



# RisCura-SAVCA South African Private Equity Performance Report

30 June 2021



RISCURA

# 1. Foreword

January 2022

We are pleased to release the June 2021 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**  
Head of Alternative Investment Services: RisCura

**Tanya van Lill**  
Chief Executive Officer: SAVCA

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## 2. Market Commentary

### Infrastructure funds key to South Africa's energy crisis

On 10 June 2021 South African President Cyril Ramaphosa announced that businesses will be allowed to generate power of up to 100 megawatts each, without a licence. It was previously capped at one megawatt, heralding a breakthrough for the country's economy as the energy deficit and load shedding present a significant risk.

The Department of Mineral Resources and Energy gazetted the Electricity Regulation Act amendments on 12 August 2021, unlocking significant investment in new generation capacity in the short- and medium-term, empowering companies to build their own generation facilities to supply their energy needs.

We expect to see an increase in infrastructure funds in South Africa over the next few years, capacitated by the President's Office infrastructure led Economic Reconstruction and Recovery Plan. The need and opportunity for private investment in power generation infrastructure is clear.

Infrastructure investments in South Africa are commonly held through unlisted assets as there are limited opportunities for investing in infrastructure by purchasing liquid stocks and bonds of infrastructure companies, municipalities or projects via public exchanges.

In South Africa, most infrastructure investments are made directly, in the debt or equity of projects, or indirectly, via unlisted and typically illiquid infrastructure funds run by general partners with the necessary expertise. Infrastructure returns mirror target returns seen in private equity.

Private equity returns continue to deliver returns to investors, with the 10-year IRR increasing slightly in Q2 2021 from 9.2% to 9.3%, five-year remaining flat at 2.0% and three-year improving significantly from -1.4% to -0.4% as compared to Q1 2021.

The listed market uncharacteristically outperformed private equity across the FINDI TRI, SWIX TRI and ALSI TRI across the three, five and ten year benchmarks, driven by market tailwinds of unprecedented levels of global quantitative easing, coupled with the commodity price boom in the first half in 2021.



**Cami Mbulawa**  
Executive, RisCura  
Alternative Investments Services

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### 3. 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.

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## 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). 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

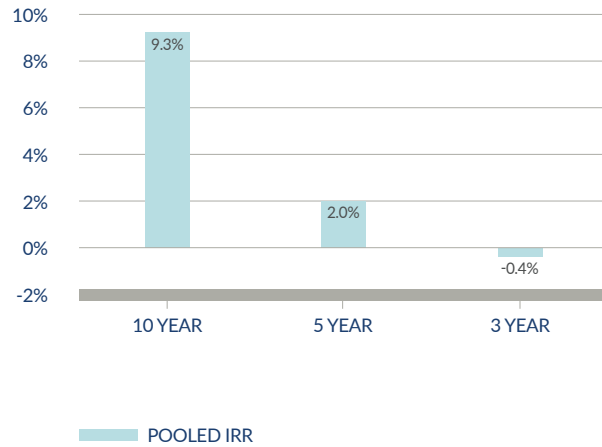
Times Money is the ratio of total capital invested to total capital returned and remaining value. This is a useful cross-check of IRR measures, and is easily understandable. While IRR calculations are heavily dependent on the length of time that capital has been invested, Times Money does not take time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

### Public market equivalent (PME)

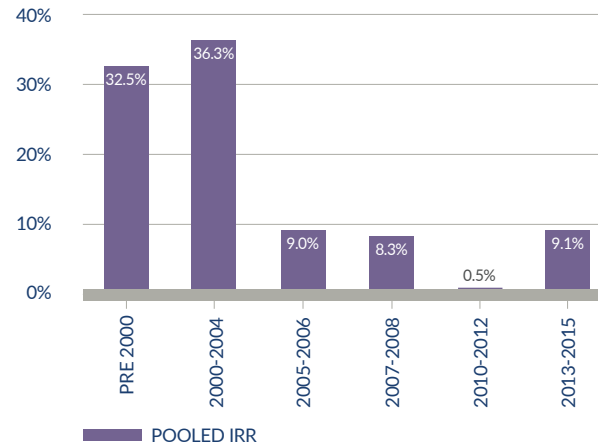
This measure seeks to equate the heavily timing-dependent returns of private equity funds with the returns of public market indices. The measure is a ratio of the net outflows from PE funds re-invested into the public index to the end of the fund's life, divided by the inflows into a PE fund invested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

