

RisCura - SAVCA South African Private Equity Performance Report

As at 30 June 2016

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Foreword

November 2016

We are pleased to release the June 2016 edition of the RisCura - SAVCA South African Private Equity Performance Report. This report tracks the performance of a representative basket of South African private equity funds and is published quarterly. The purpose of the report is to provide stakeholders in South African private equity with insight into industry returns, and to establish and maintain an authoritative benchmark for the measurement of private equity performance in this market. Since its inception in September 2010, this report has become a vital component in the marketing of the private equity industry. We would like to thank SAVCA members for making their performance data available, and for their commitment to this project.

Heleen Goussard

Executive: RisCura

Erika van der Merwe

Chief Executive Officer: SAVCA

Market commentary

South Africa's economic environment continues to be challenging. The already-low real GDP growth estimate of 1.3% achieved in 2015, is set to decline to 0.5% in 2016 (BMI Research), giving South Africa one of the slowest growth rates on the continent, with only Libya, Tunisia, Sudan and Equatorial Guinea predicted to have lower growth.

Food price inflation is expected to worsen, as the prolonged impact of El Nino is felt throughout the country. Increases in the global fuel price will put further pressure on headline inflation. Not surprising considering the country's growth rate, unemployment remains stubbornly high at 26.6% at June 2016, compounding the negative effect on private consumption.

The unfortunate combination of low growth and high inflation in the country makes monetary policy decision-making more difficult. In Q2 2016, inflation targeting was deemed most pressing, resulting in an increase in the policy rate to 7.0% in June. Further rate hikes are expected going forward in an attempt to

curb inflation. Additionally, the probability of a hike in US interest rates appears increasingly more imminent, which would have a similar outcome in South Africa. The result is an almost certain increase in cost of capital under either scenario.

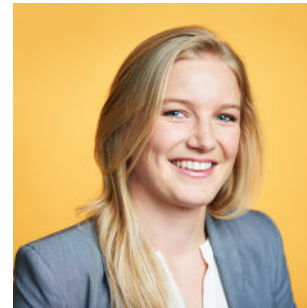
The effects of this challenging environment are both a decrease in private equity performance and the decline in realisations as exits are put on hold. PE performance has trended gradually downward over the past year, despite a temporary uptick in the last quarter. Pooled IRR has declined by 3.6%, 5.1% and 1.5% over the past year for the 10 year, 5 year and 3 year periods respectively.

On a more positive note, banking and financial industries remain resilient and there is plenty of opportunity for the rest of the economy to gain momentum and grow to its potential. A recent report by the McKinsey Global Institute identified five priority focus areas that could allow South Africa to achieve an additional 1.1% GDP growth annually and create 3.4 million new jobs. These include:

Market commentary cont

- Creating a competitive manufacturing hub through its skilled labour force, increased innovation and productivity;
- Improving infrastructure efficiency through public-private partnerships and a greater focus on maintenance and high impact projects;
- Increasing the country's power capacity through quick-to-build natural gas power plants to avoid a further shortage in 2025;
- Increasing service industry exports to the rest of sub-Saharan Africa; and
- Increasing raw and processed agricultural exports to sub-Saharan Africa and Asia.

In a low return environment, the active investment philosophy of the private equity industry should assist it in creating alpha for investors in trying times.



Deborah O'Hanlon
Senior analyst: RisCura

Private equity in South Africa

Private equity is an asset class which 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 which 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.

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). The IRR calculated in this report is net of fees over all periods.

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

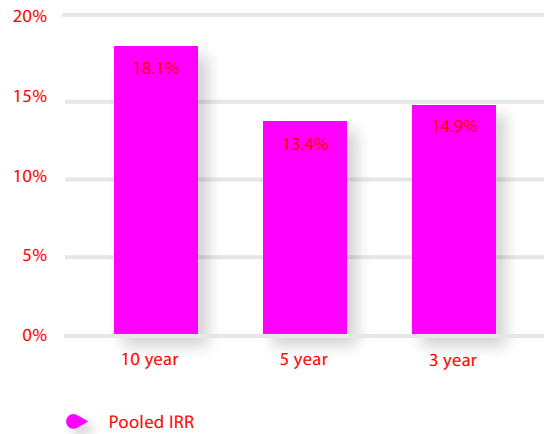
Times Money is the ratio of total capital invested to total capital returned and remaining value. This is a useful cross-check of IRR measures, and is easily understandable. While IRR calculations are heavily dependent on the length of time that capital has been invested, Times Money does not take time into account. A Times Money in excess of 1 means that value has been created for the investor.

