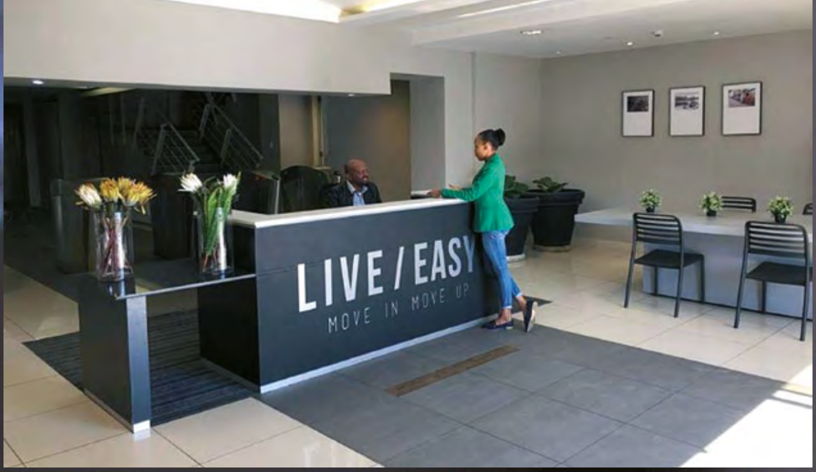
CASE STUDY

# A Social Return on Impact (SROI) study for an affordable housing investment

**By Tshepiso Appie,** *Investment Associate: Private Markets, Mergence Investment Managers*

**In 2022, Mergence Investment Managers acquired a controlling equity stake in the innovative affordable rental housing group, Live Easy, through the Mergence Infrastructure and Development Equity Fund I.**

**Live Easy is one of South Africa's largest affordable housing rental lifestyle brands, which currently has 3,500 units over 10 building complexes in prime locations between Johannesburg and Pretoria in Gauteng, with an additional 1,000 units under development. The focus is on the "gap market" in the affordable housing segment, with the aim of closing the divide between social housing and privately owned homes. Providing for the gap market is highlighted as important in the National Development Plan.**




Live Easy was co-founded 12 years ago with the introduction of the original "nano units" concept.

A so-called "nano" comprises an average 18 m2 home, with a kitchenette and bathroom. The average rental is around R3 500 per month, which makes it affordable for those in the R10 000 to R20 000 monthly income bracket.

The Live Easy tenant age profile ranges predominantly between 21 and 30 years of age. Many are in their first jobs or professions, and need accommodation that matches their aspirations and has easy access to their place of work. The buildings are located where tenants can easily access transportation to desirable nodes and business hubs. Live Easy provides a solution for this segment of customers who are price-sensitive but demand an upmarket look and feel lifestyle with quality finishes, a variety of amenities and 24-hour security. It is particularly attractive to young women who make up 60% of the tenant profile.

By deliberately focusing on the conversion of existing buildings, Live Easy has a smaller environmental impact than constructing apartment blocks from the ground up. It further plays a key role in revitalising buildings that otherwise may have gone into severe decline.

## The investment case

In a bid to drill down into ESG reporting and measure the impact of its investment in Live Easy, Mergence identified an opportunity to showcase the potential Social Return on Impact (SROI) research study from EY SaTs (Strategy & Transactions Sustainability). To our knowledge this is the first time such a study on SROI has been written in South Africa. Titled "Exploring return on impact: Live Easy residential apartments 2023", the study was focused on five Live Easy buildings in the Mergence investment portfolio.

By calculating the potential SROI, Mergence can report back to investors in detail and Live Easy will be able to positively demonstrate how their affordable housing solutions provides numerous social and financial benefits to tenants beyond mere accommodation.

The EY research study used specific "Theories of Change" methodology to measure

1) The reduced carbon footprint, and
2) The safety and credit risk of female tenants.

## Study background

There is a massive backlog of affordable accommodation in South Africa. With a further six million South Africans expected to migrate to urban areas by 2035[1]), access to safe, affordable, and accessible housing is needed to improve the resilience of both our cities and communities.

Women, in particular, need safe, affordable accommodation.

[1] *South African Affordable Residential Developers Association (SAARDA), 2019*

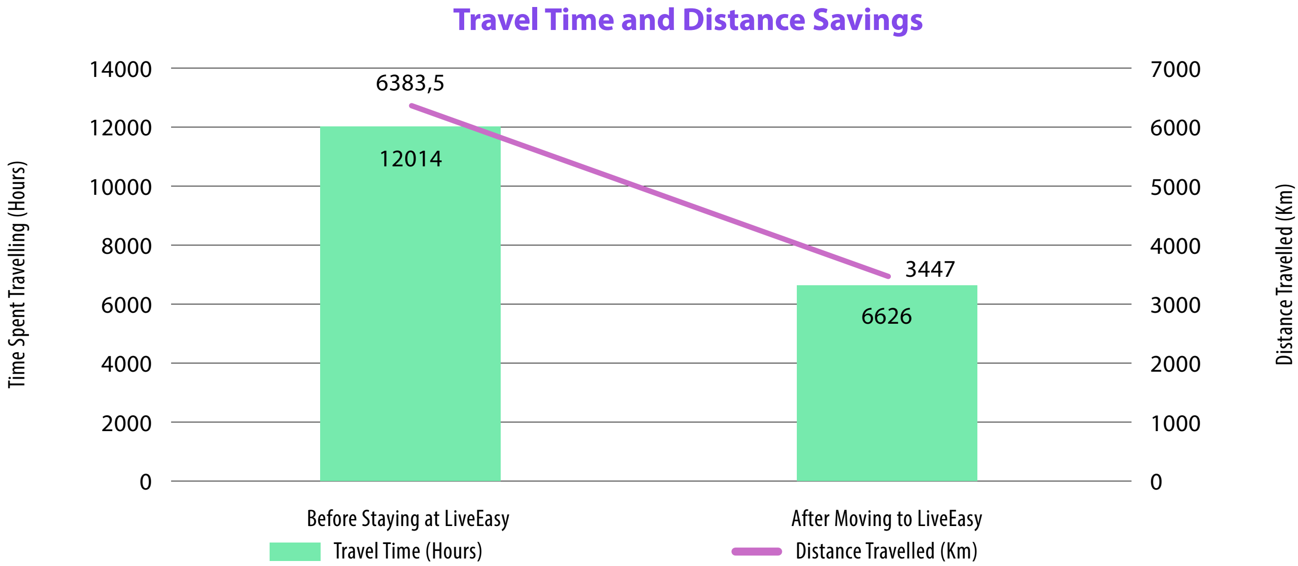
**Some findings**

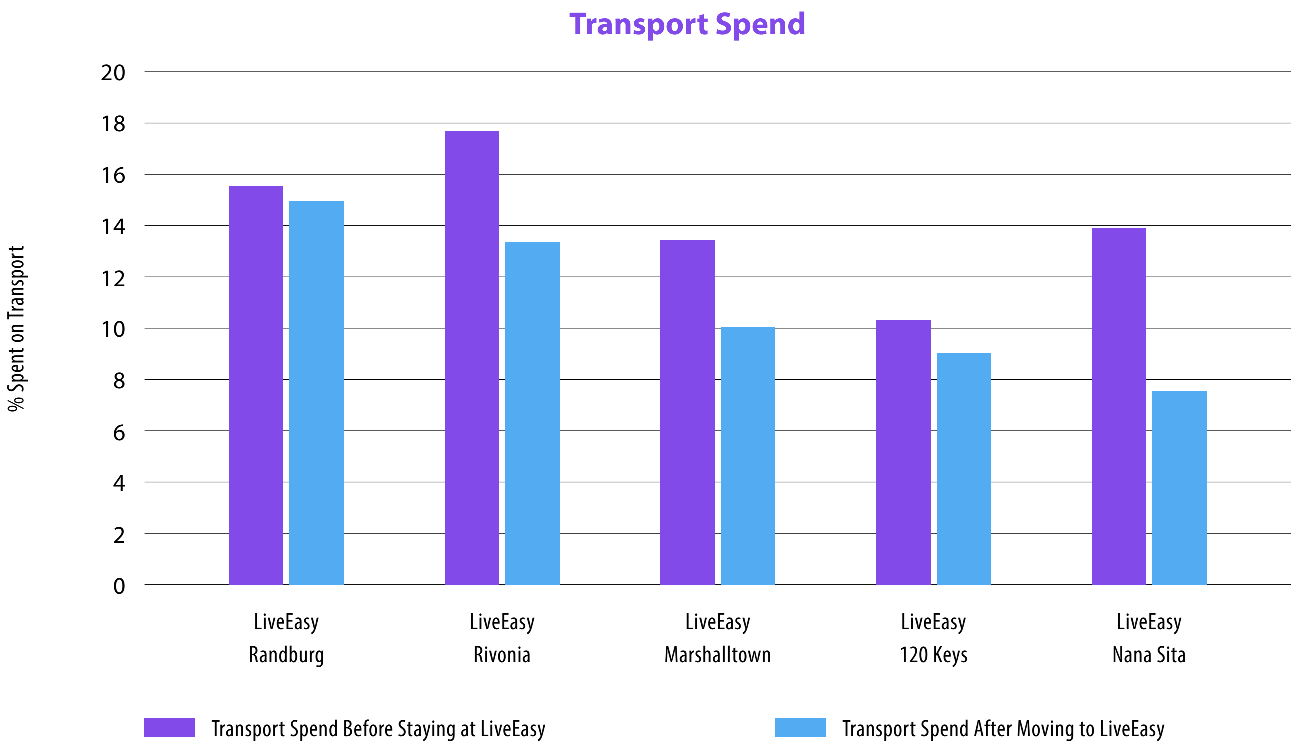
Using the two "Theories of change", the study led to a comprehensive set of findings, including:

### → Living at Live Easy reduces the tenant's carbon footprint

The SROI measured the average tons of CO2 reduction achieved for each of the five buildings and their tenants.

Benefits for tenants include cost savings resulting from efficient water and energy usage, as well as savings from reduced transportation costs (time saving and financial).



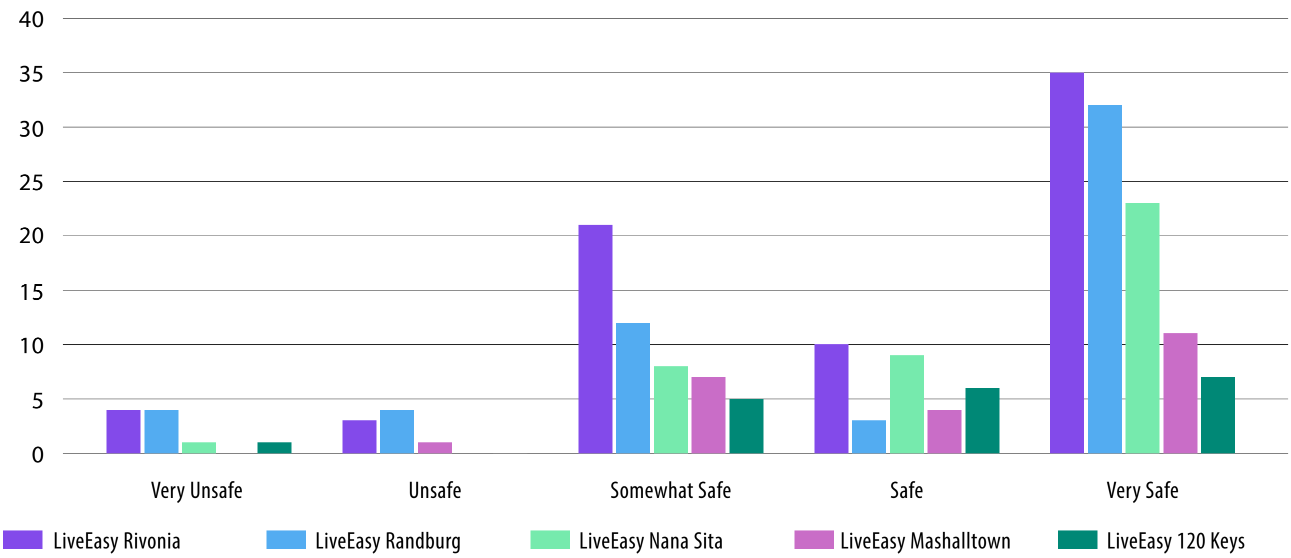
## Why women choose to stay at Live Easy

Live Easy is committed to establishing a female-friendly living environment, and 60% of the primary tenants are women.

