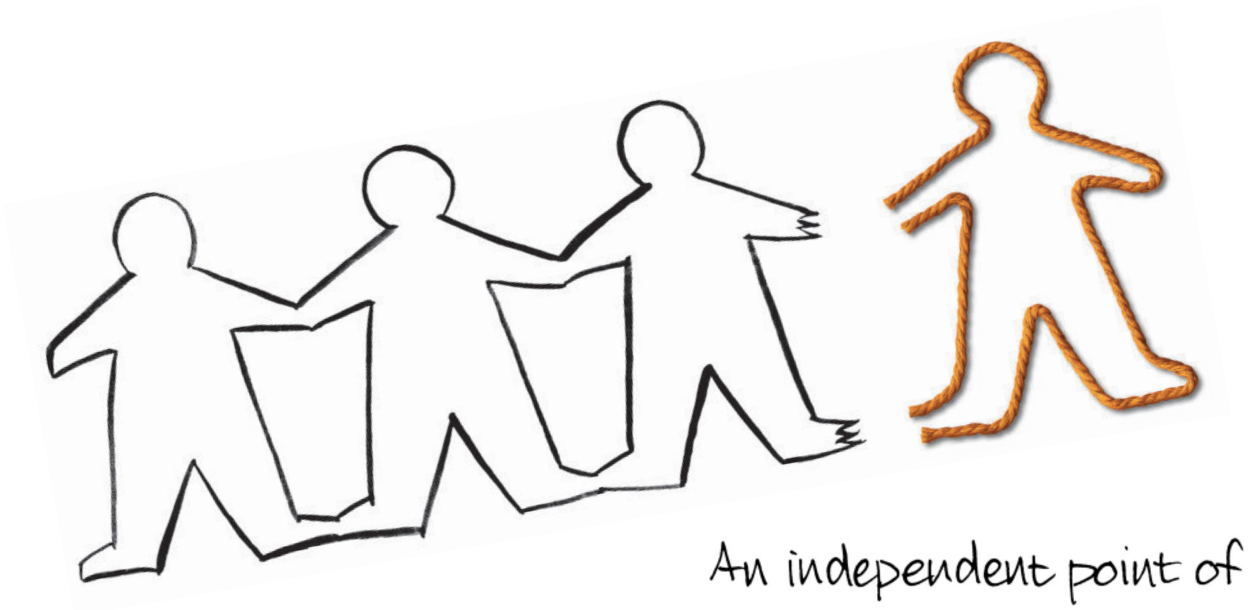
RisCura South African Private Equity Performance Report.

Quarter ended: 31 December 2013



An independent point of view.

SAVCA
SOUTH AFRICAN VENTURE CAPITAL AND PRIVATE EQUITY ASSOCIATION

RisCura Fundamentals
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1 Foreword

We are pleased to release the December 2013 edition of the SAVCA RisCura South African Private Equity Performance Report. This Report tracks the performance of a representative basket of South African private equity funds and is released quarterly on an ongoing basis. The purpose of the Report is to provide stakeholders in SA private equity with more transparency into historic returns, and a way to benchmark private equity funds' performances.

Please note that all private equity returns shown in the Report are net of all fees and expenses, and have been computed in South African Rands (ZAR) as well as US Dollars (USD).

We would like to thank all participants who make their data available to us to facilitate this Report. Particular thanks must also go to the SAVCA board for encouraging member participation.

Special thanks also go out to Jacci Myburgh of Old Mutual Private Equity for contributing to our market commentary section. We are hoping to obtain similar commentary from other market participants in the future, in order to highlight key trends and investor experiences.

Rory Ord
Head of RisCura Fundamentals

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Erika van der Merwe
CEO, SAVCA

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2 Market Commentary

If one looks back in history, only a few of the very large institutions in South Africa (the largest retirement funds and some of the large life assurers) had invested in private equity. This was mostly due to of a lack of clarity around retirement funds' allowed exposure to private equity (in terms of Regulation 28) and the limited supply of easy-to-access private equity products and funds, particularly for investors seeking to allocate relatively small amounts of capital to private equity.

Regulation 28 was updated a couple of years ago and retirement funds can now invest up to 10% in private equity. This was a welcome change and our experience since this change has been that retirement funds are gradually adding private equity to their portfolios. Over more than 30 years in the US and the UK, the average private equity fund has achieved notable outperformance of listed equity. The performance in South Africa has been similar and the long-term returns in the RisCura SAVCA Private Equity Performance Report confirm this. Given this track record we are convinced private equity is well worth considering for most investors.