Public market equivalent (PME)

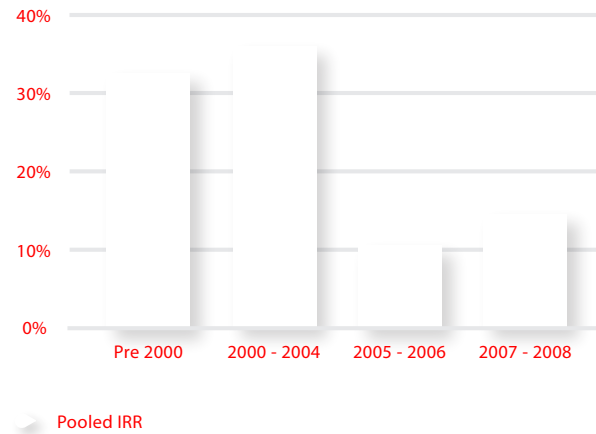
This measure seeks to equate the heavily timing-dependent returns of private equity funds with the returns of public market indices. The measure is a ratio of the net outflows from PE funds re-invested into the public index to the end of the fund's life, divided by the inflows into a PE fund invested in the public index until the end of the fund's life. A ratio of above 1 reflects outperformance of private equity, while a ratio under 1 reflects under performance.

Performance in South African Rands

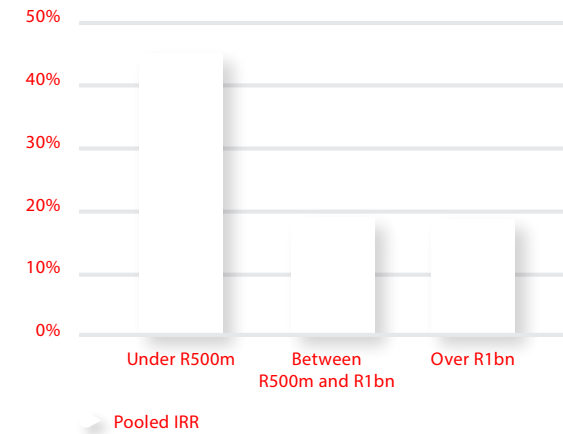
Pooled IRR by time period



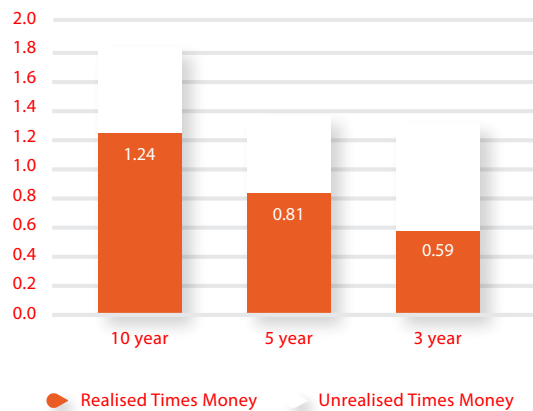
Pooled IRR by vintage year



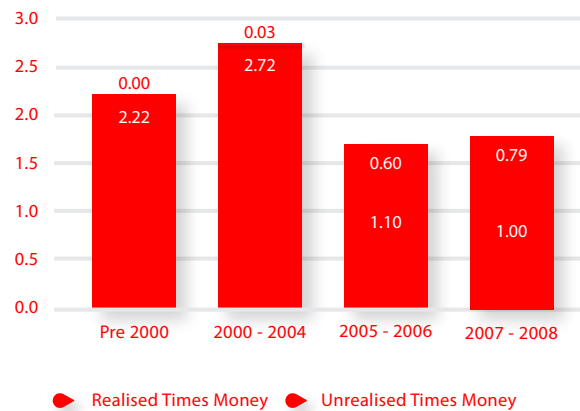
Pooled IRR by fund size



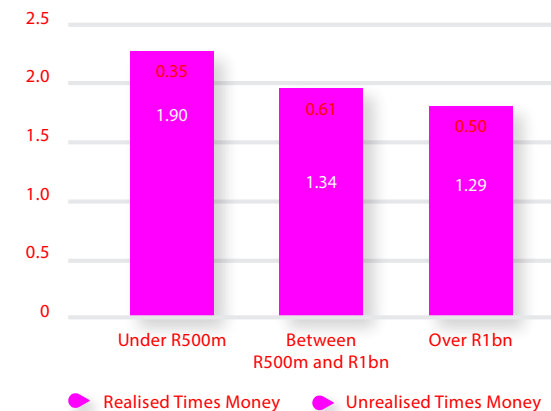
Times Money by time period



Times Money by vintage year



Times Money by fund size



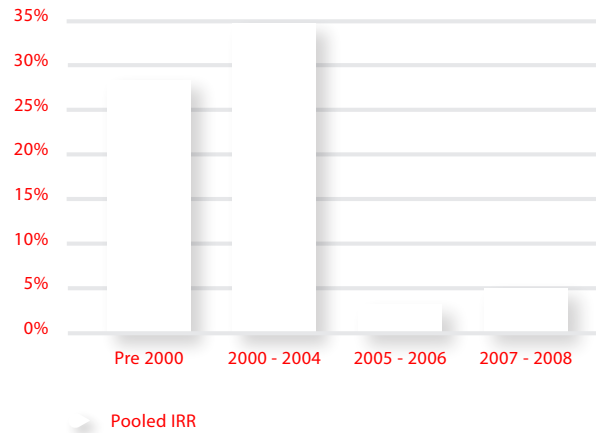
*Fund Size is reflected as committed capital in South African Rands.