## 5. Performance in South African Rands (ZAR)

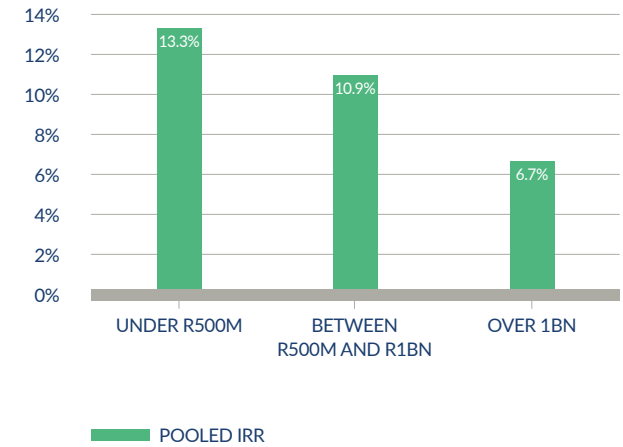
### Pooled IRR by time period



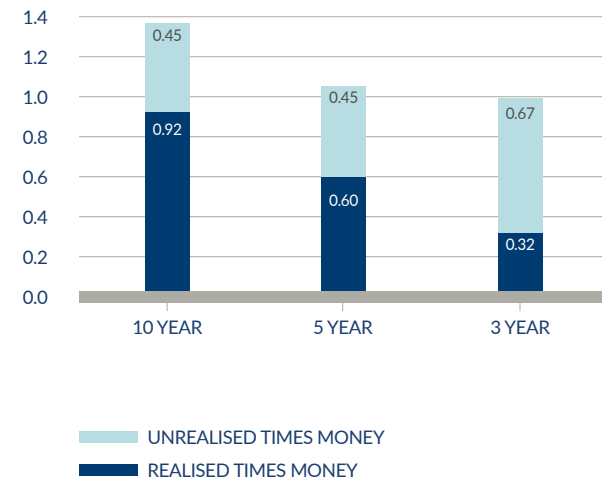
### Pooled IRR by vintage year



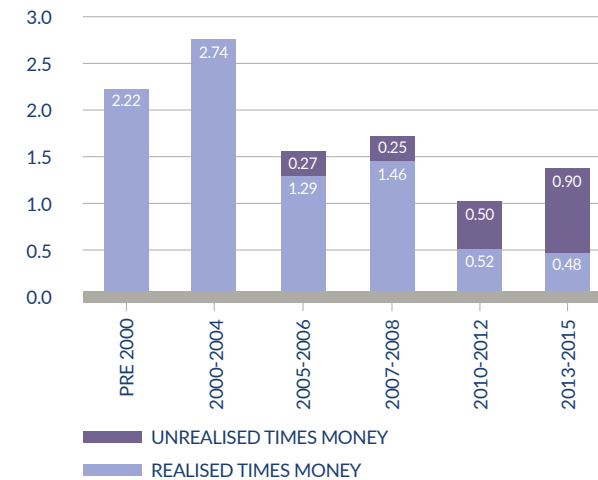
### Pooled IRR by fund size



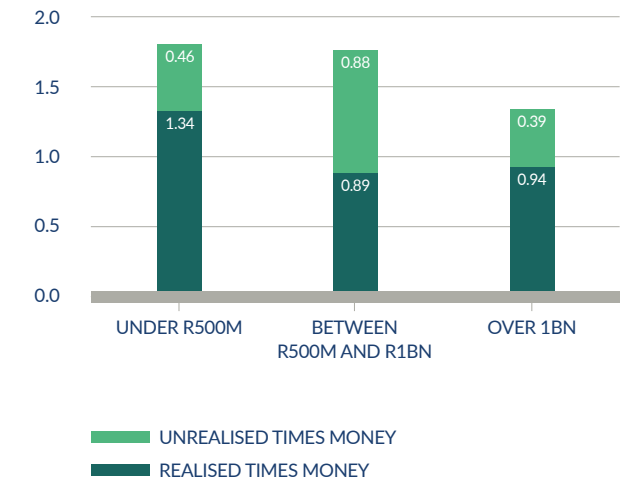
### Times Money by time period



### Times Money by vintage year

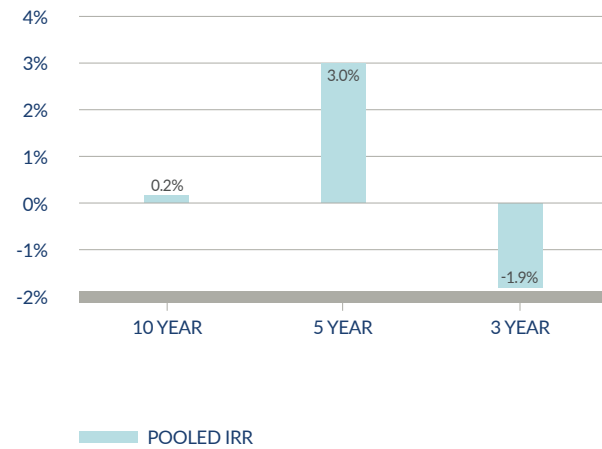


