



# RisCura-SAVCA South African Private Equity Performance Report

31 December 2021

# 1. Foreword

**August 2022**

We are pleased to release the December 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.

**Cami Mbulawa**

**Head of Alternative Investment Services: RisCura**

**Tanya van Lill**

**Former Chief Executive Officer: SAVCA**

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## 2. Market Commentary

### A Changing Local Investment Landscape

The last few months have been interesting. We emerged from Covid-19, learnt to live with it and tried to go back to business as usual around December 2021, hoping to return to normal life in 2022. Unfortunately, the reality was that we would close out the period with many questions on investment regulations still to be answered. The answers to these questions will have a meaningful impact on private equity. There is also a need to have more policies come under review to align with global trends. As we sit and consider investment strategies in private equity, we are considering some of the following imminent and now promulgated changes.

#### 1. Regulation 28

The legislation has finally been issued, with changes to allow for increased investment into private equity. The sector cap was increased to 15% and there was a complete separation from hedge funds, which now have their own bands and limits. It is a very welcome change, but several fundamental issues must be addressed to see the commensurate increase in private equity investment. The regulation will come into effect in January 2023.

#### 2. The Two-Pot System

We finally have a clearer view of the two-pot system, which remains open to public comment until 29 August 2022.

It is expected to come into effect in March 2023. National Treasury proposed the two-pot system, which will allow us to save one-third of your retirement contributions in a “pot” that can be accessed over a 12-month cycle. Two-thirds will then remain in a preservation “pot” until retirement. One of the positive aspects of this is that locking two-thirds means that, in terms of asset and liability matching, actuaries will have the potential to look at longer-term investments for assets that are locked in for longer terms.

#### 3. The Conduct of Financial Institutions Bill

Market conduct regulation aims to prevent and, when prevention is not successful, manage the poor outcomes that arise from financial institutions conducting business in ways that are unfair to their customers or undermine the integrity of financial markets and confidence in the financial system. This has been in the works for a while and is touted as the most significant change to the landscape as we move closer to a more succinct and focused regulatory framework for private equity.

All this happens on the back of a depressed economy, with low growth, increasing cost of living and substantial levels of social tension. We note that private equity returns have remained relatively stable when compared to the third quarter of 2021. There was a marked improvement in the three-year pooled IRR, which increased from -0.2% to 1.5% as managers

started deploying their dry powder. We call on the private equity industry to improve participation in the performance benchmark, as we expect to see greater flows to private equity with the above Regulation 28 amendments. With a wider range of funds surveyed, we can better demonstrate the continued investment case for the asset class.

The sector has been hampered by macroeconomic factors. However, we see pockets of excellence in the performance of top-quartile managers, putting further emphasis on the need for a thorough manager selection process and clear investment guidelines. There will likely be more policy changes that will impact us, such as those around energy generation and supply, as well as the potential greylisting of South Africa. As such, we need to brace for both the immense opportunity and the ever-increasing headwinds and find the pockets of excellence that still exist in abundance in our country.



**Langa Madonko**  
**Co-Founder and Principal:**  
**Summit Africa**  
**Non-Executive Director: SAVCA**

### 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.

## 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

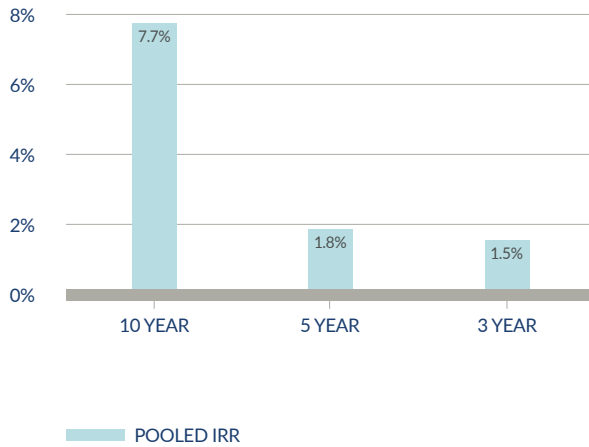
Times Money is the ratio of total capital invested to total capital returned and remaining value. This is a useful cross-check of IRR measures, and is easily understandable. While IRR calculations are heavily dependent on the length of time that capital has been invested, Times Money does not take time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

### Public market equivalent (PME)

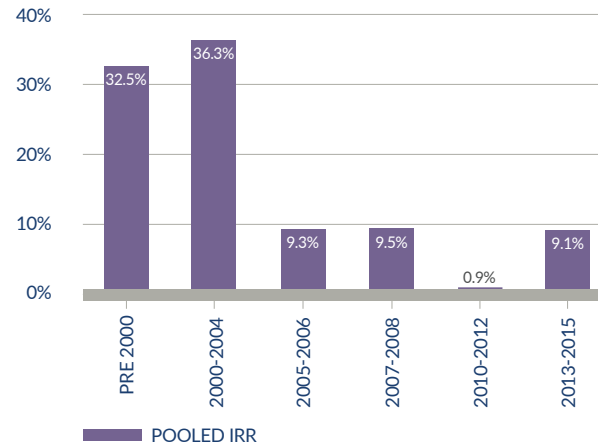
This measure seeks to equate the heavily timing-dependent returns of private equity funds with the returns of public market indices. The measure is a ratio of the net outflows from PE funds re-invested into the public index to the end of the fund's life, divided by the inflows into a PE fund invested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