Performance in US Dollars

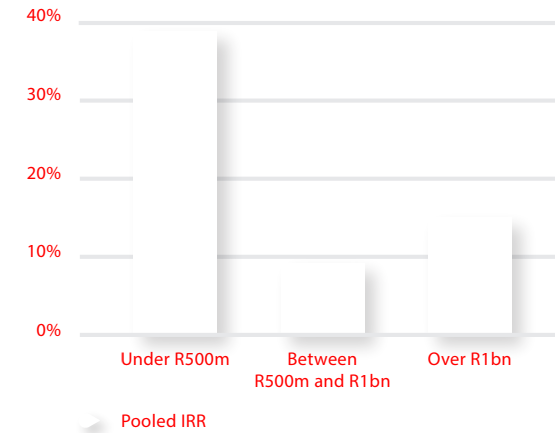
Pooled IRR by time period



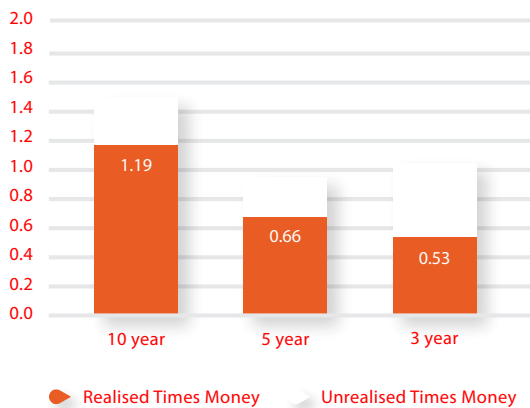
Pooled IRR by vintage year



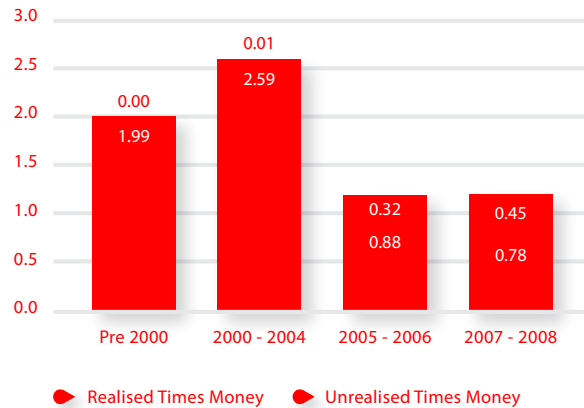
Pooled IRR by fund size



Times Money by time period



Times Money by vintage year



Times Money by fund size



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

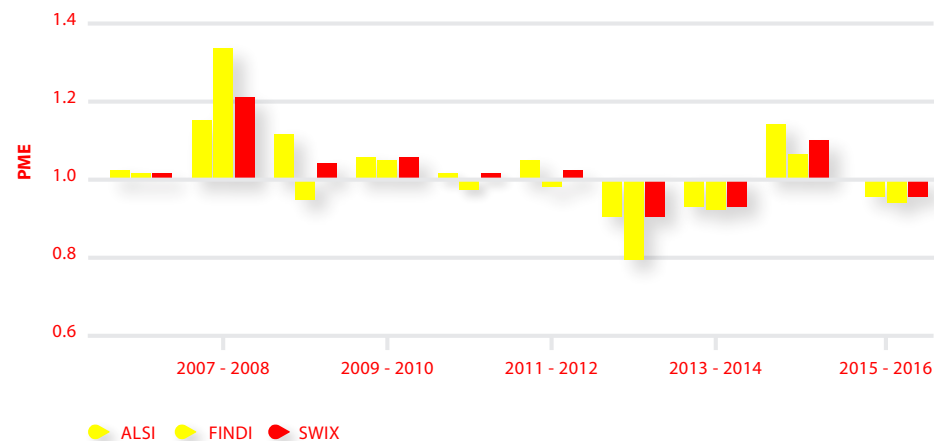
Listed equity comparison (ZAR)

CAGR

Time period	Pooled IRR	ALSI TRI*	FINDI TRI*	SWIX TRI*
2006Q2 - 2016Q2	18.1%	12.6%	18.0%	14.0%
2011Q2 - 2016Q2	13.4%	13.8%	22.3%	15.7%
2013Q2 - 2016Q2	14.9%	13.0%	17.6%	14.8%

