

RisCura South African Private Equity Performance Report.

Quarter ended: 30 September 2013



An independent point of view.

RisCura South African Private Equity Performance Report.

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I Foreword

We are pleased to release the September 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 Carlo Dickson of Ke Nako Capital for contributing to our first ever 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

Erika van der Merwe
CEO, SAVCA



2 Market Commentary

Whether you are in capital raising mode for a follow-on fund, a new fund or even trying to close out deals, we are living in exciting times with South African private equity assets under management continuing to grow. During the past year we saw the likes of Capital Works achieving a first and final close almost simultaneously up at R2.7bn and Ethos closing their current fund at R8bn.

The capital raising environment for SA PE managers has been rather tough of late as there is now significant competition from Africa ex-SA funds and DFI's are also doing more direct investing.

I am sure that we all agree that Private Equity as an asset class in South Africa has been accepted by all investors who are serious about constructing an optimal investment portfolio in order to achieve their long-term investment objectives. The challenge for some investors is not in embracing private equity but in embracing a long-term investing mindset. It is all too easy to chase the most recent high returns in say listed equities or commercial property without being cognisant of the risk of extrapolating past returns into the future.

With what looks like a rate hiking cycle now in progress and listed equities more than fully priced, I believe that Private Equity in South Africa will continue to be a very attractive investment proposition for any serious institutional investor. The entrepreneurs and executives within the South African private sector are some of the sharpest minds and most astute business people that I have come across on my global travels and I have the utmost confidence in their ability to navigate almost any economic environment.

A number of private equity funds are exiting or positioning their portfolio companies for a sale or IPO. At the upper end of the size spectrum we have Edcon (Bain) and Alexander Forbes (Actis) potentially listing in 2014. A number of the mid-market GP managers have exited companies in the last quarter and there are further exits due in the next two quarters.

South African Private Equity continues to exhibit low levels of leverage in deals when compared to international counterparts and so any moderate rate hiking cycle should be manageable.

In ending I would like to wish all investors, GP's and service providers in the SA Private Equity Industry a successful 2014 even though one year does not make a private equity fund track record.

Regards,

Carlo Dickson
Managing Director of Ke Nako Capital

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)

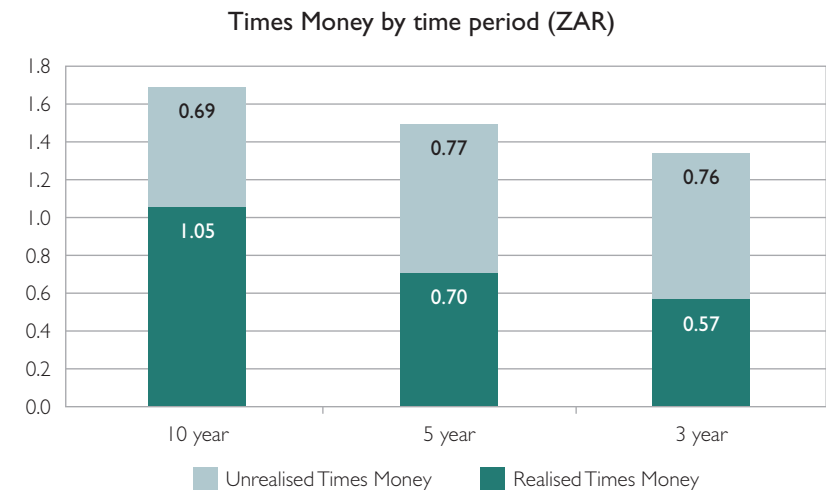
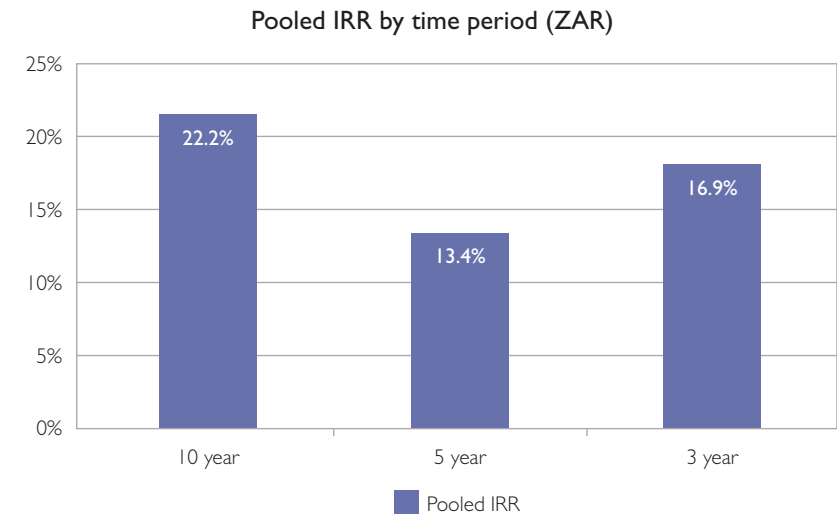
5a Returns over different time periods (ZAR)