However, one of the remaining challenges for investors is accumulating high quality private equity exposure, given that their investment may be relatively small (<R50m), and diversifying across managers and vintages. For the majority of retirement funds in South Africa the fund-of-funds route is an ideal way to achieve this. Experienced fund-of-fund managers have the necessary knowledge and skill to select and combine leading private equity managers, investment styles, geographies and fund vintages. The minimum investment amounts for fund of funds are also much lower providing small retirement funds the opportunity to access private equity.

We have seen the RisCura SAVCA Private Equity Performance Report provide an important window into this very attractive asset class and expect to see the trend of more retirement funds adding private equity to their portfolios to continue over time.

Kind regards

Jacci Myburgh
Head – Old Mutual Private Equity

3 Private equity in South Africa

Private equity is a long-term asset class that differs in nature from most other assets, including listed equity. Typically, private equity fund investments show low correlation to quoted equity markets and are relatively illiquid, particularly in the early years. Private equity will normally show a drop in net asset value before showing any significant gains. This is often the effect of management fees and start-up costs on the relatively small capital base of a new fund.

Private equity funds in South Africa typically follow a commitment and draw down model, which means that investors commit a certain total of capital at the start of a fund, but are only requested to transfer cash to the private equity manager as investments are identified or costs are incurred. These funds typically return capital during the course of the fund's life as investments are realised.

South African private equity offers institutional investors the opportunity to invest in an asset class that has historically outperformed listed equity over the long-term. It does, however, have a different nature from quoted equity and it is crucial that an institutional investor considers the appropriateness of private equity to its particular objectives.

4 Methodology

Methods of measuring performance

The most widely accepted method for calculating returns of private equity funds is the annualised internal rate of return (IRR) achieved over a period of time. As a sense check to the IRR measure, we also use the Times Money performance measure. This Report measures performance in two ways: by 'since inception' and 'end-to-end' (over three, five and ten years).

IRR since inception

This is the most widely used IRR measure of private equity performance. It measures the return of PE funds based on all cash flows in and out of the fund, as well as the remaining net asset value of the fund. This, therefore, most closely reflects the return an investor would achieve if they invested at the start of the fund. This is the most likely scenario in South Africa where investors in private equity funds are locked in for the life of the fund, and must catch up initial fees when joining a fund after the initial investors.

End-to-end IRR

End-to-end IRRs allow the computation of the return of groups of private equity funds which do not necessarily have the same inception date. This calculation also allows a better comparison of private equity returns to those of other asset classes over similar periods.

While this method has advantages, it must be noted that it allows the returns of funds at different life cycle stages to be combined. Where the period selected contains more new funds than older funds, the return will likely include a higher balance of fees than a time period with more older funds.

The longer term IRRs are considered to be the most indicative of private equity performance across different stages of the economic cycle, and are considered to be the headline measures. Shorter term returns should be viewed with caution as private equity is a long-term investment. However, shorter period returns may be indicative of the general performance of private equity over this short period.

Times Money

Times Money is the ratio of total capital invested to total capital returned and remaining value. This is a useful cross-check of IRR measures, and is easily understandable. While IRR calculations are heavily dependent on the length of time that capital has been invested, Times Money does not take time into account. A Times Money in excess of one means that value has been created for the investor.

Public Market Equivalent (PME)

This measure seeks to equate the heavily timing dependent returns of private equity funds with the returns of public market indices. The measure is a ratio of the net outflows from PE funds re-invested into the public index to the end of the fund's life, divided by the inflows into a PE fund invested in the public index until the end of the fund's life. A ratio of above one reflects outperformance of private equity, while a ratio under one reflects underperformance.

Performance in South African Rands (ZAR)

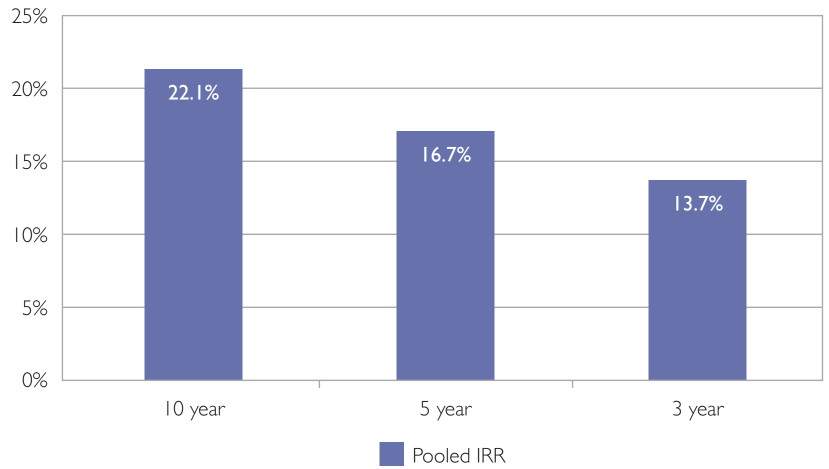
5a Returns over different time periods (ZAR)

We regard the ten year return as the headline measure of private equity returns. This is because of the long-term nature of private equity investments, and the locked-in nature of typical fund structures.