### Times Money by fund size

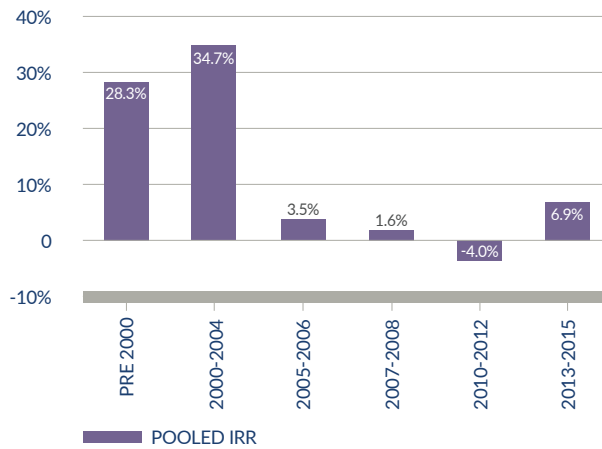


## 6. Performance in US Dollars

### Pooled IRR by time period



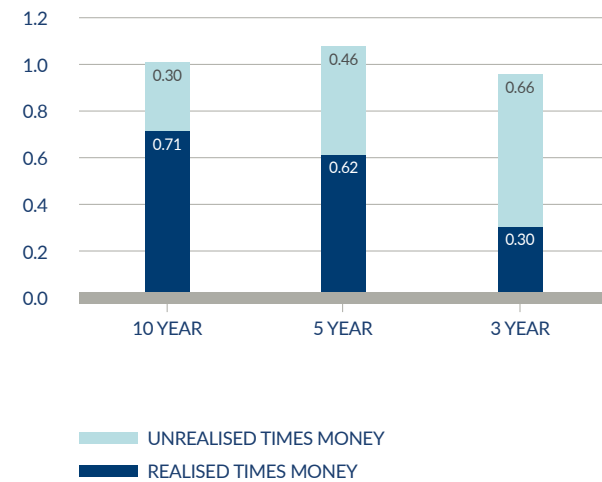
### Pooled IRR by vintage year



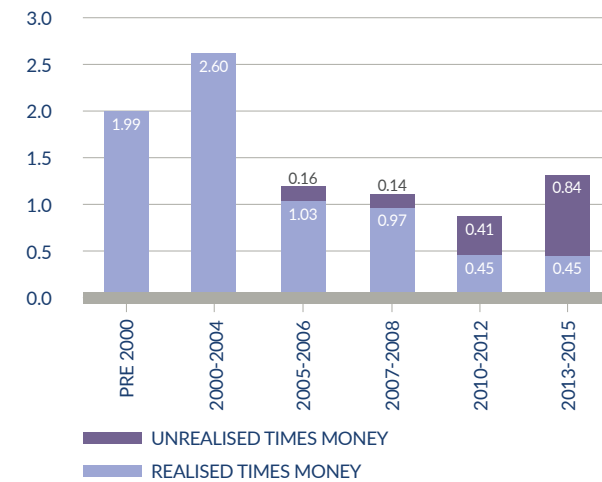
### Pooled IRR by fund size



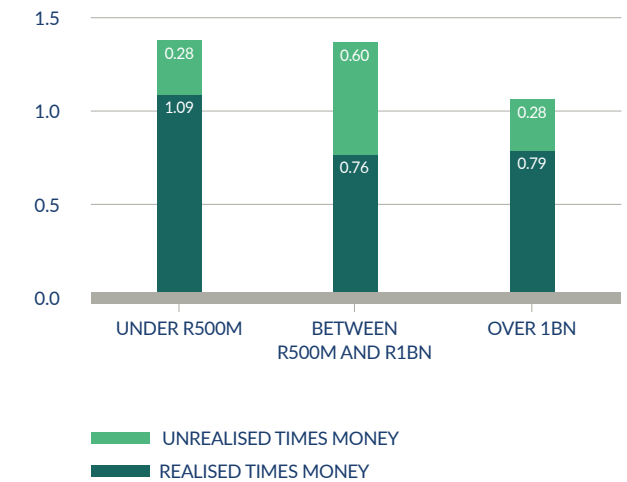