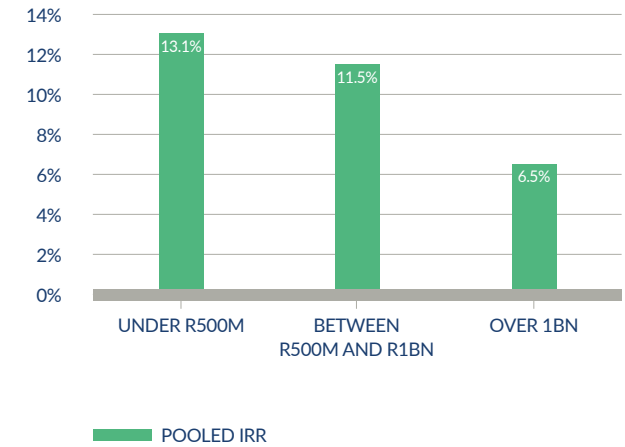
### Pooled IRR by time period



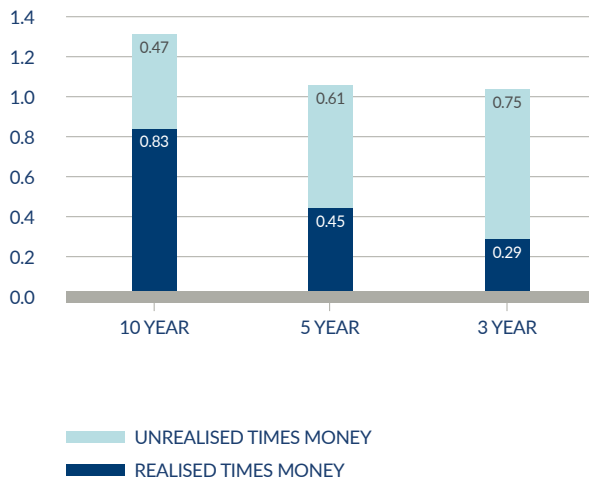
### Pooled IRR by vintage year



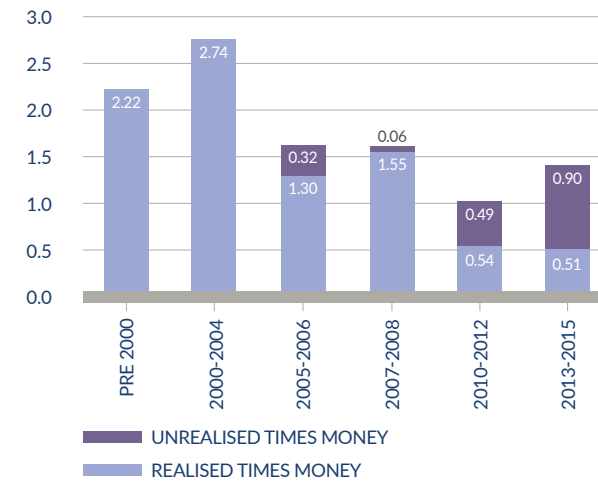
### Pooled IRR by fund size



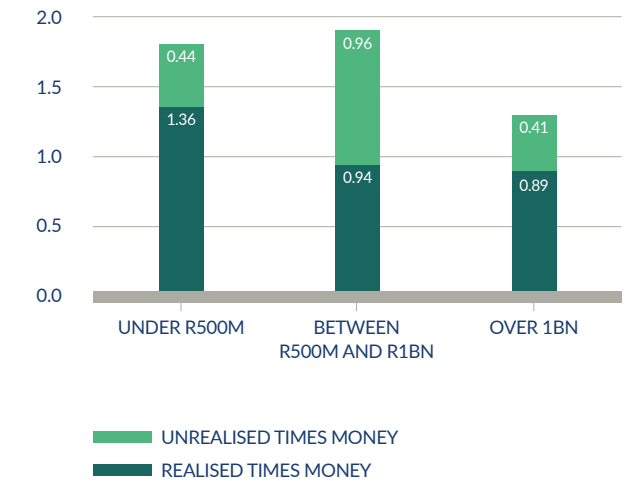
### Times Money by time period



### Times Money by vintage year

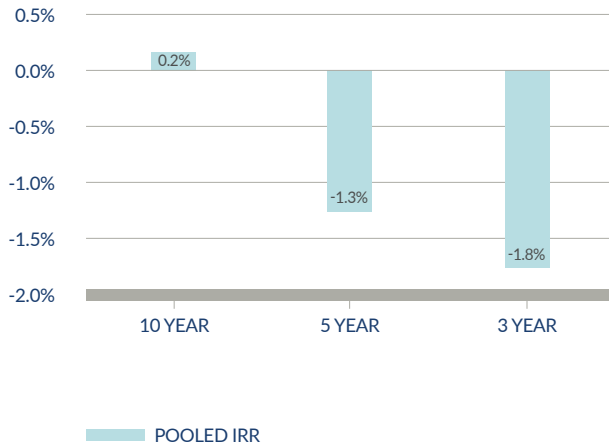