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.

Time period	Pooled IRR	Times Money		
		Realised	Unrealised	Total
10 year	22.2%	1.05	0.69	1.74
5 year	13.4%	0.70	0.77	1.48
3 year	16.9%	0.57	0.76	1.33

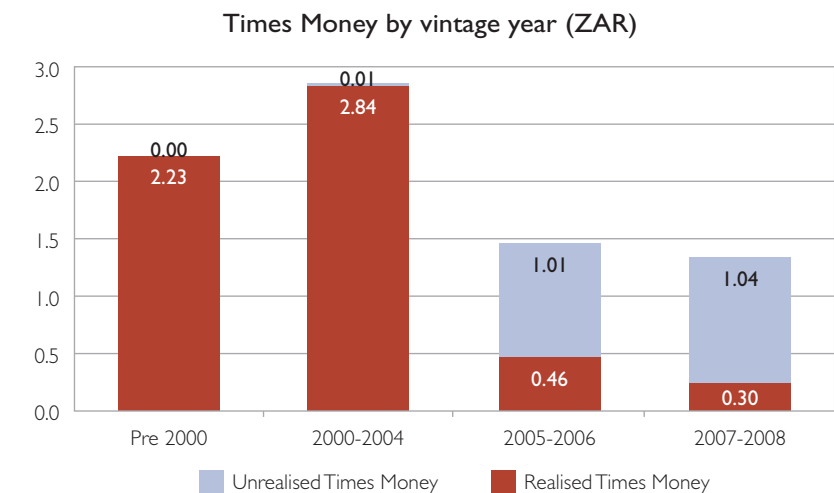
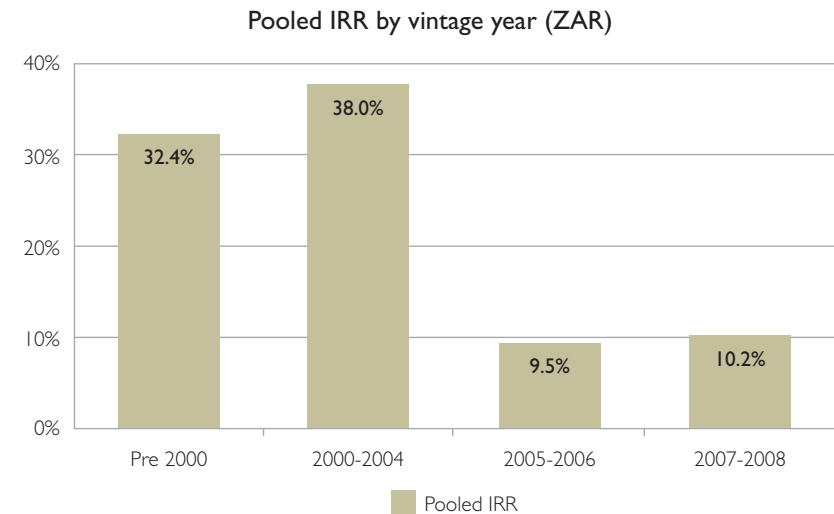


5b Returns by vintage year (ZAR)

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. Particularly funds making investments in the 2007 – 2008 period have shown poor returns. Part of the reason for the current poor results of the most recent vintage grouping is that these funds are still in the “J-curve”, where management fees 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.