### Times Money by time period



### Times Money by vintage year



### Times Money by fund size



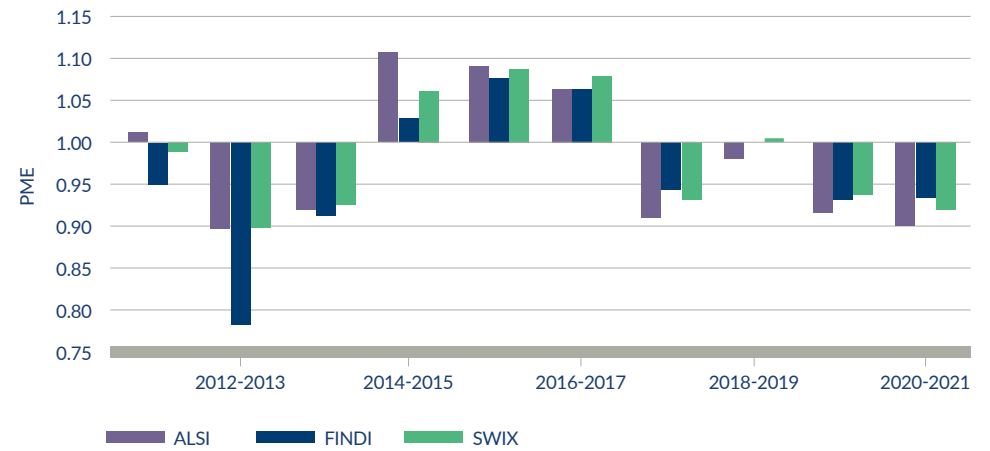
# 7. Listed equity comparison (ZAR)

## CAGR

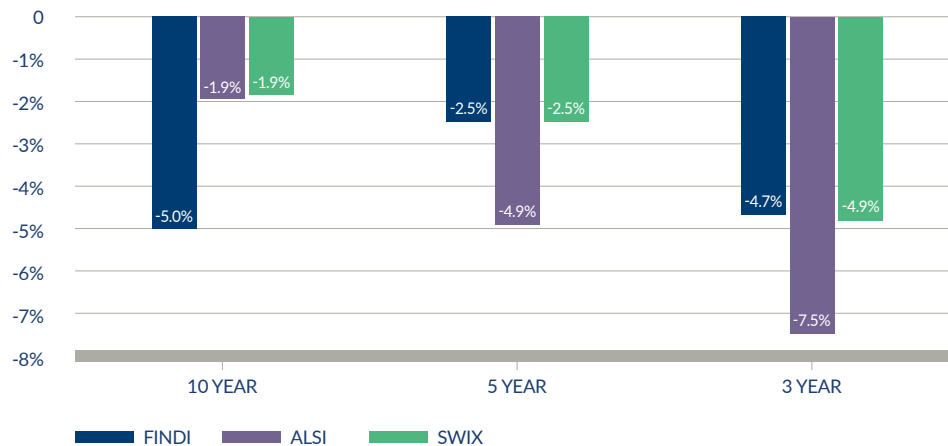
Year Period	Pooled IRR	ALSI TRI*	FINDI TRI*	SWIX TRI*
2011Q2 - 2021Q2	9.3%	10.9%	13.6%	10.4%
2016Q2 - 2021Q2	2.0%	8.1%	5.5%	5.3%
2018Q2 - 2021Q2	-0.4%	8.1%	4.8%	5.0%

\*Listed index returns are before fees.