The lower returns over the five year period reflect the downturn in South African growth brought on by the global financial crisis. This has also affected the ten year returns, but to a lesser extent than the shorter periods.

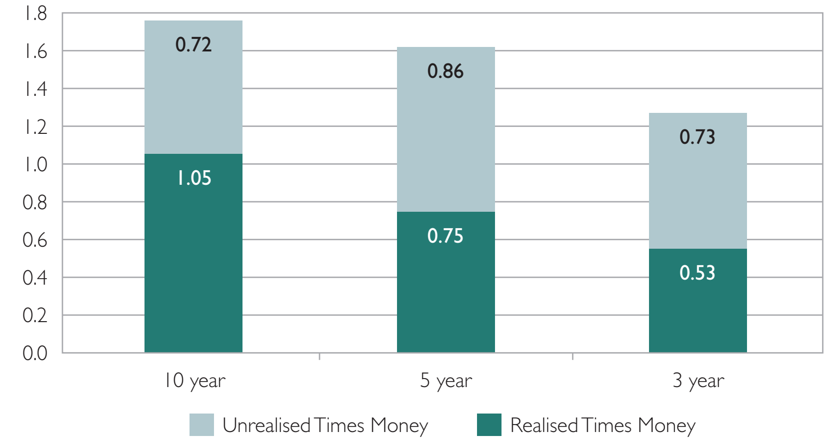
In the private equity context, one year returns are not a reliable measure of performance and have not been presented.

Pooled IRR by time period (ZAR)



		Times Money		
Time period	Pooled IRR	Realised	Unrealised	Total
10 year	22.1%	1.05	0.72	1.77
5 year	16.7%	0.75	0.86	1.61
3 year	13.7%	0.53	0.73	1.26

Times Money by time period (ZAR)

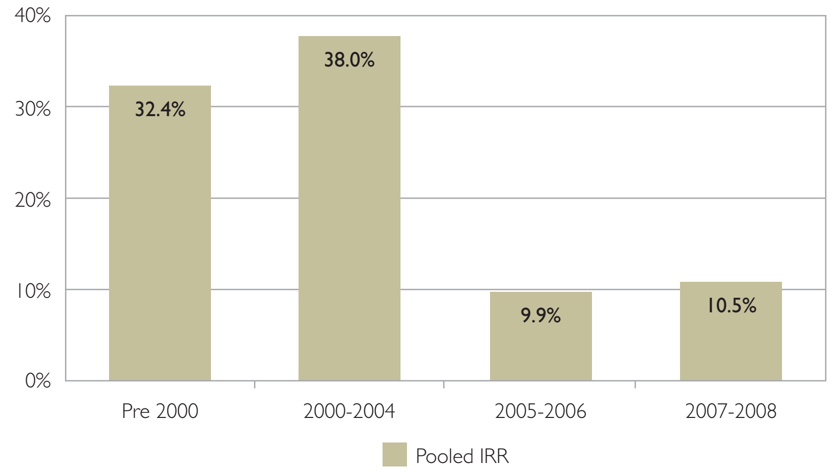


5b Returns by vintage year (ZAR)

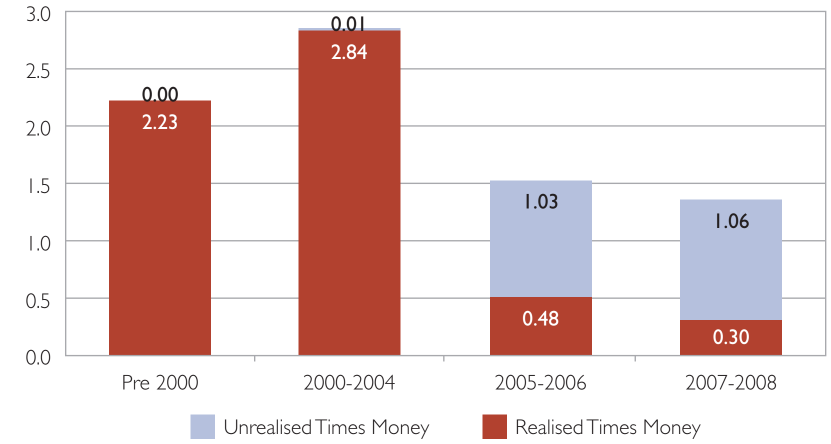
Previous studies have shown fund vintage year to be an important determinant of private equity returns. Our findings are consistent with these studies and show a dramatic difference in returns by vintage grouping.