In a country plagued by crime and gender-based violence, women perceive housing as an important physical asset, as it provides protection for them and their children. This is particularly significant due to the increased vulnerability experienced within informal settlements. The provision of security systems such as strong, lockable doors, and the presence of security guards and alarm systems results in women feeling safe, thereby improving their sense of well-being too.

The Live Easy housing solution provides a means for women to maintain good credit scores for the duration of their tenancy. On average, female tenants across all five buildings allocate approximately 28% of their income to monthly rent, which is below the recommended maximum of 30% of gross monthly income that should be earmarked for rent.

## Safety Perceptions Female Tenants




## Conclusion

The EY study has provided both Mergence and Live Easy with a quantifiable Social Return on Impact, allowing us to move forward into further growth measured against a baseline and armed with an improved understanding of various growth drivers. Developing more diverse and socially equal neighbourhoods is at the core of Live Easy's business concept. The buildings offer tenants safe, welcoming, and reasonably priced housing options for low- and middle-class tenants and families in close proximity to important services and commercial opportunities.

OPINION PIECE

# Sustainable impact and returns require a long-term outlook

By Thando Maphalala, *Investment Associate at Ata Capital*

**As the Covid-19 crisis moves further into our rear-view mirror, it is clear what was once 'normal' is not coming back. We are creating a new normal: a new society, a new way of navigating relationships, doing business, making investments, and planning for our futures that has collaboration and social betterment as its driving force.**

Indicators seem to point to an improvement in private equity activity in 2024 for both deals and fundraising. However, it is no longer 'business as usual' for fund managers. There is a notable shift toward impact investing with stakeholders demanding a more holistic evaluation of environmental, social, and governance (ESG) factors to measure and manage the impact of their investments.

Africa may be one of the lowest global emitters of greenhouse gases, but it is the continent most impacted by the devastating rise of global warming, as adverse weather conditions result in a slew of devastating floods and droughts.

In South Africa, poverty, social inequality, rising unemployment, and fractured political efforts are taking a toll on a strained economy. Responsible businesses cannot continue to create islands of prosperity in a surrounding sea of inequality.

### Collaboration points the way to sustainability

The path toward sustainability is lined with optimism but it requires a collaborative approach from government, corporations, labour, and civil society to make an enduring difference in the communities in which they operate.

Ata Capital embraces this collaborative mindset, understanding that fund managers and investors should adopt a long-term perspective to make a lasting impact and generate financial returns. This largely lends itself to a more focused approach toward investing and requires a move towards more considered mandates underpinned by opportunities for long-lasting social betterment.

A company's social license to operate is now a key driver of strategy and growth. What was once an administrative reporting exercise has evolved into a strategic pillar that recognises impact and returns go hand-in-hand.

### Combined skill sets allow for innovative solutions

Adopting a synergetic approach toward investing is essential to ensure success. This is best achieved by working alongside management teams who drive strategy founded on ESG principles. Fund managers have an essential role to play in providing insights that convert management teams into advocates for impact-driven business practices.

At Ata Capital, our primary objective is to be our investors' trusted partner by delivering positive social and environmental impact through our policies, investment choices and implementation initiatives, while proactively identifying ESG risks and supporting our investee companies to mitigate adverse impacts.

Over time, it has become essential to incorporate robust policies and procedures which instil ESG considerations at every stage of the deal cycle, from initial screening to exit. This better equips the fund manager to identify, monitor, manage and mitigate risks and maximise positive social impact and financial returns.

Beyond robust policies and procedures, it is important for investee company management teams to have direct access to the fund manager's skills and expertise to raise and resolve any issues, risks or concerns. For this reason, fund managers should build teams based on diverse skill sets. This empowers them to approach problems from different perspectives and collaboratively identify innovative solutions.

The pandemic, which served to help businesses fortify and streamline, is no longer a reason to avoid investment. Rather, the hurdles that fund managers now face are matters of sustainability. We believe investors should look to walk the long road that extends beyond the typical fund life cycle. Fund managers must create innovative solutions to marry the benefits of long-term growth with generating short-term liquidity for investors.

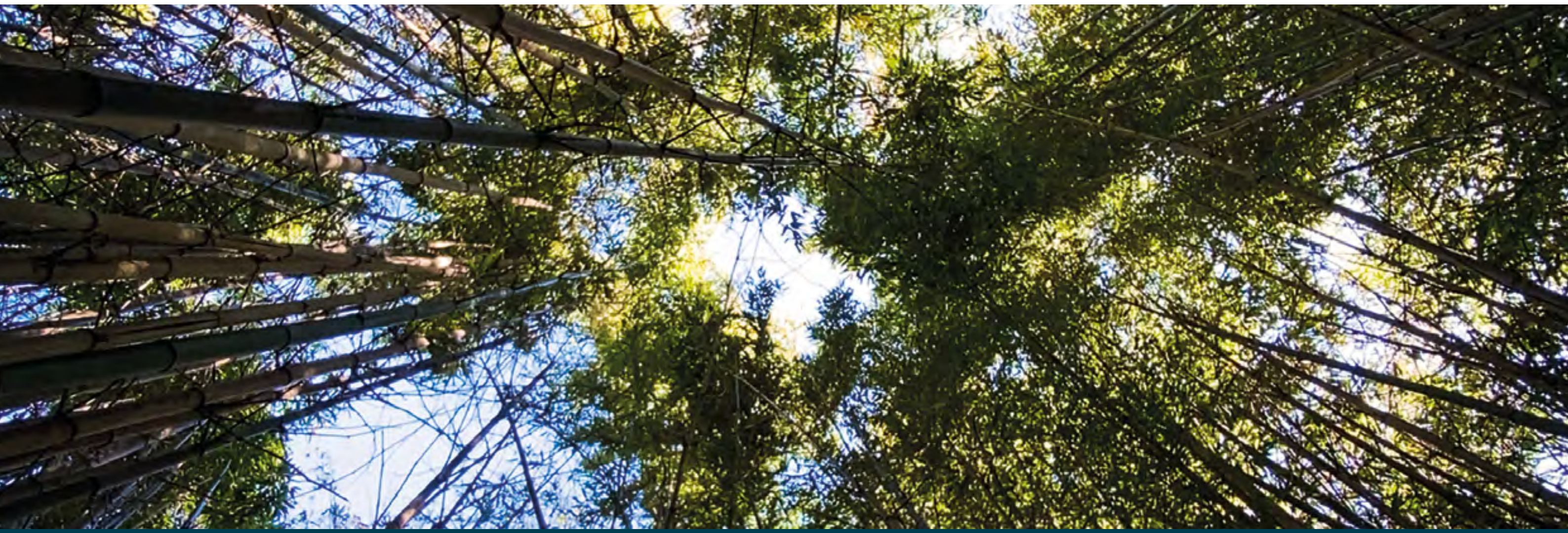
Now is a time to reset and rebuild with sustainable intentions. As wealth creators, we should support business' intentions to drive long-term transformation for all.

Control Risks

# From investment strategy to deal optimisation

We believe that risk taking is the first step towards success. We're here to support private market investors and corporates throughout the full deal cycle.

Control Risks' political risk analysis and business intelligence services provide support for the development and testing of investment strategies, the selection of an approach to origination, and initial assessments of new targets and opportunities. We'll help you preserve and optimise deal value through the full process, considering financial crime, ESG challenges and opportunities, and cyber and digital resilience.



### Strategy and Deal origination

Political risk and intelligence for private market investors and corporates at the strategy and deal origination stage of investment.

### Strategy implementation

Control Risks provides consulting support for strategy implementation, include political risk governance, government affairs advisory, stakeholder mapping, and compliance.

### Governance reviews

We provide pre and post deal governance reviews for investors, including forensic audits, investigations into financial crime and regulatory compliance, cyber and digital resilience, and ESG screening.

# Why I wear Sneakers...

Q & A with Tsholofelo 'Tsholo' Kelapologile, *Senior Portfolio Analyst*
by Langa Madonko, *Co-Founder Summit Africa*

**Diversity and inclusion could extend beyond the big things to something as simple as sneakers.**

**Langa Madonko sits down for a chat with Senior Portfolio Analyst Tsholofelo 'Tsholo' Kelapologile.**

Many of the conversations in the financial services industry today are around diversity, culture, and inclusion. But maybe what gets drowned out a bit is the idea of individuality and being the best version of you while embracing the skills and methods of the trade.

This sentiment of showing up as your authentic self, led me to want to dig deeper into Tsholo's quest to be herself in the industry.

**Q: Tsholo, can you share how you got into the industry and if anything, how your upbringing or personal exposures inspired your journey.**

**A:** I chose to work in investments for several reasons, including my interest in analysing qualitative and quantitative data, a desire for challenging work, and the opportunity to contribute and/or make strategic investment decisions that have a significant impact. I was also drawn to the dynamic nature of the financial services industry, the endless opportunities for career growth and the chance to be involved in shaping the economic outcome.

Having grown in the moderately dusty streets of Northwest; I was surrounded by small, medium, and micro enterprises (SMMEs) and entrepreneurs who believed in fending for themselves and their families. Most of them had far bigger plans than what they had started but the lack of access to capital and digestible information was a common thread. These were people who knew that no one was coming to rescue them or even advance what some would say is a "mere" R50 000 for working capital or stock.

I believed that if I worked in the financial services industry I would have access to capital, valuable information and/or resources and have a seat at the table that would allow me to contribute to meaningful and impactful decisions. So I studied, graduated and as a proud little girl on an important mission, ventured into the industry and have never looked back. Well, except for turning back to share the invaluable knowledge I learned and continue to learn to aid entrepreneurs in unlocking capital and in some instances even grants.

I made it my purpose to become a tool to ensure that useful information and resources reach SMMEs, various entrepreneurs and even those in asset management so I can help foster their growth and contribution to the overall economy.

**Q: What are some of the challenges that you experienced along the way?**

**A:** One of the most glaring challenges has been that of being a young black female in an industry that continuously reminds us that it is a 'boys club.' Unsurprisingly, countless females face these challenges as it relates to systemic barriers and biases despite their age.

Some aspects that make assimilation and advancement challenging for me include:

*The lack of representation:* While this has improved over the years, there is still limited representation of black females at higher levels within the industry. This creates a sense of isolation, and limits the number of individuals to look up to and relate to. It also means there are fewer mentorship opportunities.

*Networking opportunities:* Access to influential and vast networks is crucial in any industry really. But being in an industry where black women seem to be the minority, we face challenges networking given that most of the time existing networks lack diversity and sometimes we encounter exclusionary practices. Going into some conversations you are already sidelined and must work ten times harder just to have a meaningful conversation.

*Cultural fit:* Perceptions of what constitutes a 'cultural fit' within the industry/company can sometimes inadvertently exclude individuals from under-represented backgrounds. Continuous efforts to redefine and broaden these notions are vital in creating an inclusive environment.

Despite these challenges, I believe I have overcome some of these barriers, and continue to excel in my career and personal growth. My unwavering determination to excel is further attributable to the continuous mentorship from those who come before me and the solid sponsorship that I have the privilege of being exposed to. I will continue to draw on these positive influences as I navigate the industry.

**Q: We are often told that Boomers and other generations succeeded because they were quick to assimilate. How do you feel about assimilation, and should one assimilate into the culture or should the culture change?**

**A:** While there can be benefits to understanding and adapting to the existing norms and the culture of the financial services industry, it is equally important for the industry itself to evolve and become more inclusive and agile.

Areas such as professionalism may require one to adhere to professional standards as set in the industry. Understanding, and aligning with the industry's core values can also directly contribute to career success and advancements. Advocating for change means encouraging a more diverse and inclusive culture within the industry that can and will lead to better representation and opportunities for individuals from various backgrounds. In changing the culture, the industry needs to also work actively to identify and eliminate biases in areas such as hiring and promotions. Decision-making processes in these areas are crucial for creating a fair and just environment.

> *"Ultimately, a healthy balance is needed. Individuals can contribute to positive change by bringing their unique perspectives."*

Ultimately, a healthy balance is needed. Individuals can contribute to positive change by bringing their unique perspectives, and the industry, in turn, should actively embrace and support diversity, fostering an inclusive culture that values the contributions of individuals from all backgrounds and ages.

**Q: What is your lived and/or perceived view on diversity and inclusion? Have we moved the needle?**

**A:** The industry has been making efforts to promote diversity, equity, and inclusion, recognising the importance of a diverse workforce for both ethical and business reasons. Many companies have implemented policies and initiatives to foster a more inclusive environment. However, the degree to which these efforts are embraced varies across different companies. I have seen this and with the little voice I have, I aim to steer entrepreneurs and fund managers in this direction while explaining the importance of an inclusive company. In some instances, I succeed in being heard and in other cases, there is a need for multiple conversations centred in and around the same point.