## Performance compared to listed equity markets



## Direct Alpha



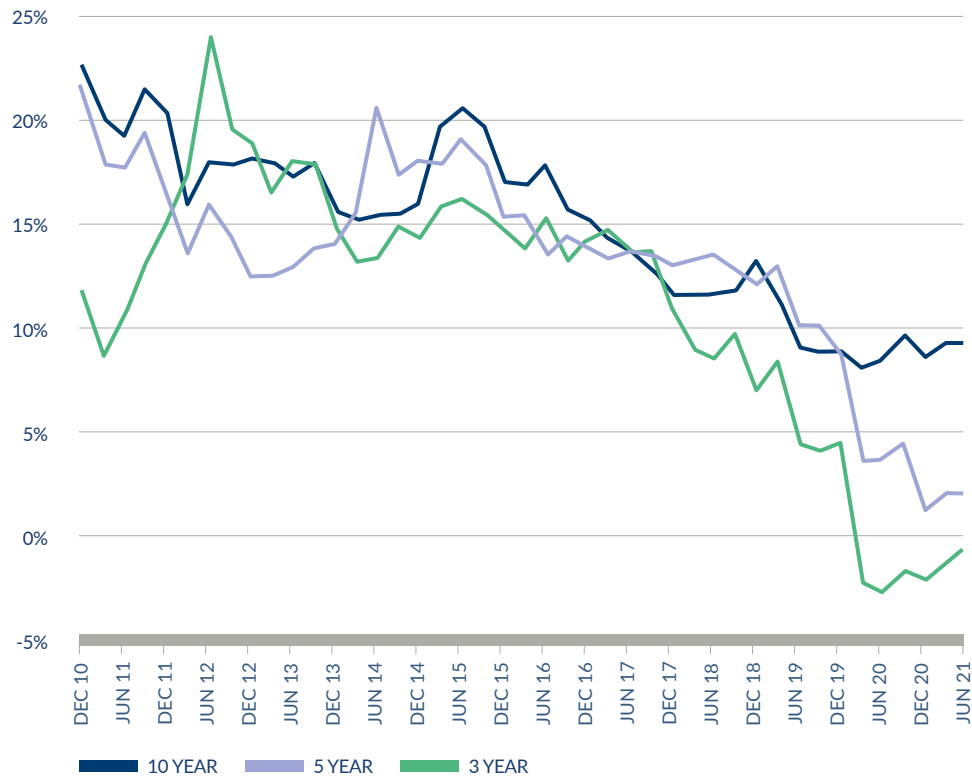
## Public market equivalent results by time period



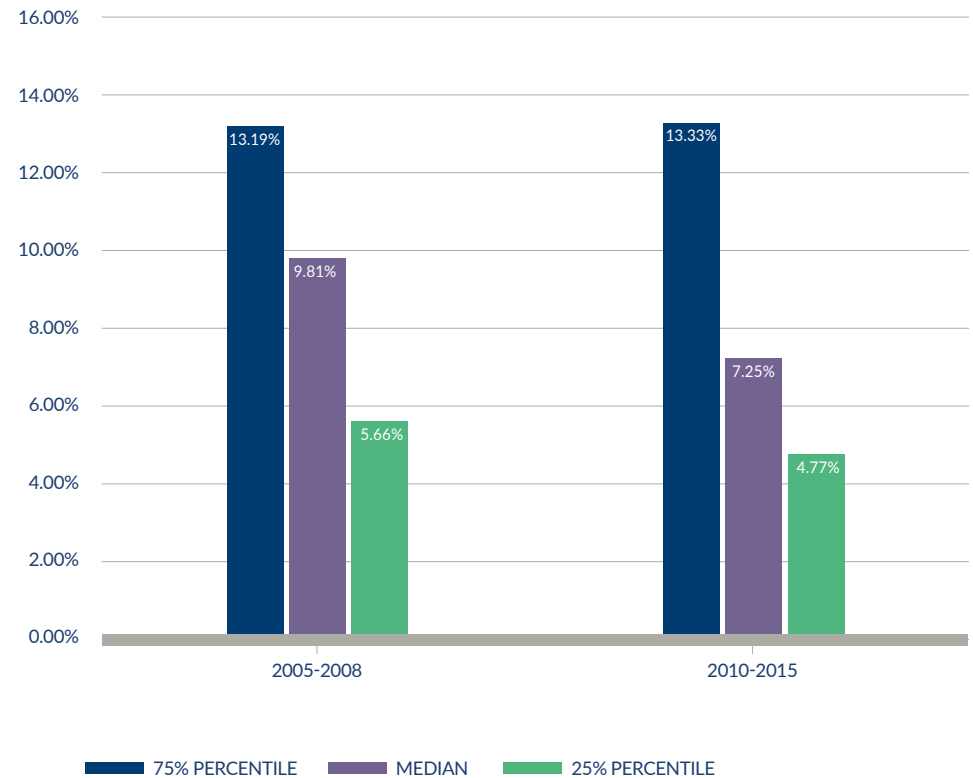


# 8. Private equity returns over time

SA PE pooled rolling IRR year on year returns (ZAR)