Vintage Year	Pooled IRR	Times Money		
		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	9.5%	0.46	1.01	1.47
2007-2008	10.2%	0.30	1.04	1.34



5c Returns by fund size (ZAR)

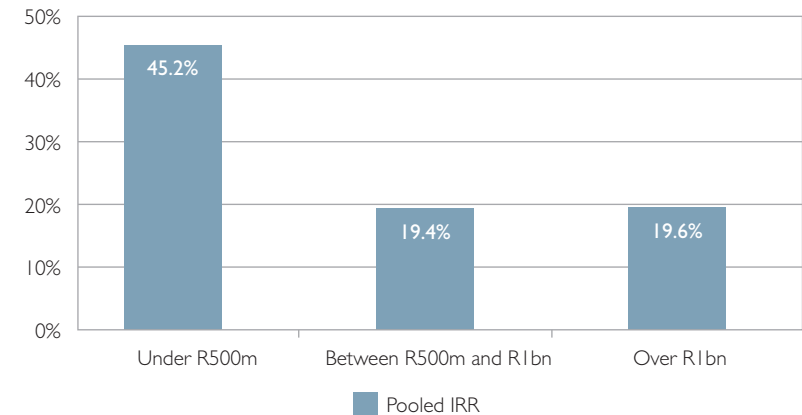
The analysis shows that historically, smaller funds have performed very well. This strong performance may be due to smaller funds investing in the high growth mid-market sized companies that have performed well under generally good economic conditions.

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.

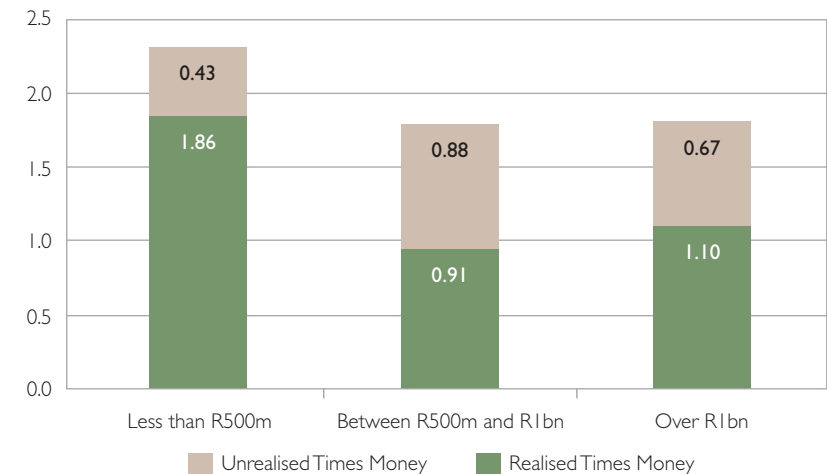
Fund Size*	Pooled IRR	Times Money		
		Realised	Unrealised	Total
Under R500m	45.2%	1.86	0.43	2.29
Between R500m and R1bn	19.4%	0.91	0.88	1.79
Over R1bn	19.6%	1.10	0.67	1.76

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

Pooled IRR by fund size (ZAR)



Times Money by fund size (ZAR)



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. 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.

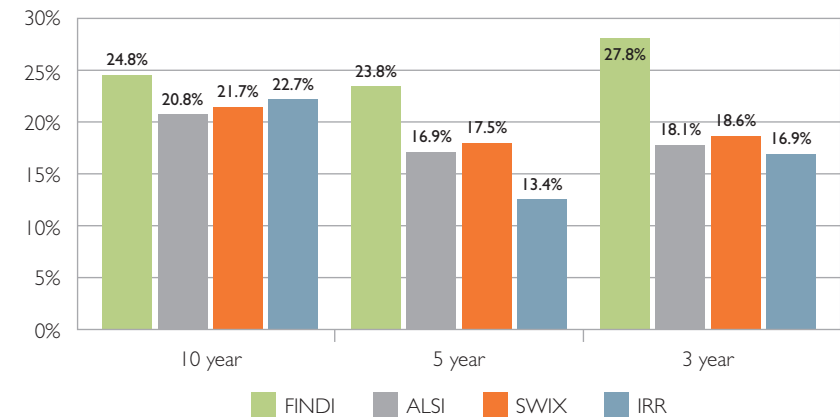
Year	CAGR			
	Pooled IRR	ALSI TRI*	FINDI TRI*	SWIX TRI*
10 year	22.2%	20.8%	24.8%	21.7%
5 year	13.4%	16.9%	23.8%	17.5%
3 year	16.9%	18.1%	27.6%	18.6%