**Q: Why would you be a voice for diversity? Is there an actual reason why this matters outside of the social imperative?**

**A:** Let me preface by saying change is happening and that's good, Overall, there is a growing awareness within the sector about the benefits of diversity and inclusion, both in terms of innovation and better serving diverse client bases. Several studies have shown more diverse teams achieve better investment outcomes and diverse boards create companies with better strategy for their diverse markets. Many companies are taking steps to foster a more inclusive workplace culture, but the effectiveness of these efforts may differ from one company to another.

Outside of my personal view, it is important to note that achieving diversity, equity and inclusion is an ongoing process, and progress can vary as some companies need to start off by breaking down traditional barriers, addressing biases, and creating equal opportunities for individuals from various backgrounds.


**Q: Earlier on you mentioned the importance of "having a seat at the table". What does that mean to you?**

**A:** For investment professionals such as myself, having a seat at the table signifies numerous meaningful aspects in my career journey:

- *Inclusion in decisions and representation:* Being included in discussions and decision-making processes allows me to contribute ideas, perspectives, and insights that can shape the direction of various decisions and/or initiatives depending on the forum. It also means that anyone venturing into the industry now has one more person to look up to and relate to.
- *Recognition of expertise:* Having a seat at the table reflects recognition of skills and knowledge I have garnered over the years, and my potential contributions moving forward. It signals to me that my capabilities are valued and considered important in key discussions.
- *Learning and development opportunities:* Being part of strategic discussions has and continues to provide me with valuable learning opportunities and exposure to several complexities of the industry such as business strategies, and leadership dynamics.
- *Networking and relationship building:* A seat at the table means being granted an opportunity to build relationships with senior professionals, executives, and decision-makers. Networking in this context is crucial for career advancement, mentorship opportunities, and expanding professional connections.
- *Advocacy for diversity and inclusion:* It allows for active advocacy for diversity and inclusion within the industry, by using the position and platform provided to contribute to creating a more inclusive environment for myself and others while addressing systemic issues.

> *Having a seat at the table is not only a personal achievement but also a responsibility.*

Having a seat at the table is not only a personal achievement but also a responsibility. It entails contributing to the success and ethical practices of the company I work for while actively participating in the growth and development of the industry. It is also a platform for continuous growth, learning, and driving impact in various regards. It ultimately recognises one's potential to make meaningful contributions at large.

**Q: I take it you support the cultural move towards sneakers in the workplace but to close it out: would you wear sneakers to the boardroom?**

**A:** My preferred dress code is smart casual attire which I believe is a practical possibility to consider in boardrooms. In the same breath, I would support the move towards sneakers in the workplace. There are benefits to this including the most obvious one – comfort! For a tall lady such as myself, wearing sneakers creates a more relaxed and approachable image meaning being perceived as less intimidating which in turn fosters open communication.

Sneakers come in a variety of styles and designs, allowing individuals to express their personality which also ties back into the point of creating and promoting an inclusive work environment.

INFORMATIONAL

# Implementing exits in challenging market conditions

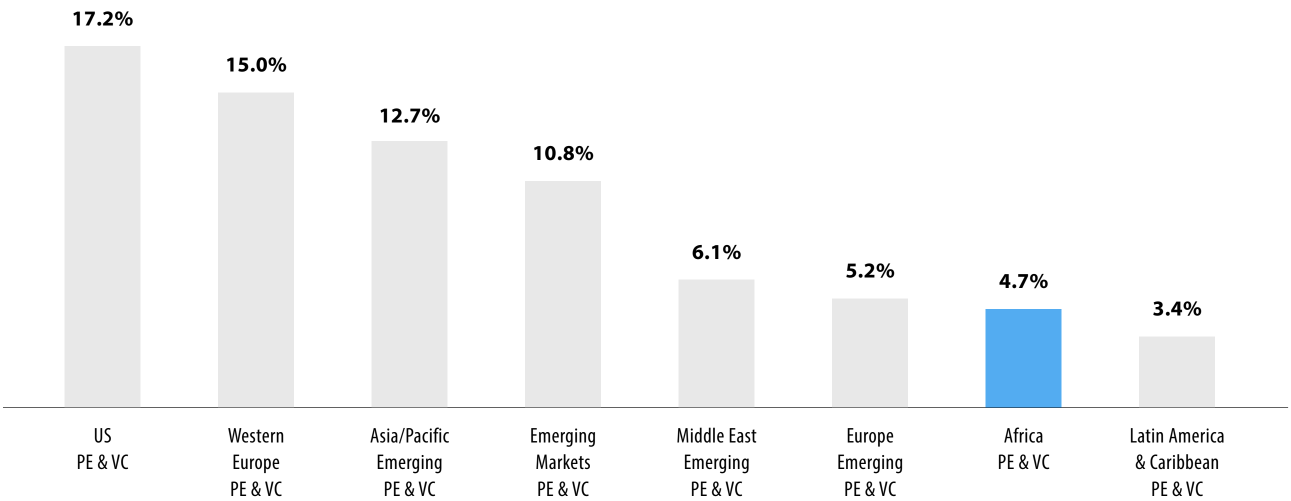
By Brett Roberts - *Director & Head of M&A, Verdant Capital*

**Over the past five years, Verdant Capital has observed several distinct trends shaping the South African and broader African M&A markets from an exits perspective.**

**The availability of private equity funding has contracted, attributed in part to a reduction in the number of active private equity firms with capital to deploy. This shift has influenced the supply and demand dynamics for business acquisitions, with fewer well-funded buyers and a strong backlog of assets for sale.**

This decline in the number of active private equity firms has been driven to an extent by the weak performance of private equity funds in Africa, when compared with other global markets, which has made fund raising for subsequent funds difficult. The chart below illustrates the average annual returns for private equity funds in various regions over the past 10 years, with Africa producing an average annual fund return over 10 years of 4.7%. In comparison, the US and Western Europe generated returns of 17.2% and 15.0% respectively.

**Private Equity and VC Annual Returns Over 10 Years**




*Source: GPCA*

There is a preference for high-quality assets among PE firms, who are keen to invest in businesses that not only demonstrate robust performance and unique market positioning but also hold the potential for long-term growth. While there is still interest in less desirable assets, such interest is noticeably more cautious, with investors carefully evaluating the value and potential returns that can be realised. Moreover, investors are increasingly ready to pull back from potential deals if there are signals of faltering performance in target companies.

As an example, Verdant Capital was appointed by an EU-based client to manage the sale of its South African subsidiary, a services business with a comfortable number one position in the market. The business has a unique position in the market, has excellent growth, cash flow and margin characteristics and is of a scale that falls in the "sweet spot" for private equity. There has been a keen interest in this business throughout the transaction process: we received 32 signed NDAs which culminated in 16 indicative offer offers. Conversely, we have managed transactions at the other end of spectrum where the profile of the target is not aligned with requirements of private equity and in these instances, it has been a challenge drumming up strong buyer interest and maintaining competitive tension.

Strategic buyers continue to play a vital role in the market, prioritising acquisitions that align with specific business strategies and objectives. Their selective approach necessitates a strong justification for each potential acquisition. In contrast, private equity buyers are navigating heightened funding risks, a consequence of extended fundraising cycles which necessitates greater due diligence on bidders by sell-side advisors.

Although global interest in the South African and broader African market has cooled somewhat over the past five years, certain international buyers, particularly from Europe and Asia, remain engaged. We have secured bids from such parties in our processes, albeit fewer than what was seen five to ten years ago. The exit of certain multinational corporations from their African operations has opened new investment opportunities for private equity and has tilted the supply-demand equation further to the benefit of the buyside.

The route to exiting investments via the stock market, particularly through initial public offerings (IPOs) on the Johannesburg Stock Exchange, has challenges, including a tough IPO climate and pervasive liquidity issues across the continent. African companies listing on major exchanges such as the NYSE and LSE have encountered sharp difficulties in terms of aftermarket performance. In the future, a highly differentiated equity story and value proposition are likely to be the pre-requisites for successful IPO exits.

"Bull market" conditions in the early and middle years of the last decade led to some private equity investments being structured with less robust contractual terms, including for example, drag-along rights. The view by some funds at that time was that rising markets would promote liquidity across all asset classes. In the market today (quite rightly), investment committees are much stricter on exit provisions, including non-negotiable requirements for drag-along rights. Some funds are now in the unenviable position of trying to sell minority stakes without the exit rights and without being able to offer prospective buyers a clearer view on their own exit.

Considering these conditions, private equity buyers are adopting a highly selective approach. Ultimately, the most successful exits are those that foster competitive tension, highlighting the critical selling points of the businesses being sold, maintaining a broad outreach to local and international financial and strategic buyers; and, where necessary, building pragmatic consortiums that include co-investors or debt financiers.

# PE fund managers to get creative with exits in 2024

By Angela Simpson and Lydia Shadrach-Razzino,
Partners and Co-heads of the Corporate/M&A Practice,
Baker McKenzie Johannesburg

The private equity exit cycle is expected to ramp up in 2024. While 2022 was a good year for exits, primarily on the back of COVID-related backlogs and consequent fast-tracking of disposals, things slowed in 2023 with only 17 exits reported in the first half of the year. In the year ahead, those operating in the private equity space are expected to collaborate and create synergies that add value for investors utilising, for example, exits, bolt-on acquisitions and carve-outs to do so.

This year, several fund managers have raised, or are in the process of raising new funds, but haven't fully exited old ones, and are under increasing pressure to deliver returns to their investors. According to the African Private Capital Association (AVCA), African PE investments had an average holding period of 6.4 years between 2010 and 2021. Many fund managers have found it difficult to exit assets within the anticipated timeframes and without an exit track record, it's difficult to attract new funding.

Although the misalignment in pricing expectations between buyers and sellers is expected to remain, we are already seeing signs of an uptick in exit activity. While this year will hopefully bring more stability to the market, creative approaches to exits continue to be important in challenging conditions. Fund managers are considering their pricing expectations and alternatives to the traditional disposal process.

IPOs have proven to be the least popular way to exit for some time, with capital market illiquidity cited as the major reason, especially in the African capital markets. The Johannesburg Stock Exchange (JSE) has fallen victim to this trend, with other African securities exchanges facing similar challenges. There has been an increase in delistings due to a lack of confidence by investors in public funding, which has led to a general increase in appetite for private investment. It has been more efficient to raise capital privately rather than publicly. Public fund raising has numerous regulatory requirements and hurdles that must be monitored and budgeted for. Although there is talk of a potential increase in capital market activity, we don't expect to see this materialise in the immediate future. However, the cycle will turn.

Some fund managers are choosing to go the route of continuation funds, which extend the life of the fund, while others are looking at bolt-on acquisitions to improve the attractiveness of assets or electing carve-outs to make the exit more attractive.

For fund managers, a carve-out sale targeted at businesses looking for synergistic investments that align with their current operations is often a good way to extract value. A carve-out can also allow for the disposal of non-core assets and businesses to bolster balance sheets and strengthen the operational efficiency and focus of the remaining business. For buyers, carve-outs are an ideal way to buy specific assets that can't be developed by the business, such as talent or intellectual property. Strategic buyers are often willing to pay more of a premium than financial buyers in these circumstances.

Complexities associated with carve-outs include identifying and defining what constitutes the business being carved out and sold, a lack of stand-alone financials which could make valuation difficult, complicated transitional service agreements, including the need to address shared intellectual property licenses and agreements, transferring leases, subleases and other shared site or service agreements, and employee transfers. Carve-outs across several countries also add to the complexity of the transaction.

Baker McKenzie's global private equity team recently noted four ways in which deal value is lost in a carve-out:

- The seller failing to create competitive tension in the sale process.
- Sub-optimal structures lead to value leakage, with the price inextricably linked to the tax structure, whether the target is packaged appealingly for the buyer, and whether the structure can be flexed for different buyers.
- Sellers leaving cash trapped in the business.
- Poor communication, which puts even strong relationships at risk.

Given the complexities of these transactions, planning and project management should not be an afterthought. In fact, preparing for an exit soon after acquisition allows sellers to stay ahead of the game and assists in maximising deal value and success. Beginning with the end in mind is one of the most value accretive mechanisms for an exit.

Our team's expertise and experience in private equity investments, carve-outs, and IPOs enable us to take a broad view of the transaction and help you identify and address potential issues early on to avoid delays and increase deal certainty. If you would like to explore these issues in more detail, please contact our Corporate/M&A Practice Heads in Johannesburg, Angela Simpson and Lydia Shadrach Razzino.