Funds starting in or after 2005 have been negatively impacted by the downturn in the economy. Part of the reason for the current poor results of the most recent vintage grouping is that these funds are still mid-cycle, where management fees still play a significant part in determining fund returns and the investments made by these funds still need to be enhanced by the private equity fund manager.

Pooled IRR by vintage year (ZAR)



Times Money by vintage year (ZAR)

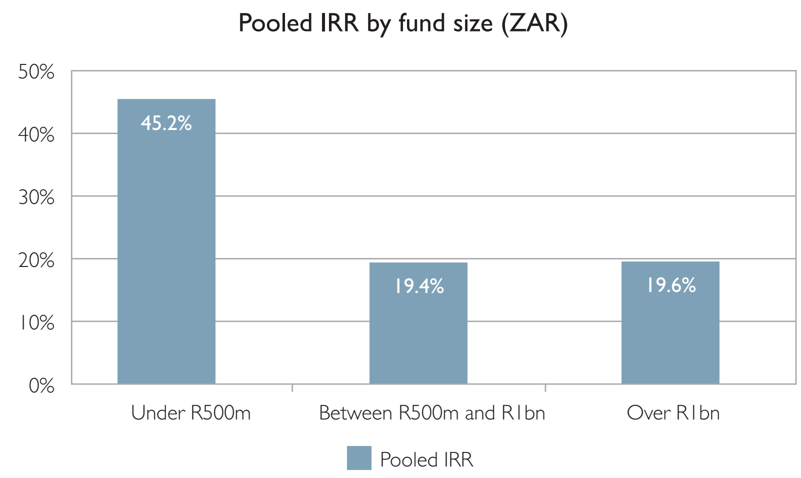


		Times Money		
Vintage Year	Pooled IRR	Realised	Unrealised	Total
Pre 2000	32.4%	2.23	0.00	2.23
2000-2004	38.0%	2.84	0.01	2.84
2005-2006	9.9%	0.48	1.03	1.51
2007-2008	10.5%	0.30	1.06	1.36

5c Returns by fund size (ZAR)

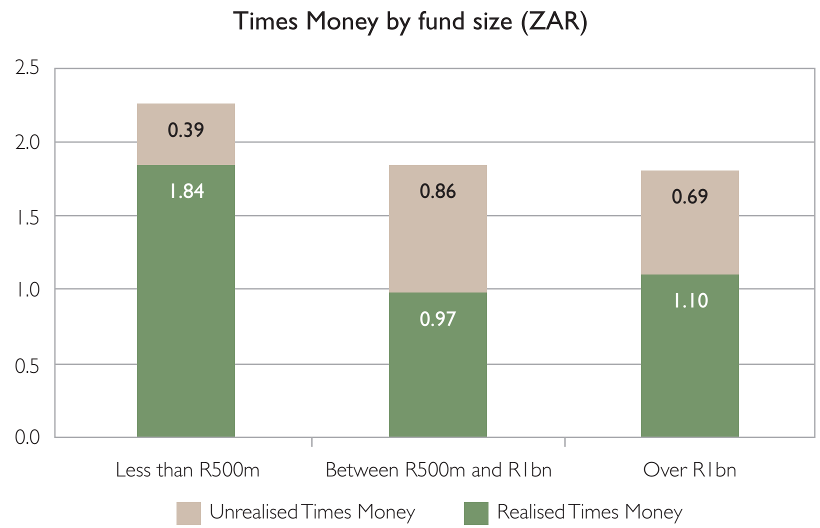
The analysis shows that historically, smaller funds have performed very well. This strong performance may be due to smaller funds investing in the high growth mid-market sized companies that have performed well under generally good economic conditions.

However, it is important to note that the larger funds were more likely to have been in existence more recently, and therefore be part of the poorer vintage year groupings. It is likely that vintage year is a bigger determinant of performance than size.



		Times Money		
Fund Size*	Pooled IRR	Realised	Unrealised	Total
Under R500m	45.2%	1.84	0.39	2.23
Between R500m and R1bn	19.4%	0.97	0.86	1.83
Over R1bn	19.6%	1.10	0.69	1.79

* Fund size is reflected as committed capital in South African Rands.



5d Returns compared to listed equity (ZAR)

IRR returns have been compared to CAGRs of listed indices on a direct basis, and on the more comparable Public Market Equivalent (PME) basis.