*Listed index returns are before fees.

Performance compared to listed equity markets



Public Market Equivalent**

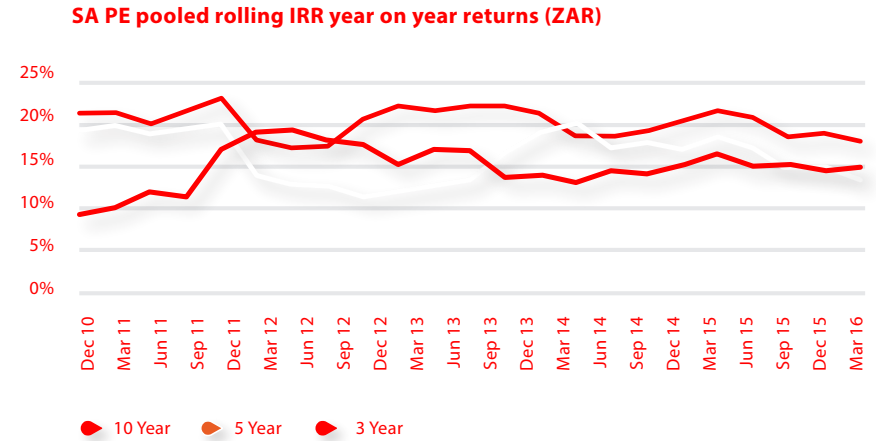
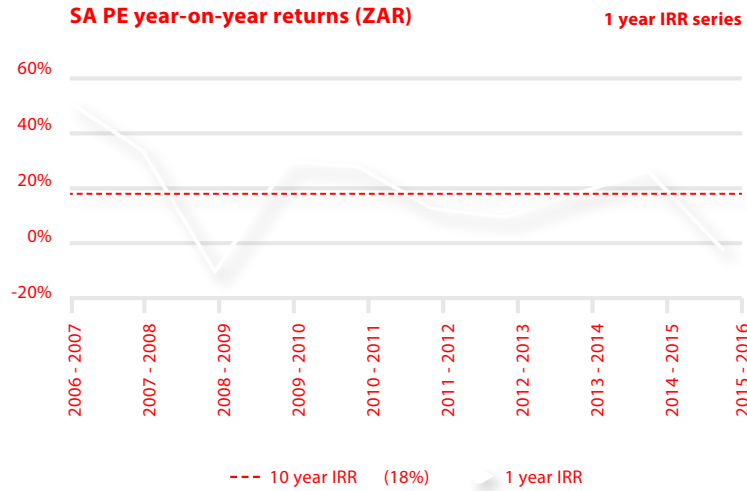
Time period	PME FINDI	PME ALSI	PME SWIX
10 year	1.02	1.19	1.14
5 year	0.82	0.97	0.93
3 year	0.93	1.00	0.97

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

Public market equivalent results by time period



Private equity returns over time



How to use this report

Useful information:

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 as 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.