OPINION PIECE

# A call to intensify support of emerging private equity fund managers in South Africa

**By Dr Lulama Ngwenya,** ***Senior Lecturer at the Department of Accountancy At The University of Johannesburg.***

The South African private equity landscape is considered relatively mature compared to other African countries on the continent – it has a well-established financial sector, and regulatory framework. There is, however, plenty of head room for the sector to grow and unlock untapped investment opportunities through diversification and increased support of emerging fund managers, especially those from non-white communities. A deliberate policy could be formulated by the South African government to pursue this cause in collaboration with the private sector. Through the Government Employee Pension Fund (GEPF), the government can deliberately allocate a sizeable amount to develop emerging fund managers from previously disadvantaged backgrounds hence increasing participation in the space.

The motivation to support emerging fund managers comes on the back of a few glaring start-up hurdles they face including **the lack of:**

- working capital funding;
- track records as previous work experience in private equity space is not attributed to an individual but a team;
- access to capital;
- and relationships;
- operational infrastructure; and
- deal sourcing.

**Way forward**

There's a growing recognition of the importance of supporting emerging fund managers for the South African private equity industry to achieve growth and maturation. These managers bring fresh perspectives, innovative approaches, and local insights tailored to the unique economic and investment landscape of South Africa. Supporting them not only fosters diversity and competition but also drives greater returns for investors. Ways to support emerging managers include providing access to capital, offering capacity building through training and mentorship, streamlining regulatory processes, facilitating market access, and developing a supportive ecosystem tailored to their needs. By focusing on supporting these emerging managers, the South African private equity industry can stimulate innovation, fuel economic growth, and create lasting value for investors and the broader economy.


In conclusion, the Southern African Venture Capital and Private Equity Association (SAVCA) provides various resources, guidance, and networking opportunities to help emerging managers navigate the complexities of the private equity industry and accelerate their growth.

The many initiatives it offers include capacity-building initiatives such as training programmes, workshops, access to SAVCA conferences and educational events tailored to the needs of emerging managers. These initiatives cover a wide range of topics including fundraising, deal structuring, portfolio management, and regulatory compliance, to equip emerging managers with the skills and knowledge necessary for success. In addition, these intiatives provide a platform for these managers to showcase their talent, build relationships, and explore potential collaboration opportunities.

Some success stories include Anza Capital, an early-stage tech startup investor in the food tech, cleantech, and digital industries, fuelling innovation and growth. Anza graduated from the first SAVCA Venture Capital Fund Manager Programme (VCFMP) cohort. Mahlako, a Phahla fund which specialises in social infrastructure assets geared towards developing and transforming South Africa's economy and Infra Impact Infrastructure Managers, who provide growth capital to Southern African focused mid-market infrastructure businesses, are successful emerging fund managers from the SAVCA Fund Development Programme sponsored by FNB, SA SME Fund and SAVCA. Other funds which have done well include Sanari, which has reached final close (from the FMDP); and AIH Capital and Ditiro Capital, which has reached first close (from the women mentoring and incubation fund manager development programme). These examples prove that there is a model which works. It is a direct indictment to GEPF, PIC, IDC, DBSA, to name a few institutions to deliberately act and support these programmes of this nature while SAVCA acts as a conduit.

# Unlocking the Potential of Private Equity in Investment Portfolios

**By Puseletso Mbele,** ***CEO & Managing Partner of Moruo Private Markets***

In today's dynamic investment landscape, the role of private equity has become central in optimising portfolios for investors. With an array of investment opportunities that are continually evolving, a diversified strategy spanning multiple asset classes proves indispensable. Not only does this approach mitigate risk, but it also grants access to skilled fund managers while enhancing returns. In this context, integrating private equity into portfolios has become imperative, offering uncorrelated returns compared to traditional asset classes.

In South Africa and across the African continent, institutional investor portfolios have historically underweighted private equity. Although the tide is gradually shifting, the pace of change remains slower than desired. This shortfall hinders institutional investors from leveraging opportunities that could drive impactful growth within the continent.

While institutional clients recognise the potential benefits of private equity, accessing this asset class remains a contentious issue. Concerns revolve around risk forecasting and governance, especially when selecting suitable private equity managers. One alternative, often overlooked, is the fund of funds approach. Despite concerns regarding fee structures, fund of funds strategies can effectively mitigate risks, reduce volatility, and minimise the probability of default in portfolios.

**Unparalleled diversification:** Investing across private equity strategies allows for unparalleled diversification. This approach spans various geographies and sectors, providing exposure to a diverse array of industries across emerging and developed economies.

**Ethical considerations:** Experienced global fund managers prioritise responsible investing practices. Their meticulous due diligence ensures alignment with sustainability, social responsibility, and ethical business practices, fostering a positive impact across industries.

**Access to elite fund managers:** The fund of funds model grants investors access to highly skilled and experienced fund managers. These managers possess extensive networks and market intelligence, adept at navigating complex global markets while optimising portfolio performance.

**Investing in transformative sectors:** Fund managers prioritise investments in transformative sectors such as renewable energy, infrastructure, healthcare innovation, and technology. These sectors not only generate significant value but also contribute to positive societal and environmental outcomes.

In conclusion, a Private Equity Fund of Funds emerges as a strategic investment vehicle, offering diversified exposure, ethical considerations, access to elite fund managers, and opportunities in transformative sectors. By embracing private equity, investors can build more stable, resilient portfolios capable of enduring economic cycles while driving long-term impact.

***Disclaimer:*** *The information provided in this article is for information purposes only and does not constitute financial advice. Investors should conduct thorough research and seek professional guidance before making investment decisions.*

OPINION PIECE

# Challenges and opportunities for African private equity in 2024

By Shawn Duthie,
*Associate Director, Control Risks*

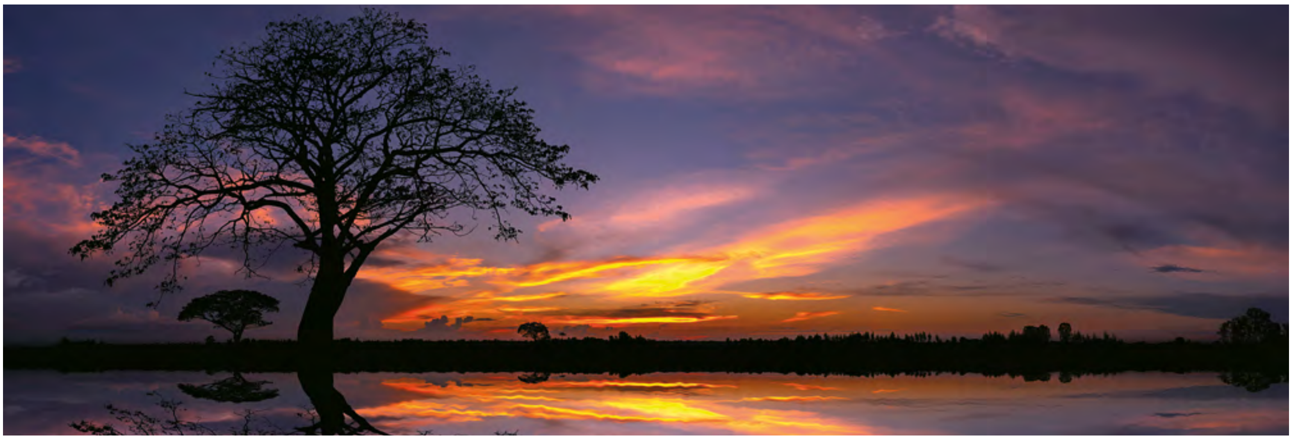
**2024 will bring a myriad of challenges and opportunities for private equity investors, from global geopolitical shifts and environmental concerns to technological advancements which may create opportunities or challenge certain investments. In Africa, private market investors must navigate these international issues, and contend with rapidly changing investment environments within the continent. This article looks at the top issues private equity investors should monitor this year to help inform their investment decisions.**

### Ballots and balance sheets: African elections

Pivotal elections are scheduled for major markets in Africa this year, including in South Africa and Ghana, both of which GPs rated as two of the five most attractive countries for investment, according to AVCA's 2023 African Private Capital Industry Survey. Elections can mark a watershed change in a country's investment opportunities, bringing in new blood capable of creating a more conducive business environment, as has recently been seen in Zambia and, to a certain extent, Nigeria. This is likely to be the case in Ghana, where a change in ruling party may be the catalyst needed to help the country restructure its international debt and return to its former status as an attractive market for investors considering West Africa.

### Decreasing economies and financing options

While the International Monetary Fund (IMF) has revised its forecast for African economic growth upwards slightly to 4%, many major African countries, including Kenya and Ethiopia, are struggling with strained public finances and increasing debt which will result in restructuring and, potentially, another loan default. If so, these countries will join Ghana and Zambia, which are both attempting to restructure their debt obligations without severally hamstringing their ability to deliver services to the electorate. The risk of default has impacted African nations' financing options and while Cote d'Ivoire announced a Eurobond issuance in early January this year, this was the first one for a sub-Saharan nation after the pandemic. Private market financing has also decreased, with one estimate that start-up funding in Africa was down 39% year-on-year in 2023.



In South Africa, elections may see the start of coalition politics at a national level, as the ruling African National Congress is likely to lose voters frustrated by continued power cuts, corruption, and a lack of service delivery. While the ANC will likely remain in government, a drop in its vote share below, or even near to the 50% mark would be a watershed moment in South Africa's electoral history and herald a new era of coalition politics at all levels of government. While major policy changes (particularly pro-business ones) are not expected after the elections, the ANC's decline has opened up the political market and will allow other parties more chances to govern and influence policy in the future, which will hopefully in turn increase the potential opportunities for private market investors.

### Coup contagion to continue?

With seven military takeovers in the past three years in Africa, it is easy to question whether there will be further 'coup contagion'. While the previous coups have been confined to smaller economies, they also have an outsized impact on investor sentiment and risk perception in the broader region. The coups have been broadly accepted by the population and regional/international responses have been ineffective, which potentially increases the risk of more military-backed coups in the year ahead. The most vulnerable countries include Cameroon, Congo (Brazzaville), Equatorial Guinea, and Uganda – all of which have unclear succession plans and long-standing authoritarian rulers – as well as those countries already under junta rule including Niger, Burkina Faso and Guinea. While military rulers have not focused on disrupting private businesses, investors in any country hit by a military coup can expect a long and volatile transition with a high-risk of a complete revision of government institutions which may impact operations and investments.

### Bright spots throughout the continent

Despite these challenges, bright spots remain. The business environment in Zambia has improved drastically since the election of Hakainde Hichilema with major opportunities for private investors looking for infrastructure and critical minerals opportunities. Similarly, Tanzania's potential for LNG exploration and production, (particularly if financing is found for the East African Crude Oil Pipeline), will expand into other sectors as Tanzania looks to grow its ports and develop its southern region. Having said this, value is in the eye of the beholder and, particularly for Africa-based private equity investors, there are opportunities in markets from which other investors may shy away. As an example, recent industry surveys have indicated that GPs ranked West Africa as a preferred region for investment, despite the risk of coup contagion and defaults. Further, most GPs appear to be planning to increase their investments across the continent, particularly in impact investments.

While investors will have much to watch out for when it comes to evaluating their investments, many opportunities remain. For those cognisant of the political, economic and security environments, the opportunity to create value in these African markets and find success is that much more.

# Jersey-South Africa Axis: Fostering Growth in Alternative Investments

**By Dr Rufaro Nyakatawa (Mucheka),** *Business Development Consultant – Africa at Jersey Finance Limited.*

**In last year's SAVCA PE Journal, under the conference theme of 'resilience', I wrote about some of the critical considerations and perspectives for next-generation fund managers and entrepreneurs using insights from two leading funds experts – Tanya van Lill and Andrea Bohmert.**
*Read it at* https://jsy.fi/SAVCA23

This year's conference theme is synergy with collaboration, defined as the interaction of elements that, when combined, produce a total effect greater than the sum of the individual components.

I thought of the synergies that exist, and potential new ones, between international finance centres (IFCS) like Jersey and South Africa.

### Supporting investment into Africa

African governments are steering away from traditional financing and investment sources and seeking out overseas capital securely and efficiently to ensure Africa can achieve the growth trajectory to enable it to achieve its future aspirations/the African Union Agenda 2063: The Africa We Want. In this strategy, there is a clear synergy with the funds industry in Jersey's IFC.

As a specialist centre for the alternative asset classes that already account for around 81% of its overall funds business (40% of which is represented by PE and VC), valued at approximately US$-645 billion, Jersey is well-placed to facilitate South African fund managers with capital-raising.