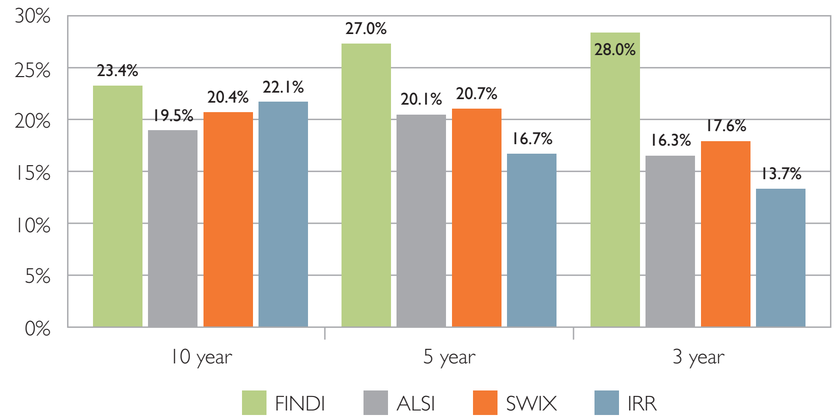
Private equity returns compare favourably to the returns of the FTSE/JSE indices over the longer term. Private Equity outperformed the ALSI Total Return Index (ALSI TRI) and FTSE/JSE Shareholder Weighted Total Return Index (SWIX TRI) over the ten year period, but has underperformed in the shorter periods as equity markets have grown strongly.

	CAGR			
Year	Pooled IRR	ALSI TRI*	FINDI TRI*	SWIX TRI*
10 year	22.1%	19.5%	23.4%	20.4%
5 year	16.7%	20.1%	27.0%	20.7%
3 year	13.7%	16.3%	28.0%	17.6%

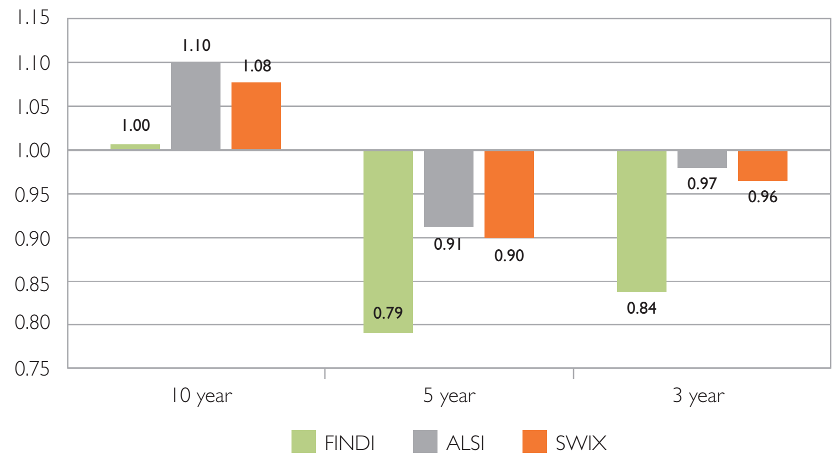
	Public Market Equivalent**		
Year Period	PME FINDI	PME ALSI	PME SWIX
10 year	1.00	1.10	1.08
5 year	0.79	0.91	0.90
3 year	0.84	0.97	0.96

* Listed index returns are before fees
** Listed indices used in the computations are total return indices before fees

Pooled IRR compared to listed indices (ZAR)



Public market equivalent results



5e Historical returns over different time periods

The table below presents the three, five and ten year returns reported in each quarterly release of the RisCura SAVCA South African Private Equity Performance Report. This shows how the performance of each term has changed over time.

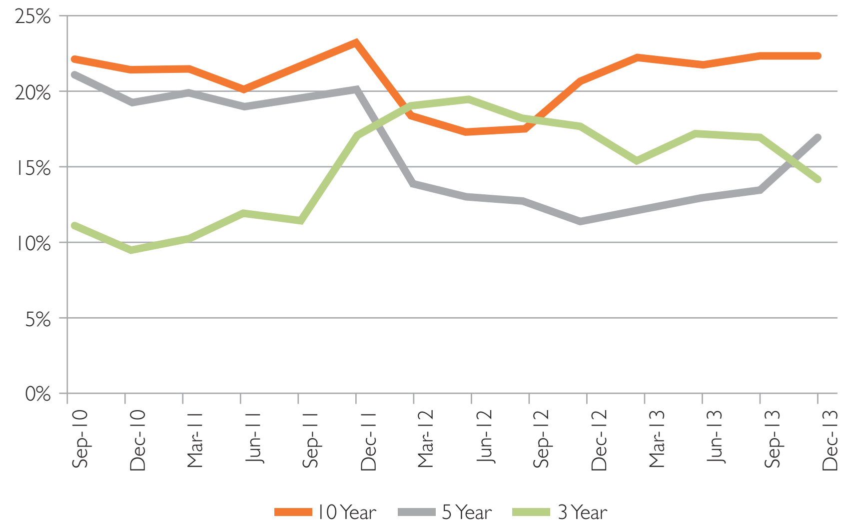
We regard the ten year return as the headline measure of private equity returns. This is because of the long-term nature of private equity investments, as well as the typical investment cycle of funds which takes some time to realise returns.