Year Period	Public Market Equivalent**		
	PME FINDI	PME ALSI	PME SWIX
10 year	0.98	1.08	1.05
5 year	0.80	0.92	0.91
3 year	0.89	0.99	0.99

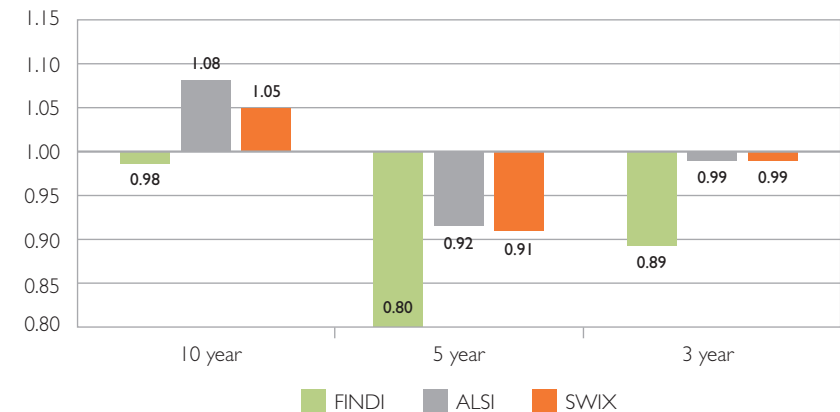
* Listed index returns are before fees

** 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

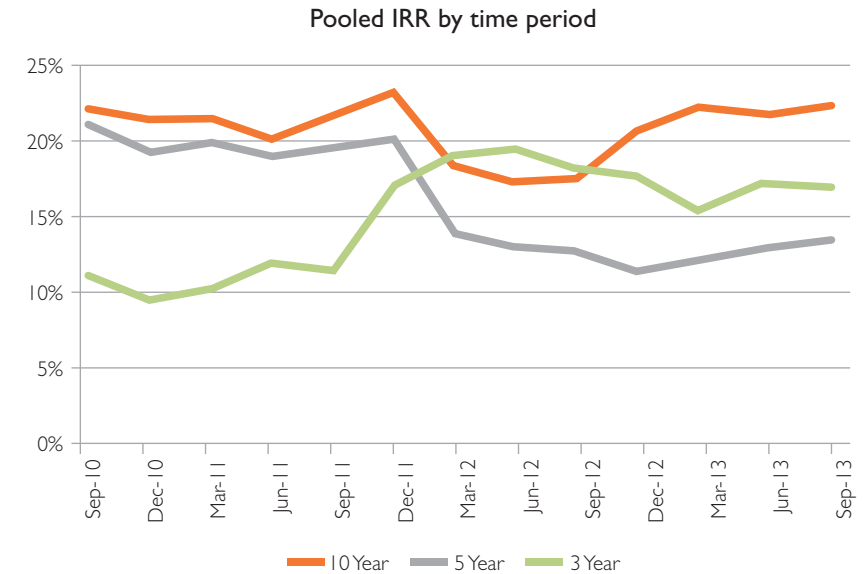
The table below presents the three, five and ten year returns reported in each quarterly release of the RisCura SAVCA South African Private Equity Performance Report. This shows how the performance of each term has changed over time.

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
10 year	22%
5 year	13%
3 year	17%