### Making a difference to South Africa's energy challenges

South Africa recently received support from The World Bank through a US$1-billion low-interest loan to assist with the energy crisis. However, experts suggest the scale of this issue will require private sector investment.

Jersey, known for its stability, governance standards, and expertise, has emerged as an attractive destination for international investors looking to contribute to South Africa's green transition.

### A gateway to Europe

Jersey is a strategic gateway to Europe, offering fund managers easy access to EU capital through National Private Placement Regimes (NPPRs). This positioning benefits investors seeking a safe and familiar environment with market access compliance under the Alternative Investment Fund Managers Directive (AIFMD).

More than 200 Jersey-registered managers are opting to market almost 400 funds into the EU through the NPPRs, a figure which has almost doubled in the past five years.

### A safe harbour for investors

South Africa ranks fifth as the country of origin for the total number of Jersey-domiciled funds and sub-funds . South African fund assets domiciled in Jersey are also on the rise. For example, in 2021, statistics reported a 38% year-on-year increase versus a total growth of 23%, reflecting growing confidence in the jurisdiction.

Estimates suggest that over the next five years, investors plan to increase impact investment allocations to sub-Saharan Africa to address the continent's most pressing social and environmental issues. In doing so, investors are likely to seek out reputable jurisdictions, like Jersey; an IFC that has been at the forefront of funds services for more than 60 years and that is independently endorsed as a top IFC by the International Monetary Fund (IMF), OECD and the EU, to name a few.

### Historic links and mutual benefits

There is a longstanding relationship between Jersey and South Africa, with prominent South African organisations such as Standard Bank, Alexander Forbes, Ashburton Investments and Nedbank, establishing offices in Jersey for more than two decades. This history signifies a symbiotic relationship, showcasing the mutual benefits derived from collaboration.

In fact, in the last five to 10 years, several Jersey-headquartered funds administration firms such as JTC and Altum Group as well as other firms with Jersey-based offices have set up offices and grown their presence in South Africa supporting and servicing business booked through to Jersey.

This expansion into South Africa not only supports the footprint of these firms into Africa but contributes towards reducing unemployment and skills development in financial services in South Africa.

### A positive economic impact

While there are opportunities for Jersey to support investors in South Africa, it is worth adding that such opportunities are mutually beneficial. This is borne out by research from the Centre for Economics and Business Research (Cebr) into global value chains, which quantified the full extent of Jersey's global economic footprint through the metrics of GDP, employment and jobs. The research shows that the capital intermediated through Jersey equates to £6-billion of Africa's GDP annually, and supports more than 900 000 jobs in Africa.

### A bright future

These examples emphasise the relevance of collaboration between Jersey and South African fund managers. From facilitating capital-raising to addressing critical issues such as the energy crisis and fostering a mutually beneficial relationship, there are several strategic opportunities for both regions in the evolving landscape of international finance. I am certain there are other areas too.

Do come and speak to me and my colleague Elliot Refson (Head of Funds, Jersey Finance) at the SAVCA PE conference at the Jersey Finance exhibition stand on 27 and 28 February. You can also connect with us on LinkedIn at Jsy.fi/Rufaro or Elliot at Jsy.fi/Elliot.

If you'd like to join us at our funds-focused roundtables on 26 February in Cape Town and 1 March in Johannesburg, please get in touch.

OPINION PIECE

# Navigating South Africa's alternative investment landscape with mezzanine finance

**By Dineo Matjila, Analyst,** *Tamela Capital Partners*
**and Sydney Mhlarhi,** *Director and founder of Tamela Capital Partners*

**While the world remains divided over whether the global economy will weaken this year, amid inflationary pressures, escalating geopolitical tensions and social unrest, the aftershocks have extended into global credit ecosystems as both borrowers and lenders adapt to new economic realities. Similarly, there has been a strong shift from public markets to private markets, as companies elect to raise capital through private rather than public channels with an increase in public to private transactions.**

Private credit is a crucial component of financial markets and has played a strong role in providing access to financing the economy. Although private credit is more prominent in developed markets, it has gained notable traction in emerging markets, including South Africa. Over the years, the sector has expanded with a growing number of non-bank financial institutions aiming to complement traditional bank finance. These institutions have focused on mezzanine finance solutions for mid-market companies looking to implement various corporate strategies such as growth and expansion, organisational restructurings, and acquisitions, among other uses. The appeal of mezzanine debt is underpinned by its flexibility, higher risk and return thresholds, and expedient approval processes.

> *Prior to the amendment of Regulation 28, hedge funds, private equity, and any "other assets" were grouped as a single asset class with a 15% allocation cap.*

Regulatory changes have also played a key role in shaping the mezzanine market in South Africa. The latest amendment to Regulation 28 of the Pension Funds Act, 24 of 1956, which came into effect on 3 January 2023, significantly impacts the landscape. Prior to this amendment of Regulation 28, hedge funds, private equity, and any "other assets" were grouped as a single asset class with a 15% allocation cap. The recent amendments, however, separate these categories and increase the allocation limit specifically for private equity from 10% to 15%. This change is particularly significant for mezzanine financing, which falls under the private equity category. The higher allocation limit opens up greater investment opportunities for pension funds and other institutional investors, acting in synergy with economic and business factors to solidify mezzanine financing as a valuable and increasingly popular investment vehicle in South Africa's complex and evolving financial landscape.

The growth of mezzanine financing in South Africa has been shaped by various economic, regulatory, and business landscape changes, some of which are specific to the country's unique environment.

The immediate aftermath of the pandemic saw liquidity constraints and a low interest rate environment, compelling borrowers to look beyond traditional lending solutions. Private firms, particularly, turned to mezzanine financing as a reliable method for funding acquisitions and growth. This trend has contributed to a broader recognition and utilisation of mezzanine funding in the financial landscape.

In sharp contrast, as interest rates began to rise, the cost of servicing traditional floating-rate debt has become a growing concern for borrowers. Higher interest rates can lead to increased default rates, as companies find it more challenging to meet their financial obligations. Mezzanine financing, with its flexible terms and equity-linked yields, offers an alternative that is attractive to borrowers and provides a level of defence against inflation for lenders.

The significant growth in global capital attracted by mezzanine debt fund rising from $84.39-billion in 2018 to $442.77-billion in the first quarter of 2023 , albeit from a lower base, has been mirrored by the increase in mezzanine debt funds in South Africa in the past few years. The asset class's inherent resilience and flexibility means it can easily adapt to the evolving needs of borrowers and investors alike. Considering this, Tamela Capital Partners is expanding within the alternative assets landscape in South Africa and neighbouring regions, through its Fund I (which is now over 80% invested) and raising R2.5-billion follow-on Fund II. Fund II is strategically positioned to capitalise on the features of mezzanine debt to provide investors with regular income and attractive risk-adjusted returns. It focuses on established businesses with strong cash flows and market leading positions, while also focusing on investments that align with sustainable and responsible investing anchored on three pillars of growth, impact, and inclusion.

# Collaboration in the age of hyper-specialisation: Mastering the art of letting go

By Tiaan Smit at
*Benchmark International*

Synergy – we adopted the word from the medical sciences, where it was used to describe the results of multiple muscles working together to produce body movement that no single muscle could achieve. Today, in business and organisational contexts, synergy refers to the idea that the collaboration of different parts or entities can result in a more effective and efficient outcome.

Gone are the days when being a 'jack-of-all-trades' was sufficient. Trying to master everything often results in overlooked opportunities and mediocre outcomes. Thriving in the current business landscape requires business units and teams to have keen self-awareness of their strengths and limitations, understanding both where their expertise truly lies and, importantly, where it does not. This understanding is the first step towards meaningful and productive collaborations. Engaging with specialised partners ensures that each phase of a business' growth, as a corporate action, is managed with unparalleled skill and precision.

Think of it as building a championship team. You wouldn't field a team entirely made up of star quarterbacks, would you? Each player brings a unique skill set, and true synergy comes from seamless collaboration, capitalising on individual strengths for a unified push towards the goal.

At Benchmark International, our core philosophy centres on guiding sellers through the intricacies of the transaction process with unparalleled proficiency. We excel in navigating our clients from the initial stages to the final deal, ensuring we maximise value at every step. Our approach involves a meticulous process of identifying suitable prospects and gathering insightful market feedback. This strategic approach is further strengthened by our decision to partner with experts in areas such as legal, tax, and various specialised services. Opting for this collaborative model over the development of internal capabilities enables us to focus on our primary expertise. This methodology ensures that our clients receive the advantage of a broad spectrum of specialised skills, essential for the success of their transactions.



# PE Front Office as a catalyst for operational excellence at Hlayisani Capital


## Business Challenges and Processes

**A key player in the alternative investment sector, Hlayisani Capital wanted to streamline operational efficiencies in investment management and investor reporting. The team depended on traditional methods built around Excel, which involved extensive manual processes. As the team geared up to launch new funds and expand operations, Hlayisani Capital decided to modernise and enhance their investment management and investor reporting.**

### About Hlayisani Capital

- A PE and VC fund manager focused on unlocking unique high-growth investment opportunities.
- Focused on South Africa and Africa region.
- Founded by entrepreneurs, for entrepreneurs, a level 2 B-BBEE black-owned fund manager.
- AUM worth R1-billion.
- Hlayisani administers a Private Equity holding company in the telco and energy sectors.
- Hlayisani currently has two active Venture Capital funds under management: The Hlayisani Growth Fund and the Hlayisani Venture Fund II.
- Hlayisani Growth Fund is a growth equity fund that is fully deployed into 8 high growth businesses.
- Hlayisani Venture Fund II is a venture capital fund that is currently investing in edtech, fin-tech, IOT, SAAS, mobility tech, and communication businesses that have a South African link.

### Investment Management

#### Deal Tracking

- A substantial volume of deals, and manual evaluation process led to a time-consuming and error-prone deal capture process.
- This manual handling further posed challenges in promptly updating stakeholders or promoters about the status of the deals. Additionally, internal reporting was also manual.

#### Investment Valuations

- The team's requirement of tracking multiple valuations based on different valuation methods increased the complexity of analysis and reporting.

### Investor Reporting

#### Fund Operations

- The Drawdown/Distribution Operations were managed manually, leading to increased reporting turn-around time.

#### Reporting

- The process of generating key reports like investor statements, investor updates, and an executive summary was manual, time-consuming, and inefficient.

## PE Front Office Solution

**Following a comprehensive examination of the above-mentioned challenges, PE Front Office presented a tailored solution that effectively addressed all the identified pain points.**

**A collaborative approach allowed for a strategic and customized solution for Hlayisani Capital's challenges, showcasing the flexibility of the PEFO framework to meet customer-specific requirements.**

### Investment Management

#### Deal Tracking

- PE Front Office enhanced the deal tracking process at Hlayisani Capital by integrating a web form on the website to automatically create the deals onto the PEFO platform.
- The stakeholder communication challenge was addressed by introducing an automatic email notification feature, allowing the Hlayisani Capital team to efficiently communicate deal statuses to stakeholders using pre-defined email templates with a single click.
- PE Front Office implemented a specific customisation that allowed for capturing multiple valuations i.e. Audited and Fund Manager valuations. This not only enabled the team to capture multiple valuations but also automatically calculate the IRRs and incorporate the same into key reports.

### Investor Reporting

#### Fund Operations

- PE Front Office automated the drawdown/distribution process, facilitating the generation of personalized notices for investors. Further leveraging the mass email feature allowed direct sharing of these notices from the platform, enhancing communication accuracy and alleviating time constraints for the team.

#### Reporting

- Hlayisani Capital transitioned from a manual report creation process to leveraging PE Front Office's Reports & Analytics engine, enabling effortless generation of various reports such as Investor Capital Account statements and Fund Quarterly in Hlaysani Capital's preferred format.

  Furthermore, such reports are distributed using the personalized mass email feature.