	Sep-10	Dec-10	Mar-11	Jun-11	Sep-11	Dec-11
10 year	22%	21%	21%	20%	22%	23%
5 year	21%	19%	20%	19%	20%	20%
3 year	11%	9%	10%	12%	11%	17%

	Mar-12	Jun-12	Sep-12	Dec-12	Mar-13	Jun-13
10 year	18%	17%	17%	21%	22%	22%
5 year	14%	13%	13%	11%	12%	13%
3 year	19%	19%	18%	18%	15%	17%

	Sep-13	Dec-13
10 year	22%	22%
5 year	13%	17%
3 year	17%	14%

Pooled IRR by time period



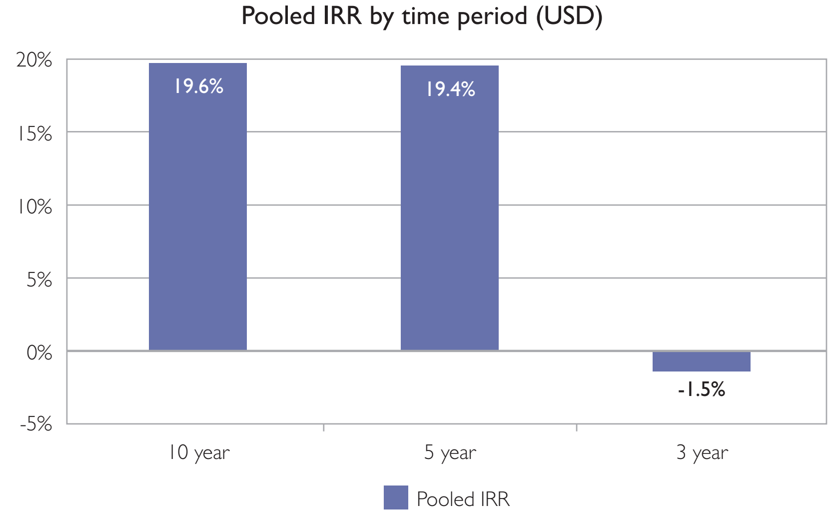
Performance in US Dollars (USD)

6a Returns over different time periods (USD)

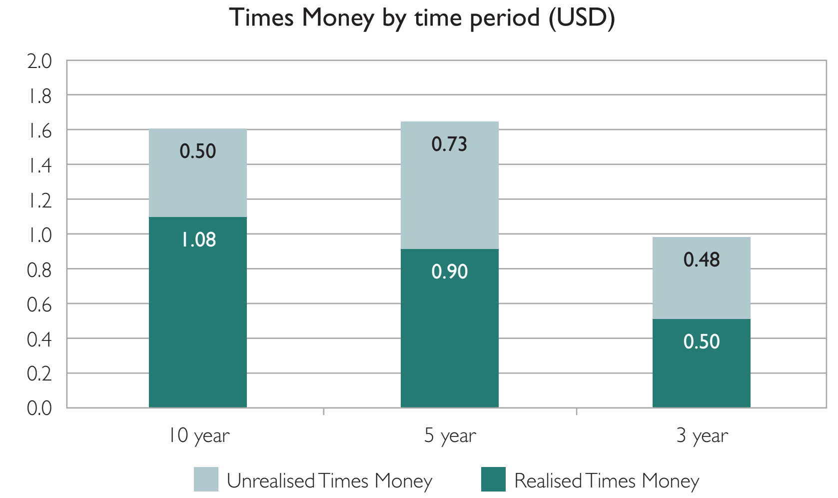
We regard the ten year return as the headline measure of private equity returns. This is because of the long-term nature of private equity investment, and the locked-in nature of typical fund structures.

In the private equity context, one year returns are not a reliable measure of performance and have not been presented.

Exchange rate fluctuations have had a large effect on 3 year returns as a result of the large difference in the December 2013 rate and the exchange rate 3 years prior.



		Times Money		
Time period	Pooled IRR	Realised	Unrealised	Total
10 year	19.6%	1.08	0.50	1.59
5 year	19.4%	0.90	0.73	1.63
3 year	-1.5%	0.50	0.48	0.97