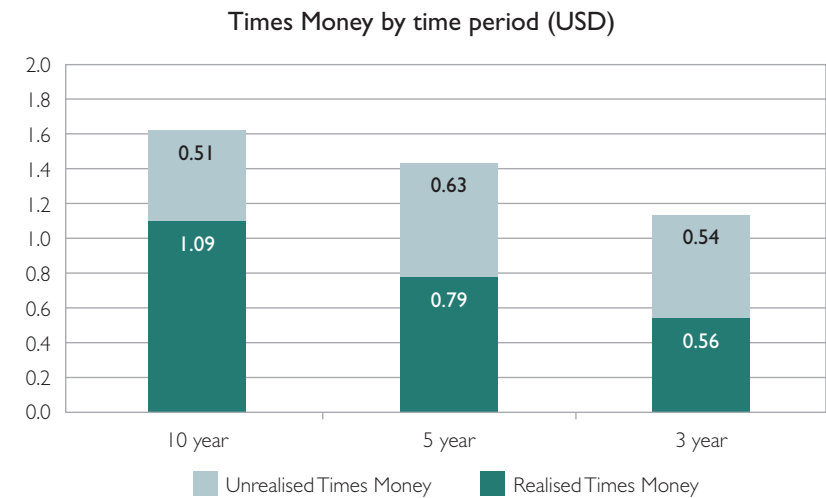
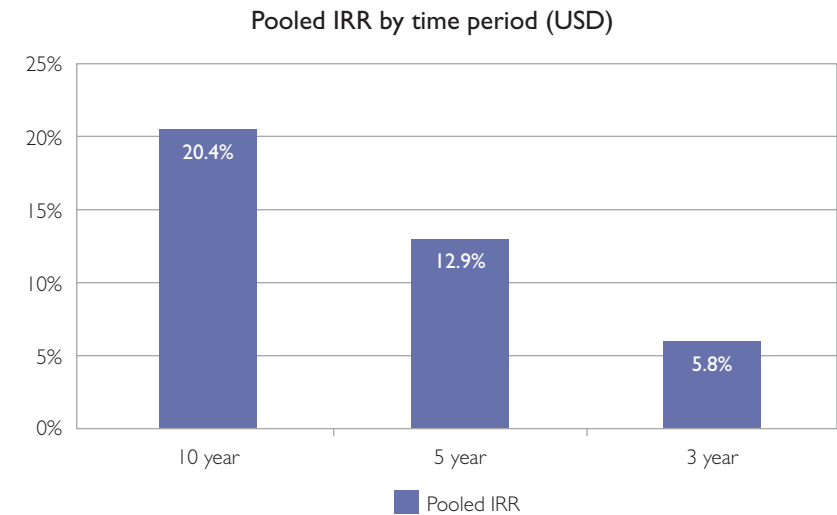
Performance in US Dollars (USD)

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.

Time period	Pooled IRR	Times Money		
		Realised	Unrealised	Total
10 year	20.4%	1.09	0.51	1.60
5 year	12.9%	0.79	0.63	1.42
3 year	5.8%	0.56	0.54	1.10



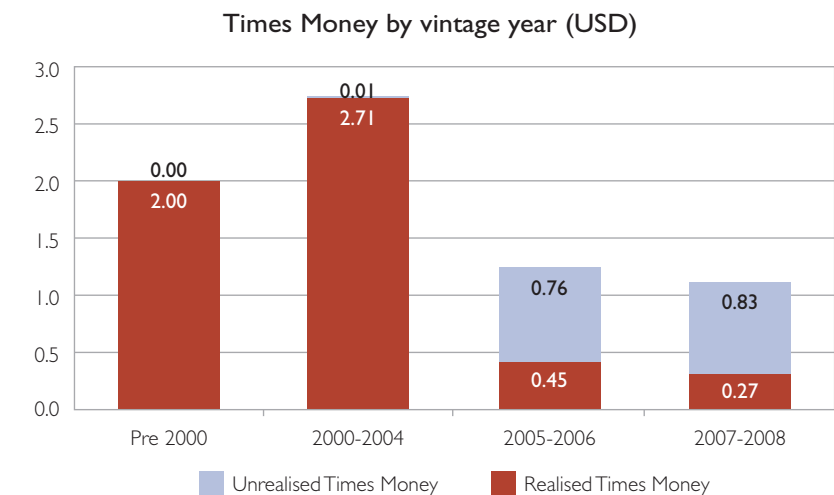
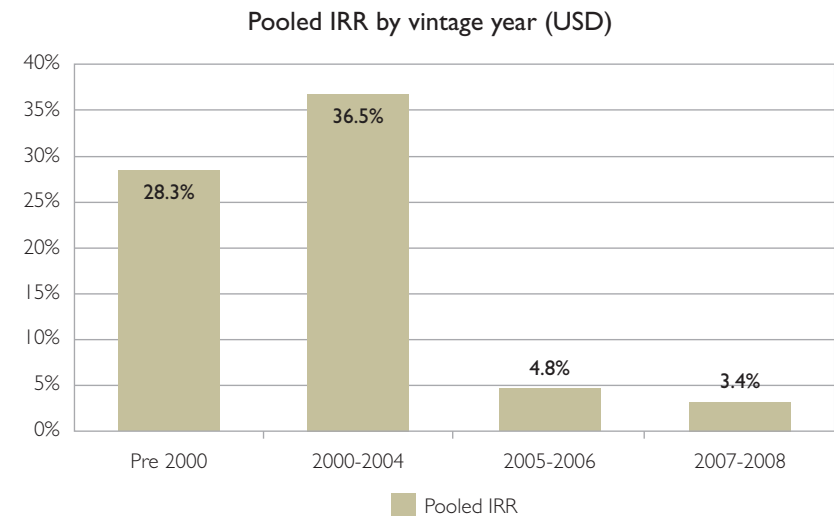
6b Returns by vintage year (USD)