### Business Outcomes with PEFO

- Streamlined deal due-diligence process
- Automation of key Investment Management processes, specifically Valuations
- Streamlined Draw-down and Distribution operations
- Automated Reporting process

> *Capital is continuously looking for efficient ways to enhance our processes.*
>
> *The PE Front Office solution affords us the opportunity to consolidate Hlayisani all portfolio and deal information into a central source and provides sufficient monitoring and reporting tools. The customised reporting capability caters to our specific investor needs.*
>
> **– Rochelle Moodley**
> *Head of Operations*

## About PE Front Office

**PE Front Office is a one-stop solution that is tailored to meet the evolving needs of Private Debt, Private Equity, Venture Capital, Fund of Funds, and Limited Partners. PEFO empowers investment professionals across 15 countries and 150+ firms to Simplify Work and Enhance Productivity. For more details, reach out to us at sales@pefrontoffice.com, or visit: https://www.pefrontoffice.com**

# Challenges and opportunities in the M&A landscape

**Compiled by Doron Joffe – *Head of Corporate Commercial*; Sanjay Klaasen – *Head of Corporate Commercial*; and *Executives Corporate Commercial*: Sanushka Chetty, Cheván Daniels, Isaac Fenyane, Nkosi Tshabalala, and Tracey van Wyk.**

In 2023 South Africa's M&A landscape underwent significant shifts influenced by a combination of global economic factors, domestic challenges, and other evolving opportunities. As the global M&A market experienced a slowdown due to rising inflation and geo-political challenges, South Africa was not exempt, but showed resilience and adaptability in navigating the many challenges. Uncertainty has permeated the M&A sentiment over recent years, with various factors contributing to the prevailing apprehension. Ongoing global conflicts, soaring commodity prices, inflation, rising living costs, higher lending rates, and the Fed's policy decisions have all played a role in creating an environment of uncertainty. South Africa's economic landscape mirrors these global trends, characterising 2023 as a year of uncertainty. but despite the challenges, the South African M&A market is expected to gradually recover in tandem with global economic improvements. However, the recent levelling of interest hikes gives hope that the cycle has finally reached its peak. This is coupled with cooling inflation rates that now sit between the 3% to 6% target range.

Several factors have impacted the M&A landscape in South Africa, including:

- The socio-economic environment
- Regulatory changes
- Technological developments
- Continued recovery from the COVID-19 pandemic
- Economic stagnation
- High repo rates
- Substantial unemployment rates

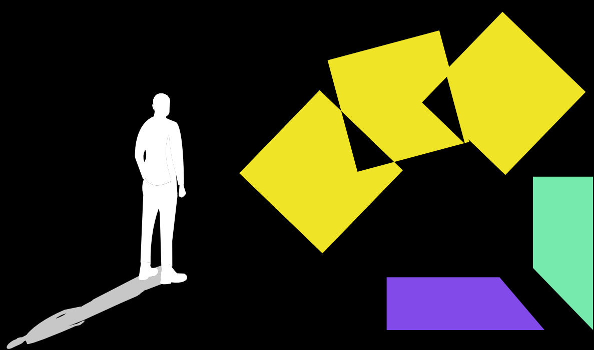
Other domestic challenges such as the energy crisis and load shedding have also played a role, creating both obstacles and new opportunities within the energy sector. A trend arising from this is the increased interest in the alternative and renewable energy space – driven by the need to address the country's energy crisis and the desire to keep in step with the increasing move towards industries that are ESG-friendly.

PE deals in South Africa face rigorous competition and public interest requirements, which can be challenging to navigate. The good news is that foreign buyers are adjusting their strategies to include employee share ownership schemes in their deals to align with B-BBEE and expectations from the South African Competition Commission. This is also an effective strategy to retain company management, enhancing the stability and value of the business going forward.

Some larger PE funds that were previously focused solely on South Africa are now turning their attention to pan-African investment opportunities, particularly in data and energy centres. However, many funds domiciled in the rest of Africa are still actively seeking opportunities in South Africa, suggesting the country remains a favourable destination for deals.

Generally, South African regulators have been efficient in assessing deals despite resource and capacity constraints occasionally presenting some challenges. Despite the uncertainty, there are still opportunities for savvy dealmakers, particularly in the mid-market segment, where undervalued targets abound due to the economic downturn. This is particularly true in the Private Equity space where there are pockets of opportunity for those niche players looking to find value investments. Cash hasn't been as easy to find as it was historically, but there are funds with access to resources and good contacts are certainly still finding deals and closing them.

Those with a higher appetite for risk may find opportunities in distressed assets and restructurings as the market seems to have hit a low point and is gradually on the path to recovery. Addressing prevailing uncertainties and regulatory challenges will be crucial to restoring confidence and fostering growth in the M&A sector.




BEYOND THE
NUMBERS.
Navigating Regulatory Challenges
Forging Strategic Relationships
Mastering the Legal Dynamics
of Collaborative Investments
CREATING SYNERGY
IN PRIVATE EQUITY.
ORIGINAL THINKING

INFORMATIONAL

# The Fund Industry in Mauritius with an in-depth look at the Mauritius Variable Capital Company (VCC)

**By Yudishtir Buldewo,** ***Director: Business Development and Head of Company Formation*** **and Manusha Parshotum,** ***Director: Business Development South Africa***

**The Mauritius International Finance Centre (IFC) celebrates 32 years of existence this year. From modest beginnings in 1992, the financial sector has emerged as a mature, resilient, and diversified financial centre. Mauritius has become a jurisdiction of choice for fund managers investing in the Asian region and African continent with around 1 000 global funds now domiciled on the island.**

Over the years, the country has successfully positioned itself as a key partner in the mission to build Africa by connecting developed countries to the African continent with a view of driving quality capital and making impactful investments. Fighting climate change has become a global battle and the Mauritius IFC is playing its part by mobilising capital through financing and investments that support the African continent's transition to net zero.

The 2021 Report of Capital Economics, commissioned by the Economic Development Board, indeed highlights that the Mauritius jurisdiction has driven US$82-billion of investment in Africa, contributing to US$6-billion in tax revenue and generating 4.2 million jobs.

Many factors have been instrumental in the IFC's path to success. Mauritius is seen as a well-regulated, innovative, and competitive jurisdiction. It boasts a robust regulatory environment which complies with international standards. In fact, it is currently one of the few jurisdictions which complies with all 40 Financial Action Task Force (FATF) recommendations. This remarkable achievement follows the enactment of the Virtual Asset and Initial Token Offerings Act 2021.

The laws and framework of the IFC are very flexible and innovative. The latest product offerings include the revamping of the Special Purpose Fund and the Variable Capital Company structure in the fund space under the newly enacted virtual assets framework.

## Mauritius Variable Capital Company (VCC)

The Variable Capital Companies Act 2022 (VCC Act) which came into force on 16 May 2022 provides for the creation and operation of variable capital companies (VCC). A VCC is a company that has the power to establish sub-funds and special purpose vehicles (SPV) within the same entity to carry out its investment fund business while segregating and ring-fencing the assets and liabilities of each sub-fund. The introduction of the VCC was announced in the National Budget Speech 2020/2021 to further enhance the competitiveness of the financial services sector and diversify the product base of the Mauritius International Financial Centre. This new structure for investment funds, provides more flexibility for promoters who intend to set up multi-fund structures. A VCC has the advantage of enabling economies of scale for fund promoters establishing several investment funds.

## The salient features of a VCC are as follows:

- Application to operate a VCC fund shall be made online to the Commission and shall be accompanied by an application for the creation of at least one sub-fund.
- The main purpose of a VCC is to operate as a fund.
- A VCC can establish sub-funds which can be open-ended funds or closed-ended funds. Each sub-fund can have a different set of investors, different investment objectives or different type of asset classes or can be different types of investment funds like mutual funds, private funds, real estate funds. A sub-fund of a VCC can also act as a feeder fund or a master fund.
- A VCC can establish an SPV which shall not operate as a fund but shall operate as a vehicle ancillary to the VCC or sub-fund.
- No limit on number of sub-funds/SPV that can be created under a VCC.
- A sub-fund or SPV shall have same promoter as the VCC fund.
- Sub-funds and SPV can elect to have a separate legal personality from the VCC.
- The name of a VCC shall include the words "Variable Capital Company" or VCC.
- A sub-fund or SPV may have its own distinct name. Where incorporated, their name shall include "incorporated".
- VCC sub-fund" or "incorporated VCC special purpose vehicle" as appropriate.
- Creation of any sub fund or SPV requires the approval of the Commission.
- The constitution of a VCC can provide for the composition of the board of a VCC and its incorporated sub-funds or SPV to be different.

- A sub fund may also appoint its own CIS manager, CIS administrator, custodian or other service provider with the exception of the company secretary and management company.
- Incorporated sub-fund and SPV shall have the same registered office as its VCC fund.
- The VCC Act provides for segregation of assets and liabilities of sub-fund and SPV.
- A VCC may issue shares of varying amounts in its sub-funds and SPVs and it can also declare and pay dividend in respect of shares of a sub-fund or SPV by reference only to the assets and liabilities attributable to that sub-fund or SPV.
- A VCC may redeem or buy back its shares or those of its sub-funds and SPVs in accordance with its constitution - the shareholders will be entitled to a refund in line with the number of shares held.
- A VCC allows for flexibility regarding the distribution and payment of dividend out of capital rather than profits.
- A sub-fund or SPV can own shares in another sub-fund or SPV of the VCC provided the latter has not already invested in the former.
- A VCC may elect to present separate financial statements in respect of its sub funds and SPV. Where such election is made, each sub fund or SPV shall be liable to income tax in respect of its own income. Incorporated sub funds or SPV shall file its financial statements separately from the VCC.
- VCC is incorporated under the Companies Act 2001. The law allows an existing company to be converted into a VCC. It also allows foreign companies to register by way of continuation as a VCC.
- A sub-fund under the VCC Act can apply to the Commission for authorisation as Special Purpose Fund which is a tax-exempt entity.
- A VCC fund shall comply with all the requirements of the VCC Act, the Financial Services Act 2007, the AML laws.
- Sub-funds shall comply with the Securities Act 2005, the Securities (CIS and CEF) Regulations 2008, FSC Rules and Guidelines.

Vistra can assist with the end-to end service including the setting up of a VCC fund and its administration thereafter. For more information, please contact a member of the team.

Mauritius is an ideal place to conduct cross-border investment given the deep pool of talent present on the island, the track record of the professionals all helping and supporting the fund managers, the world-class infrastructure, its wide network of double taxation agreements and investment promotion protection agreements. The political stability and certainty of the legal system of the jurisdiction are not to be discounted in the eyes of fund managers and investors who demand certainty and stability when evaluating a fund jurisdiction.

No doubt, the global trends in the fund industry will continue to shape the future landscape of our local fund industry. In the face of these global mega trends, a major challenge for Mauritius will be positioning itself as a green, smart, innovative, and digital financial centre in order to remain a compelling fund jurisdiction.

Compared to other markets in the financial sector, the fund administration industry is still treading behind when it comes to digitisation. There is a pressing need to innovate in the area of investor servicing and transfer agency. Streamlining fund administration operations through the use of automation will be vital and will enable firms to further manage cost, mitigate risk, and enhance efficiency. For example, firms can use AI and machine learning to increase process automation in back-office systems and to replace former manual tasks. There is a need to catch up and provide levels of service, real-time data and information and customer experience at par with the best-of-breed in financial services such as banks.

In the years ahead, we hope to see a new generation of fund administrators with systems and platforms that include high levels of automation, and digital portals with flexible access to data. They will be equipped with online platforms for electronic onboarding where e-application forms replace paper application forms, investors provide due diligence electronically and fund managers are offered access to the platform to track the status of the investor application online and on a real-time basis. Firms will have centralised technology platforms in place to automate workflows associated with many processes including economic substance compliance, FATCA/CRS compliance, payment processing, annual filings and returns, and transaction monitoring, to improve the operational efficiency. Leveraging emerging technology will be high on the agenda of the fund administrators who want to differentiate themselves among the crowd. As clients and investors become more sophisticated and tech-savvy, they expect a best-in-class digital experience.

The landscape in the fund industry is becoming more complex and sophisticated. Service providers such as fund administrators have no choice but to adapt to this trend. To take the Mauritius IFC to the next level, it is clear that all initiatives taken around digital transformation need to be accelerated. Since its early days, the Mauritius financial centre has evolved into a mature IFC with a bright future provided that it can turn challenges into opportunities and stay afloat of the current tailwinds. Our IFC must remain competitive and innovative to be the key regional partner that connects Asia, Europe and US to Africa in order to support regional development.

THOUGHT LEADERSHIP

# Reasons to invest in South Africa: a beginner's guide

**By Langa Madonko,**
***Co-Founder Summit Africa***

When he took office, President Cyril Ramaphosa set up the Presidential Investment Summit to attract investment into South Africa and to catalyse active investment by business that already had a local investment. The intention was to accelerate the growth of these businesses and to promote the creation of jobs while moving towards economic growth and shared prosperity for all. This being an election year and with South Africa still needing the investment and with a very slim to none chance that I could contest the Presidency and look to attract investment, this is my ode to the beauty that is South Africa for investment.

### Quality of life

For most people, it would make sense to start with the business fundamentals, legislative issues, the investment environment and opportunities, but I'm not most people and I don't own a single pair of formal shoes, so I'll start with what matters most to everyone at the end of the day and that is quality of life.