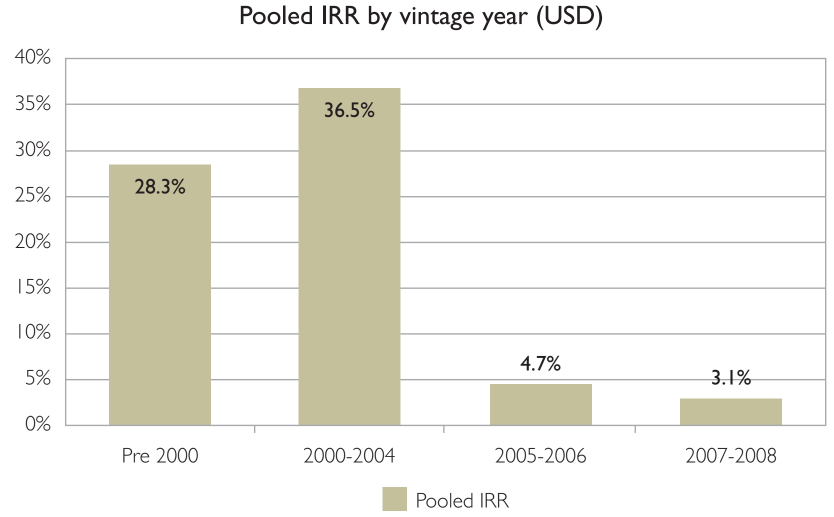


6b Returns by vintage year (USD)

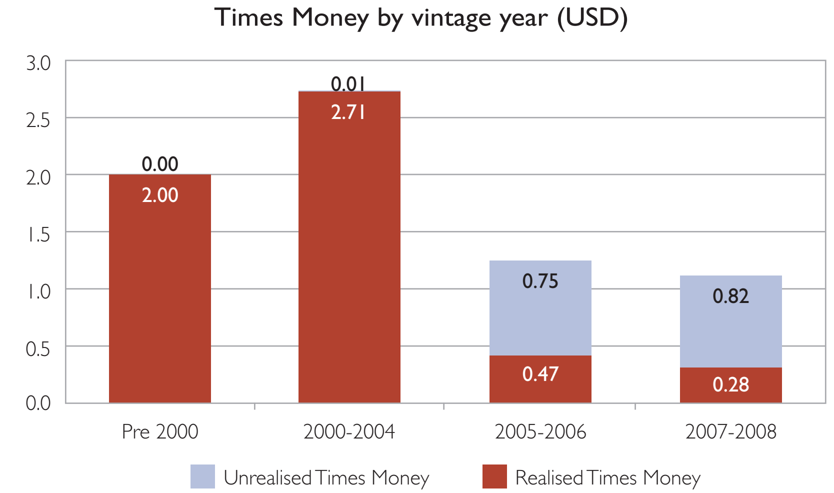
Previous studies have shown fund vintage year to be an important determinant of private equity returns. Our findings are consistent with these studies, and show a dramatic difference in returns by vintage grouping.

At 36.5%, the 2000 to 2004 vintage year grouping was the best of the vintage groups surveyed. This time period matches a period of strong growth in the South African economy, as well as strong growth on the Johannesburg Stock Exchange.

The more recent vintages have been more negatively affected by the Rand:Dollar exchange rate.



		Times Money		
Vintage Year	Pooled IRR	Realised	Unrealised	Total
Pre 2000	28.3%	2.00	0.00	2.00
2000-2004	36.5%	2.71	0.01	2.72
2005-2006	4.7%	0.47	0.75	1.22
2007-2008	3.1%	0.28	0.82	1.10

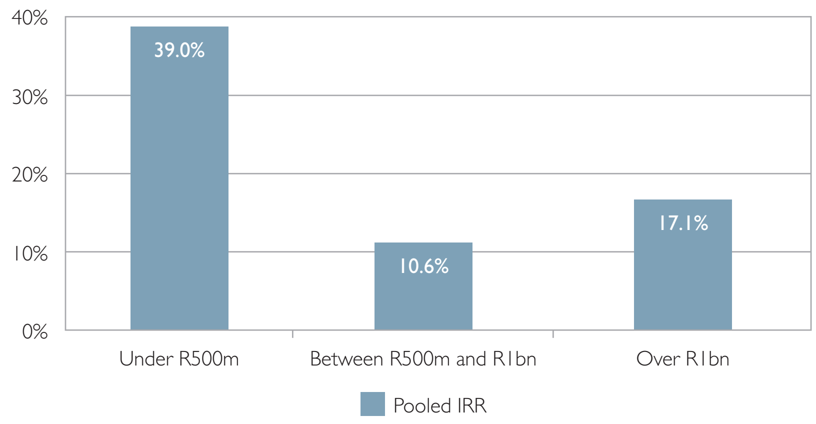


6c Returns by fund size (USD)

The analysis shows that historically, smaller funds have performed very well. This strong performance may be due to smaller funds investing in the high growth mid-market sized companies that have performed well under generally good economic conditions.

However, it is important to note that the larger funds were more likely to have been in existence more recently, and therefore be part of the poorer vintage year groupings. It is likely that vintage year is a bigger determinant of performance than size.