Distribution of fund performance by vintage year



## 9. 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.

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# 10. About

## About RisCura

RisCura is a purpose-driven investment firm that offers investors unique insights, advice, and investments on their journeys to achieving exceptional performance, while still meeting their broader investment goals. Today RisCura advises clients and manages investments with combined assets of more than R2.5 trillion.

A global leader in emerging and frontier markets, RisCura is known for its investment expertise and offers services to asset owners, investment managers and service providers across the industry. Through constantly exploring new ways to invest with care and meet the needs of clients, RisCura has helped to bring about impactful investment opportunities in the markets we operate in, while steering global capital towards investments that benefit society and the planet in the long run.

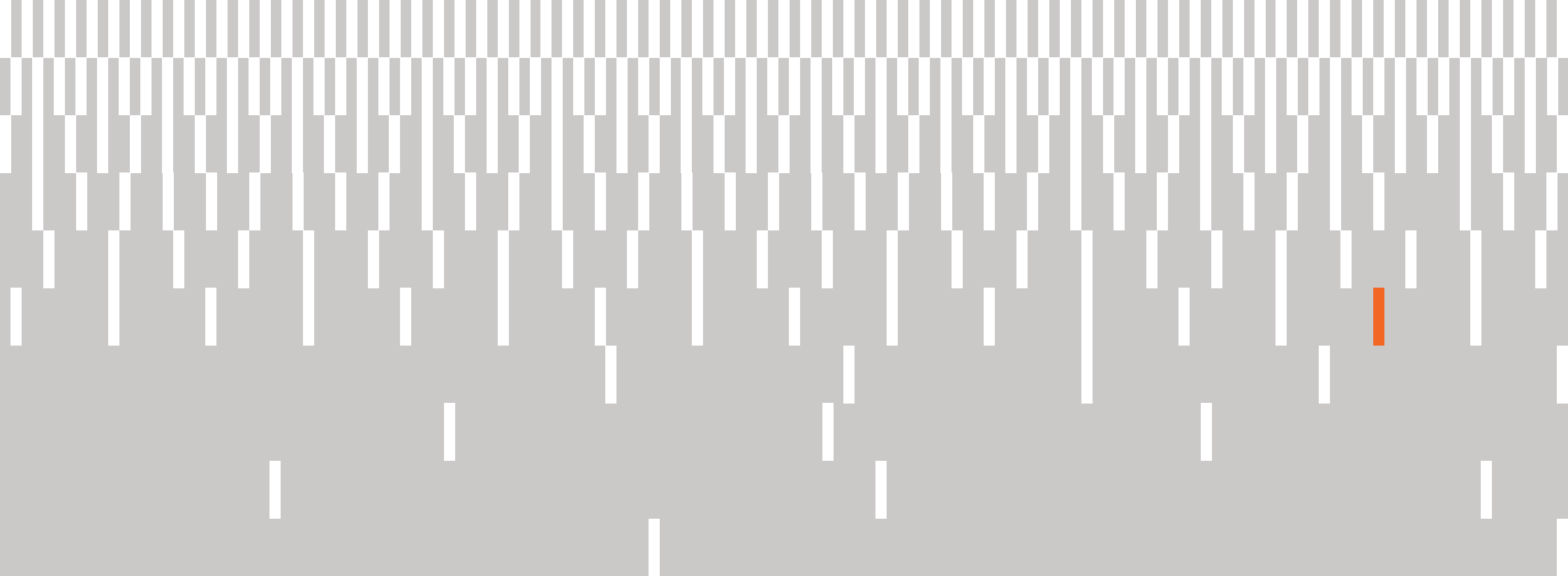
RisCura has won numerous industry awards and has a footprint in South Africa, the United Kingdom, the US, China, Hong Kong, Botswana, Kenya, Mauritius, Namibia, Nigeria, Zambia and Ireland.

For more information about its investment services and approach, visit [www.riscura.com](http://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](http://www.savca.co.za).



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