Having spent some time travelling for work and leisure and with a large contingent of family and friends outside of South Africa, I can say, without a doubt, that South Africa offers an excellent quality of life, including a favourable cost of living, diverse culture and cuisine, and a range of leisure activities across the whole country. South Africa also boasts a favourable climate for outdoor and leisure activities. And despite some of the more recent challenges with power, water and infrastructure, South Africa still gives a pretty decent experience if you visit, live or do business here.

### Young and hungry workforce

Often people speak of the growing levels of unemployment, particularly among the youth, but rarely tie that back to the fact that South Africa has a growing educated talent pool that needs opportunity. Bears Stern had a reputation on Wall Street for hiring what they described as PSDs (poor, smart, desire to become rich) in an environment where their contemporaries were hiring people with MBAs and similar qualifications. They were quick to point out that it was much more important to be smart, driven, innovative and hungry. The continuous ability of the youth in SA to solve their own problems and to find means to survive speaks to the potential that exists in the country. This is further evidenced by the growth of young leaders rising to take mantles or the emergence of new businesses owned by increasingly younger people. We also see the emergence of digital and online entrepreneurs using various platforms to earn. All these developments point to the fact that we cannot underestimate the talent potential that exists and needs to be exploited in South Africa.

### Advanced financial services and banking sector

South Africa has a well-developed financial services sector, inclusive of the banking sector, a large and highly liquid stock exchange, advanced bond and equity markets and, of course, the most advanced and well-regulated private equity market on the continent. The central bank which (along with those that it regulates) is award-winning, oversees macro- and micro-prudential policy. Coupled with a high level of independence, the banks also allow for a relative ease of repatriation of funds by investors and relatively good flow of money inwards. Now add in the robust investment landscape, and South Africa from a financial standpoint is where you want to be invested. And yes, we have some pretty good controls on competition and takeovers to ensure that business plays fair.

### Rights and ownership

When you invest in South Africa, you can take comfort in that there are good rights and few limitations on foreign private ownership of business; property and business rights. In fact ,to make it more attractive, there are incentive programs to attract foreign investment all of which are continuously showcased in trade expos, missions and at the Presidential Investment Summit. The law allows foreign companies to secure their rights to do business here by permitting the registration and establishment in South Africa, of domestic entities as well as the registration of foreign-owned entities by foreign investors. These companies will have to, however, submit their annual returns to the Companies and Intellectual Property Commission (CIPC) for review.

We do have empowerment laws and in the main, they are pretty straightforward and easy to apply. In some instances, for sectors that require large capital outlays, we have equity equivalent programmes that prevent dilution of equity while achieving the transformation required. Some sectors are considered national security interest sectors, but further highlighting the quality of legislation in South Africa, the law requires the President and Government to clearly define these, the reason, and the application of the principles around control of investment in those spaces.

### We like to play with others

We like to play with others, and as you saw with the last two Rugby World Cups, we win too. This doesn't put us in isolation but at one of the access points to Africa. And we all know that Africa is considered the final frontier for growth and expansion. Fortunately, if you do business in South Africa, you can have access to this and a lot more.

So, how well do we play with others? *South Africa has participated in every significant global organisation and has signed over 50 bilateral trade agreements, of which 11 are currently active. On top of these trade agreements that provide an export platform into global markets, South Africa is part of the African Continental Free Trade Area which by conservative estimates will boost intra-Africa trade and create a market of more than one billion people with a GDP of $2.6-trillion that is expected to unlock industrial development and boost intra-Africa trade. As the most diverse economy in Africa, SA stands to benefit immensely from the opening up of trade as will companies that are based in South Africa as a gateway into the continent. With the expansion of BRICS, there is also an increased opportunity for international trade.

### South African laws and regulations

It is much vaunted that South Africa has the best constitution in the world and a robust legal and regulatory framework that is adept at evolution and change and is known to follow closely on the regulation of business and companies from international entities. As is the practice in the US, South Africa follows a public notice and comment consultation process and full draft texts are available to the public. Legal, regulatory, and accounting systems (SAICA was ranked best organisation of Cas in the world in 2023) are generally transparent and consistent with international standards and practices.

The Department of Trade, Industry and Competition is responsible for business-related regulations, developing and reviewing regulatory systems in the areas of competition, standards, consumer protection, company and intellectual property registration and protections, as well as other subjects in the public interest.

In financial services, in particular, the South African National Treasury is developing new legislation that will "seek to enhance the transformation imperatives of the South African financial services sector."

The judicial system in South Africa is also quite robust. Under the Department of Justice and Constitutional Development, we have district and magistrate courts across 350 districts and high courts for each of the provinces. The Supreme Court of Appeals hears appeals, and its decisions may only be overruled by the Constitutional Court. Adding to the mainstream courts for criminal and civil matters we have specialised courts, including the Competition Appeal court, Electoral court, Land Claims court, the Labour and Labour Appeal courts, and tax courts to handle disputes between taxpayers and SARS. Rulings are subject to the same appeals process as other courts.

### An abundance of opportunity

The economy of South Africa is diverse and expanding with major investment shifts in financial services, real estate and outsourced business process operations. South Africa's economy was built on the extraction of its natural resources, particularly gold and diamonds. The country remains the world's top producer of minerals such as platinum, rhodium, chrome, manganese, and vanadium, and has significant deposits of base metals such as iron, copper, and nickel, along with coal and natural gas. Additionally, it has abundant sunshine, which can be harnessed for solar energy.

Relative to the rest of the continent, South Africa has advanced infrastructure, including sophisticated road and rail networks (which need refurbishment, replacement and rehabilitation - creating the business case), as well as information and communications technology (ICT) infrastructure, making it an attractive investment destination for logistics, software, and other creative industries. The government has a large infrastructure development programme focused on transport, energy, and water to increase production capacity.

### Are you really an impact investor if you don't invest in South Africa?

So, in many circles the parameter of GDP per capita is used to measure a country's economic trajectory. In most instances South Africa by that measure is considered an emerging market and if SA was only Clifton, Camps Bay, Sandton, and Umhlanga, that might be true. But a significant opportunity to deliver impact and drive the move towards equality still exists in SA. Most parts of South Africa still need investment to address the undersupply of services and jobs outside of the metropolitan areas. Even within the metros we have townships that house historically disadvantaged individuals and lack infrastructure and services. With a strained fiscus the opportunity exists for catalytic investment that does good while achieving a financial return.

### Home of many multi-nationals

Finally, and probably the most obvious reason, is business is thriving in South Africa. We are home to multiple multinational companies despite the noise and the issues that South Africa may have with energy and other aspects of life. This stems from all the factors above and the immense potential that still exists when it comes to unlocking value in SA and the continent.

So, we look forward to you looking a little bit closer at the opportunity in South Africa as an investment destination.

*South Africa is a signatory to the SADC-EAC-COMESA Tripartite FTA and a member of the Southern Africa Customs Union (SACU), which has a common external tariff and tariff-free trade between its five members (South Africa, Botswana, Lesotho, Namibia, and Eswatini, formerly known as Swaziland). South Africa has free trade agreements with the Southern African Development Community (SADC); the Trade, Development and Cooperation Agreement (TDCA) between South Africa and the European Union (EU); the EFTA-SACU Free Trade Agreement between SACU and the European Free Trade Association (EFTA) – Iceland, Liechtenstein, Norway, and Switzerland; and the Economic Partnership Agreement (EPA) between the SADC EPA States (South Africa, Botswana, Namibia, Eswatini, Lesotho, and Mozambique) and the EU and its Member States. SACU and Mozambique (SACUM) and the United Kington (UK) signed an Economic Partnership Agreement (EPA) in September 2019.

South Africa is a member of the WTO.

WORLD TRADE ORGANIZATION

THOUGHT LEADERSHIP

# How are private equity (PE) funds harnessing insights from the second year of the ESG Data Convergence Initiative (EDCI)

By Shandal Vinay, Managing Director & Senior Partner and Ben Morley, Partner & Associate Director

**With 62 000 data points from 4,300 companies, the EDCI benchmark is increasingly providing PE funds with valuable insights to drive sustainability-related value creation. Vinay Shandal and Ben Morley, partners at Boston Consulting Group (BCG), have three key takeaways from their conversations with more than 50 PE fund members.**

As members of the BCG team supporting the EDCI, we had a unique opportunity over the last six months to sit down, often in person, with leaders at more than 50 PE funds – funds that vary significantly in size, geographic focus, and investment strategy. During these conversations, we talked through the insights and learnings from comparing (in many cases for the very first time) their portfolio companies' performance on ESG metrics relative to their private market peers.

While these conversations were as diverse as the funds themselves, three consistent themes emerged, offering a perspective on how the industry will be approaching sustainability in 2024.


**1. Harnessing Directional Insights to Guide Prioritisation.** This year's EDCI benchmark includes data from almost 4 300 privately owned portfolio companies. As such, the granularity of comparisons has improved significantly, as a larger dataset enables more tailored, like-for-like peer sets for any given company. While business model idiosyncrasies can sometimes explain deviations from a peer set, we found that sustainability leaders are appropriately using the directional insights unlocked by the benchmark to guide prioritisation and provide indicative answers to strategic questions.

**Questions such as:**

- Which metrics should the fund look at to celebrate progress to date?
- Which metrics should they double down on to drive improvement in 2024?
- Which portfolio companies are likely to have the greatest opportunities for sustainability-related value creation? For example, firms are now able to compare emissions intensity across their portfolio companies relative to peers in their specific industries. So, where previously two such companies with similar emissions intensity levels may have been treated with the same attention, leading funds are now prioritising their engagement with the one that is operating at higher emissions levels relative to their industry peers, where there are more likely to be value-accretive abatement levers that can be pulled.

**2. The Power of Competition to Inspire Action.** The power of peer benchmarking is undeniable. For the first time, rather than relying on public market proxies, PE firms have visibility into how their portfolio companies stack up relative to their private peers across a range of performance-based ESG metrics. We heard time and again how rewarding it is for deal professionals and management teams to be able to measure and showcase with their portfolio companies the tangible progress they have unlocked through their sustainability initiatives. On the flip side, those that are currently lagging their peers are feeling increasingly motivated to redouble their efforts in driving quantifiable improvements.

**3. Moving from Measurement to Management—Starting Today.** Importantly, the discussions we had were not just theoretical or abstract – they invariably resulted in tangible next steps for the funds. While just a year or two ago, the dominant conversation was around how to collect private market ESG data, the EDCI has helped shift the focus of current conversations to using the data to drive sustainability outcomes. On climate, we heard from funds planning to develop decarbonisation playbooks and systematically increase renewable energy usage across their portfolio while significantly reducing their operating costs. On the social side, PE leaders are rethinking their approach to employee value propositions with a view toward improving job quality and employee productivity while reducing turnover. And as the EDCI continues to grow and generate comparable longitudinal data over time, funds will be able to track their rate of progress relative to the benchmark and understand how that progress is driving commercial outcomes.

It's a privilege to have had the opportunity to be in conversation with leaders across the private equity industry on sustainability topics. Through these conversations we've clearly heard the tangible ways in which the EDCI analysis is helping funds uncover new insights about their portfolios - and equipping them with practical next steps as they look to build thriving businesses that deliver outcomes for their shareholders and stakeholders alike.

With thanks to Meggan Davis, Thais Esteves, and Patrick Pierson for their contributions to this article.

# Sponsors

# TIER 1

## Benchmark International

www.benchmarkintl.com

Benchmark International is a global Mergers and Acquisitions firm, specializing in mid-market company transactions. From 14 offices across the world, our unique and dynamic sell-side advisory presents clients and acquirers with unparalleled global coverage, enabling access to both local and international opportunities through our exclusive databases and business intelligence facilities.

With over 350 dealmakers and analysts spread across 3 continents, Benchmark has managed engagements in excess of USD 10 billion in various industries globally. In 2023, we were honoured as the Best Global Middle Market M&A Specialists by M&A Today, Global Awards.

In line with SAVCA's 2024 conference theme of 'Synergy with Collaboration', we pride ourselves in our foundational strengths, which are deeply rooted in fostering collaborative relationships and creating synergistic partnerships. Our expertise lies in a profound comprehension of market dynamics and the capability to discern evolving transaction objectives. This enables us to craft strategies that are not only adaptable but are also focused on harnessing the collective strengths of all parties involved. By emphasizing collaboration and synergy, we aim to achieve successful outcomes that are mutually beneficial and exceed the expectations of our clients.