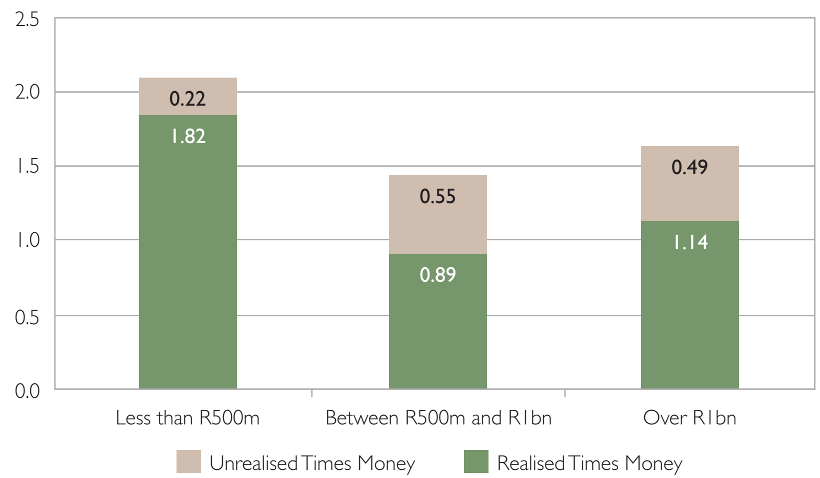
Pooled IRR by fund size (USD)



		Times Money		
Fund Size*	Pooled IRR	Realised	Unrealised	Total
Under R500m	39.0%	1.82	0.22	2.05
Between R500m and R1bn	10.6%	0.89	0.55	1.44
Over R1bn	17.1%	1.14	0.49	1.62

* Fund size is reflected as committed capital in South African Rands.

Times Money by fund size (USD)



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7 How to use this Report

Users of this Report may find the following information useful:

- Returns of cash flow and portfolio value data from private equity managers are the primary source for information included in this Report.
- The IRR performance calculation solves for the discount rate that makes the Net Present Value of a set of cash flows equal to zero. The calculation is based on cash-on-cash returns over equal periods, modified for the residual value of the fund's equity (NAV). The residual value attributed to each respective group being measured is incorporated at its ending value.
- The database accounts for cash flows on a daily basis wherever possible otherwise a monthly basis, and NAVs on a quarterly basis.
- The End-to-End performance calculation is similar to the since inception IRR, however, it is measuring the return between two points in time. The calculation takes into account the opening NAV, the in-period cash flows and the closing NAV. Returns are then annualised for comparability.
- The pool of funds has been split into subsets where this would enhance the user's understanding of returns. However, this has been balanced with confidentiality considerations, and no such subsets include fewer than four funds.
- Most funds included in this Report have unrealised investments, and therefore rely on the valuation of these investments to determine returns. All participating fund managers are members of SAVCA and apply the International Private Equity and Venture Capital Valuation Guidelines to determine these valuations. RisCura has not verified that these Guidelines have been adhered to.
- Only South African Rand denominated funds have been included in this Report, and therefore none of the returns included are affected by exchange rate movements. Returns in USD have been presented for comparability with other markets.

8 Definitions

CAGR is the cumulative annual growth rate.

Committed capital is the value of dedicated investment funds pledged by the investors of a private equity fund and available for investment. This is a proxy for the size of the fund.

Fund Size is determined by the committed capital of a fund.

IRRs are money-weighted returns that should be compared to time-weighted returns with caution. Time-weighted returns are used to measure returns in most asset classes where frequent valuations are available.

PME Public Market Equivalent is a measure that determines whether private equity returns have exceeded or underperformed a public market. A PME score of more than one indicates outperformance of private equity.

Pooled IRR aggregates or "pools" all cash flows and ending NAVs to calculate a money-weighted return.

Realised Times Money is the multiple of cash returned to investors divided by total cash invested.

Total Times Money is the sum of the Realised and Unrealised Times Money.

Unrealised Times Money is the multiple of the carrying value of portfolio investments not yet returned to investors divided by total cash invested.

Vintage Year is defined as the year in which a fund first draws down capital from its investors.

9 About RisCura Fundamentals

RisCura Fundamentals is the leading provider of independent valuation, risk and performance analysis services to investors in unlisted instruments in Africa. We work in partnership with our clients to deliver the transparency and accountability that is increasingly demanded by investors and auditors. Our clients include private equity funds, pension funds, credit funds, banks and other investors in Africa, and cover industries as diverse as agriculture, retail, manufacturing and the extractive industries.

For more information about our services please contact Rory Ord on **+27 21 673 6999** or **rord@riscura.com**.

RisCura is a global, independent provider of professional investment services. RisCura services institutional investors, asset managers, hedge funds and private equity firms with over USD200 billion in assets under management. RisCura is a leading provider or investment consulting, independent valuation, risk and performance analysis services to investors.

For more information about RisCura visit, **www.riscura.com**

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