Definitions:

CAGR is the compound 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 ratio 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 ratio 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.

About

About RisCura

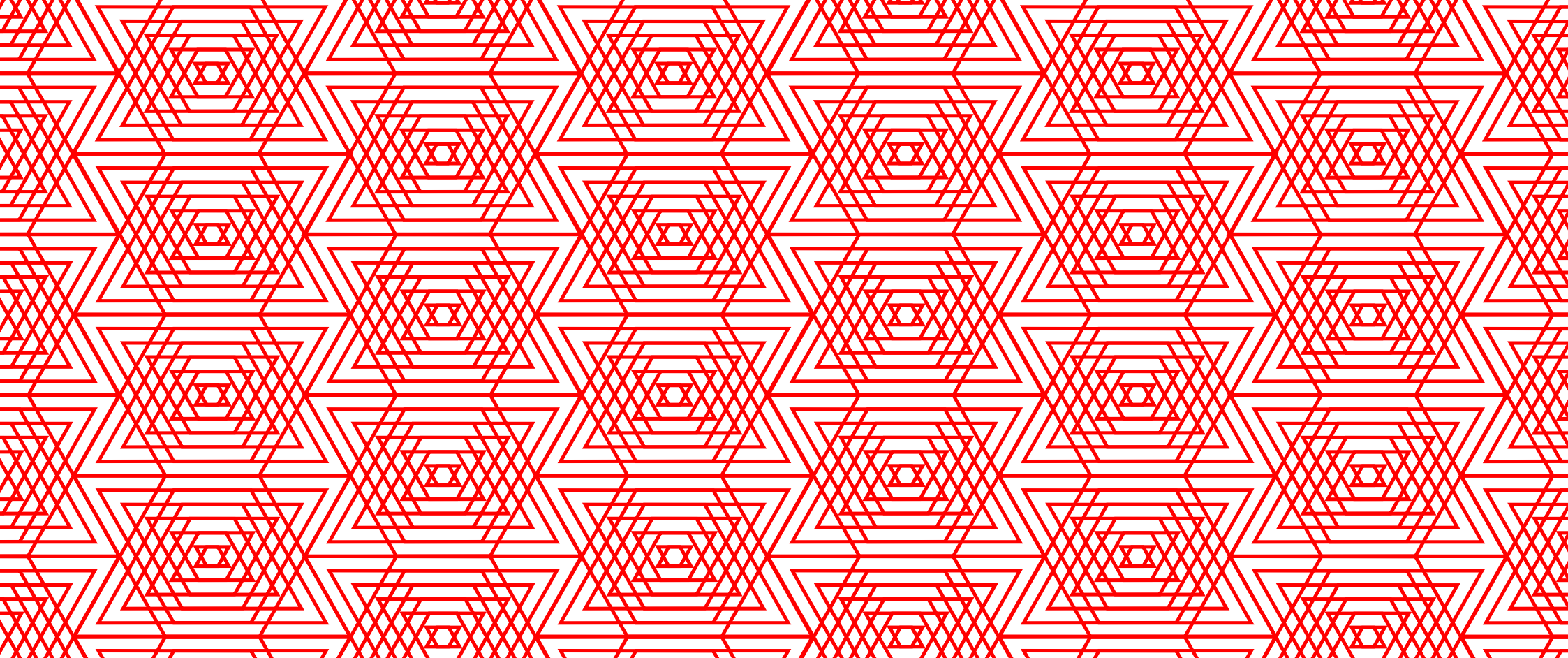
RisCura is a global, independent provider of professional investment services. RisCura services institutional investors, asset managers, hedge funds and private equity firms with over USD200 billion in assets under advice. RisCura is a leading provider of investment consulting, independent valuation,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

For more information about RisCura visit www.riscura.com

About SAVCA

The Southern African Venture Capital and Private Equity Association (SAVCA) is the industry body and public policy advocate for private equity and venture capital in Southern Africa, representing about R165 billion in assets under management, through 150 members. SAVCA promotes Southern Africa private equity by engaging with regulators and legislators on a range of matters affecting the industry, providing relevant and insightful research on aspects of the industry, offering training on private equity and creating meaningful networking opportunities for industry players.

For more information visit www.savca.co.za



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