Benchmark's focus is on connecting the right people with the right opportunities. In 2023 alone, 190 deals were concluded, reinforcing the firm's reputation as a trusted partner for mid-market companies seeking growth, wealth diversification, and exit strategies.

If you are looking to transact in mid-market companies, we invite you to tap into our global expertise and partner with us for attractive deal-sourcing or equity disposal opportunities.

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In collaboration with the Southern African Venture Capital and Private Equity Association (SAVCA), we are dedicated to empowering your ventures with precision, integrity, and unmatched expertise.

At KPMG, trust is our cornerstone, measured through professional excellence, integrity, and societal impact. Our unwavering commitment to excellence upholds the highest standards, ensuring you receive exceptional results in a constantly evolving landscape. Beyond financial performance, we strive to make a lasting contribution to society, navigating challenges and promoting sustainable development.

Through KPMG's Deal Advisory services, you'll gain access to a team of seasoned professionals dedicated to helping you achieve your strategic objectives. Whether you're buying or selling a business, undertaking a merger, or embarking on an IPO, our experts are here to guide you through every stage of the process.

Together, let's shape the future of venture capital and private equity in Southern Africa.

For more information about KPMG, visit our website at www.kpmg.co.za

## RLabs

MAKING HOPE CONTAGIOUS

**www.rlabs.org**

Established in 2009 in the vibrant Cape Flats of Cape Town, South Africa, RLabs stands as a globally acknowledged social enterprise, committed to sparking significant change and fostering growth. Our mission is to cultivate dynamic environments that act as powerful catalysts for transformation, empowerment, and advancement. Harnessing the power of HOPE, technology, innovation, and economic opportunities, RLabs has made an indelible impact, touching over 60 million lives across 24 countries and five continents.

RLabs Capital represents a transformative phase in our evolution, distinguishing itself as the first investment firm rooted in a township. This groundbreaking positioning is part of a strategic initiative aimed at propelling RLabs to the forefront as a prime developer of high-impact technology ventures and investments in emerging markets. Our vision for the next decade is clear and ambitious.

At the core of RLabs Capital is a deep-seated commitment to cultivating entrepreneurial talent across Africa. We are dedicated to elevating projects originating from marginalized communities, ensuring representation and support for minority groups, and placing a special emphasis on youth and women-led enterprises. Our approach is not just about investment; it's about fostering a culture of innovation and entrepreneurship that resonates from the township to the global stage.

Join us at RLabs in this pioneering journey, where investment meets impact, and where the entrepreneurial spirit of Africa finds a powerful platform for growth and global influence.

# TIER 2

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Harith General Partners was founded in 2006, and is a leading Pan-African investor in, and developer of infrastructure assets across the continent. Harith currently manages the US$630 million PAIDF I and the US$435 million PAIDF II, among others. Leveraging on its extensive experience and expertise in the PE sector, as well as infrastructure-funding and development on the continent, Harith is currently raising the $300 million Pan African Renewable Energy Fund (PAREF), targeting first close in 2024.

Harith's investment thesis is born out of the conviction that infrastructure-led economic growth has the power to transform Africa, while creating and sustaining value for our investors and other societal stakeholders.

Among Harith's key investments are significant shareholdings in Lanseria International Airport in South Africa, Lake Turkana Wind Power in Kenya (the biggest wind power project in Africa), Henri Konan Bédié Bridge in Côte d'Ivoire, Community Investments Venture Holdings (CIVH) which provides fibre optic and other ICT solutions in South Africa through Dark Fibre Africa (DFA) and Vumatel.

## Verdant

**www.verdant-cap.com**

Verdant Capital is a leading investment bank and investment manager operating on a Pan-African basis and specialising in private capital markets. It boasts offices in Johannesburg, Ebene, Accra, Harare, Kampala, Kinshasa and Frankfurt. It is licenced by the Financial Services Commission in Mauritius, authorised by the Financial Sector Conduct Authority in South Africa (FSP 44608), and is a BaFin-registered AIFM. www.verdant-cap.com

Verdant Capital is the manager of the Verdant Capital Hybrid Fund, a fund investing hybrid capital into inclusive financial institutions on a pan-African basis.

Verdant Capital Hybrid Fund is investing in inclusive financial institutions on a pan-African basis with a focus on digitally enabled financial institutions providing services to micro, small and medium-sized enterprises. The Fund investing in hybrid capital instruments including subordinated debt, mezzanine instruments, preference shares and stapled investment structures. The fund has a size of USD 36 million as at first closing in December 2021 (target of USD 100 million at final closing in 2024).

Verdant Capital was No.4 in Pan-Africa (ex-South Africa) in M&A by deal volume in 2022 (DealMakers Africa League tables). Verdant Capital is Africa Global Funds' best independent advisory firm - Pan Africa - in 2021 and 2022 and Private Equity Africa's best Local Financial Advisor of the year 2021, 2022 and best Local Financial Advisor of the Decade.

Verdant Capital is the IMAP partner firm for its region. IMAP with 40 partner firms in 40 countries, with 500 M&A bankers, and completing over 250 M&A transactions per year, is the World's largest M&A partnership. www.imap.com

# TIER 2

## Willis Towers Watson (Risk Capital)

**www.wtwco.com/en-za**

Willis Towers Watson (WTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets.

WTW's M&A team bring a unique combination of risk expertise and deep understanding of human capital and organisational culture to your deal. We draw on experience from more than 2,000 M&A and private equity transactions every year globally, to help our clients achieve both short and long-term success. Given our volume, we generate significant leverage with the global M&A insurance market.

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Jersey Finance is a not-for-profit organisation that works closely with key partners to represent and promote Jersey as a forward-thinking international finance centre (IFC). We have a presence in Jersey, London, Dubai, Johannesburg, Hong Kong, New York, Shanghai and Singapore.

Jersey's relationship with Africa is broad, deep and based on shared interests. Our Island acts as an investment gateway for African investors to the UK, European and global markets.

As an award-winning IFC, we look forward to a continued relationship with financial services professionals and partners in Africa, providing investors with opportunities to effect positive change and make a difference with their capital.

## PE Front Office

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PE Front Office is a one-stop solution that is tailored to meet the evolving needs of Private Debt, Private Equity, Venture Capital, Fund of Funds, and Limited Partners. PEFO empowers investment professionals across 15 countries and 150+ firms to Simplify Work and Enhance Productivity.

PE Front Office is a comprehensive and modular solution that drives operational efficiency across the Private Capital Investment Lifecycle. The solution suite includes Deal Flow, Investment Management, Portfolio Monitoring, Fundraising, Capital Call Management, Investor Reporting, Investor Portal, and Fund Management.

This is further augmented by Risk and Compliance Management, Tasks and Meetings Management, Document Management with DocuSign integration, Outlook/Gmail Plugins, Mobile Apps, and in-built Reports with detailed Analytics.

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**www.27four.com**

27four is an innovative South African investment manager, investing capital into private markets opportunities for many leading institutional investors for the dual goals of stellar financial returns and social impact. The firm has raised and allocated over R3bn under private markets mandates since 2017 through both fund of funds and direct strategies. 27four has partnered with the Jobs Fund, The Department of Science and Innovation and USAID to achieve social impact in the form of job creation, development of South African technology, and the advancement of women in private markets. 27four also backs first time black and women fund managers in private markets.

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Thesele Group (Thesele), two decades marked by Honour, Accomplishment. Leadership, and Transformation milestones.

Established in 2004 by Sello Moloko and Thabo Leeuw, Thesele is a wholly black-owned investment holding company, with a diverse portfolio spanning Financial Services, Energy & Water Infrastructure, ICT, Automotive, and Property. Thesele's investments include M&G Investments, DG Capital, Probe Group Holdings, Mortimer Thesele Holdings, Bluu Car Rental, Knowledge Integration Dynamics, Vexila, Talbot, and Crown Homes.

Thesele, backed by a skilled investment team, showcases an impressive track record and an in-depth understanding of the local investment landscape. The investment strategy focuses on identifying and deploying risk capital to suitable opportunities and partnering with management teams and co-investors leading to substantial growth over two decades.

The Thesele Foundation, a shareholder of Thesele, operates independently as a public benefit organization disbursing funds to deserving causes, particularly in Education, Training, and Entrepreneurship. The Foundation places a special emphasis on initiatives benefiting women and children in disadvantaged communities.

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RealFin has been a trusted partner to some of SA's leading alternative asset fund managers for more than a decade. We provide choice in the domestic alternative investment industry, by giving fund managers a complete service offering. Our clients range from larger industry players to smaller boutique fund managers.

In an ever-changing legislative environment, specialist skills are required to ensure compliance. RealFin's bespoke structuring skills sets us apart from the rest, providing innovative solutions to our fund managers.

As a flexible fund administration company, we couple experienced teams with best-in-class software, to create admin solutions tailored to your needs.

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ENS, With offices in Eastern, Southern and Western Africa, offers expertise in legal, tax, forensics, and IP matters across Eastern, Southern, and Western Africa. Recognised by prestigious international ranking agencies like Chambers Global, we excel in handling complex requirements efficiently, earning a reputation as the pre-eminent firm with comprehensive multi-jurisdictional capabilities.

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# LANYARDS

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## KZN Growth Fund

**www.kzngrowthfund.co.za**

Established in 2008 by the KZN Department of Economic Development, Tourism and Environmental Affairs (EDTEA) as a key strategic initiative to accelerate Broad-Based Black Economic Empowerment (B-BBEE), job creation, and economic growth in the KZN Province.

KZN Growth Fund (KGFT) was structured as a unique public-private partnership venture to finance medium to large private sector projects. The main stimulus is to co-fund and or fund catalytic investments within impact industries as governed by KGFT's mandate and investment policy. The key features of the KGFT's current portfolio of projects evidences the Fund's commitment to addressing the challenges of industrialisation, increasing local content, value addition or beneficiation, infrastructure development, skills development and entrepreneurship development. Currently, the organisation boasts a very attractive pipeline of projects throughout the Province that are undergoing initial appraisal and detailed due diligence, some of which will be disbursed soon. To get in touch with us please go to our website www.kzngrowthfund.co.za or email us at info@kzngf.co.za

## Oakland Administrators

**www.oaklandfs.com**

Oakland provides tailored CFO services for the unique demands of private equity, offering customizable solutions for diverse clients, from boutique firms to established players. Benefits include strategic insights, accurate reporting, data-driven decision-making, and improved investor relations. Services encompass portfolio management, strategic guidance, performance tracking, and compliance assurance to optimize investments and ensure regulatory compliance, fostering trust and confidence.

## PE Front Office

**www.pefrontoffice.com**

PE Front Office is a one-stop solution that is tailored to meet the evolving needs of Private Debt, Private Equity, Venture Capital, Fund of Funds, and Limited Partners. PEFO empowers investment professionals across 15 countries and 150+ firms to Simplify Work and Enhance Productivity.

PE Front Office is a comprehensive and modular solution that drives operational efficiency across the Private Capital Investment Lifecycle. The solution suite includes Deal Flow, Investment Management, Portfolio Monitoring, Fundraising, Capital Call Management, Investor Reporting, Investor Portal, and Fund Management. This is further augmented by Risk and Compliance Management, Tasks and Meetings Management, Document Management with DocuSign integration, Outlook/Gmail Plugins, Mobile Apps, and in-built Reports with detailed Analytics.

## Willis Towers Watson (Risk Capital)

**www.wtwco.com/en-za**

Willis Towers Watson (WTW) is a leading global advisory, broking and solutions company that helps clients around the world turn risk into a path for growth. With roots dating to 1828, Willis Towers Watson has 45,000 employees serving more than 140 countries and markets.

WTW's M&A team bring a unique combination of risk expertise and deep understanding of human capital and organisational culture to your deal. We draw on experience from more than 2,000 M&A and private equity transactions every year globally, to help our clients achieve both short and long-term success. Given our volume, we generate significant leverage with the global M&A insurance market.

# MEDIA PARTNERS

# SUPPORTING ORGANISATIONS

The momentum globally to drive sustainable business or ESG practices is inexorable. Environmental, social and governance (ESG) continues to be high on the agenda for private equity firms. But it is not just about reporting and compliance; KPMG works with both fund managers and portfolio companies to integrate ESG into business strategies to enhance value efficiently.

- ESG Debt Advisory – Sustainable Finance for borrower
- ESG Due Diligence – identifying suitable assets that are impact investing opportunities
- Capital Markets Readiness Assessment service
- ESG Value Creation
- Low Carbon Deal Advisory – use of incentives to enhance impact.


**Contact the KPMG ESG team at esg@kpmg.co.za to learn more.**