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.

Funds starting in or after 2005 have been negatively impacted by the downturn in the economy. Particularly funds making investments in the 2007 – 2008 period have shown poor returns. Part of the reason for the current poor results of the most recent vintage grouping is that these funds are still in the ‘J-curve’, where management fees 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.

Vintage Year	Pooled IRR	Times Money		
		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	4.8%	0.45	0.76	1.21
2007-2008	3.4%	0.27	0.83	1.10



6c Returns by fund size (USD)

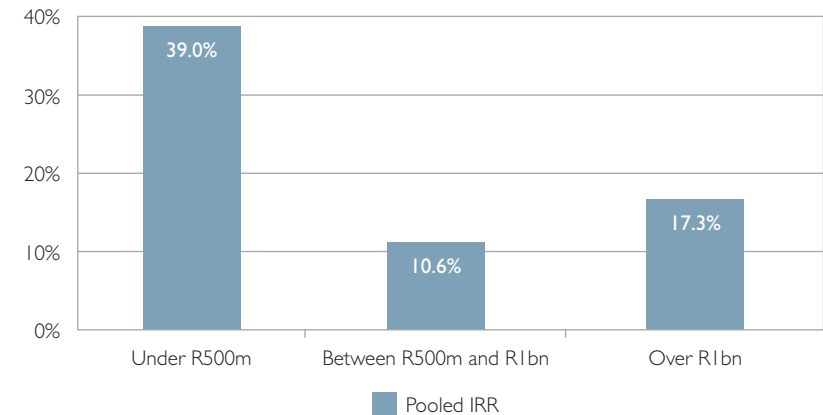
The analysis shows that historically, smaller funds have performed very well. This strong performance may be due to smaller funds investing in the high growth mid-market sized companies that have performed well under generally good economic conditions.

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.

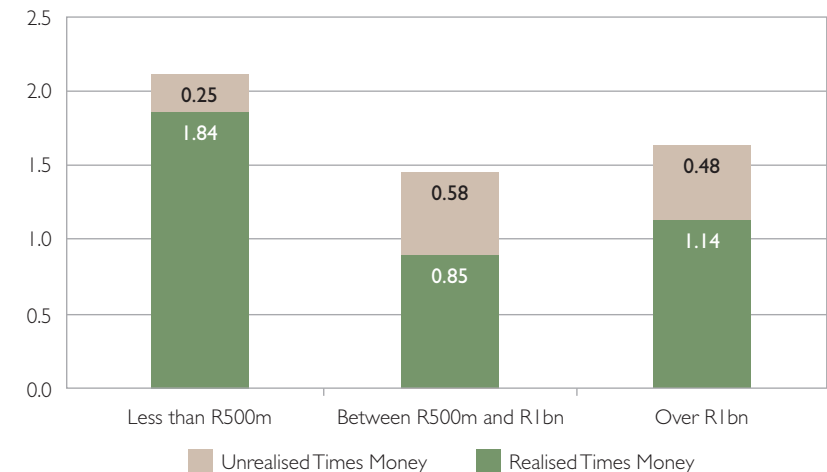
Fund Size*	Pooled IRR	Times Money		
		Realised	Unrealised	Total
Under R500m	39.0%	1.84	0.25	2.09
Between R500m and R1bn	10.6%	0.85	0.58	1.43
Over R1bn	17.3%	1.14	0.48	1.62

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

Pooled IRR by fund size (USD)



Times Money by fund size (USD)



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 of investment consulting, independent valuation, risk and performance analysis services to investors.

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



fundamentals@riscura.com | www.riscura.com