### Times Money by fund size

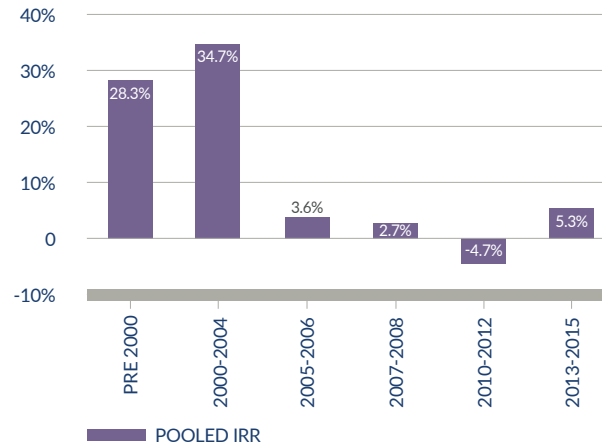


## 6. Performance in US Dollars

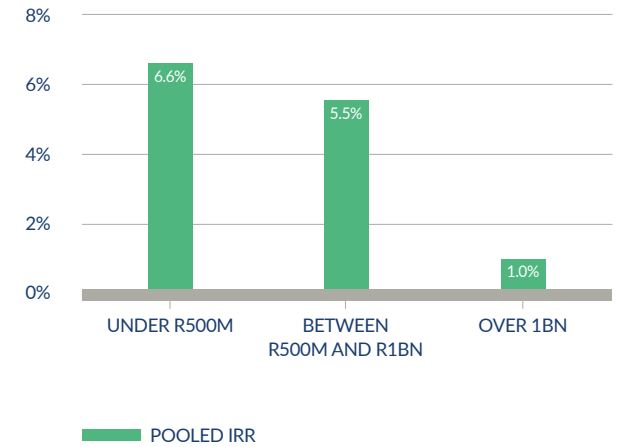
### Pooled IRR by time period



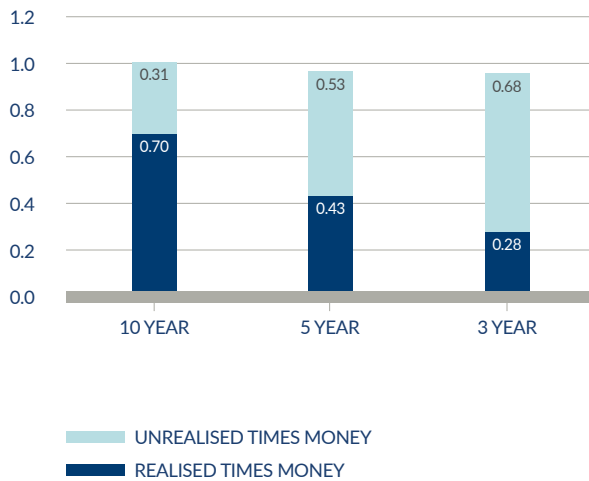
### Pooled IRR by vintage year



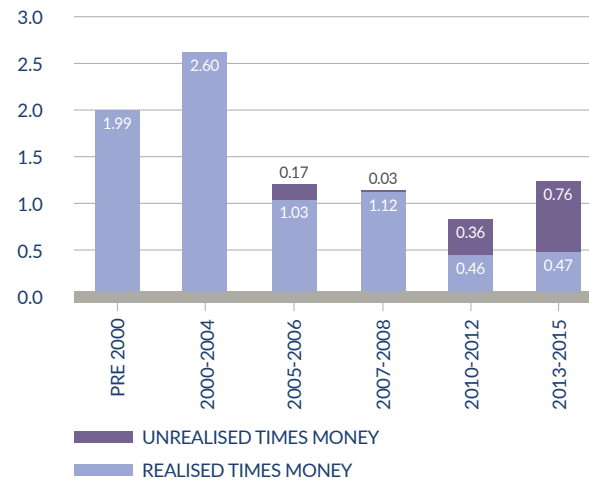
### Pooled IRR by fund size



### Times Money by time period



### Times Money by vintage year



### Times Money by fund size



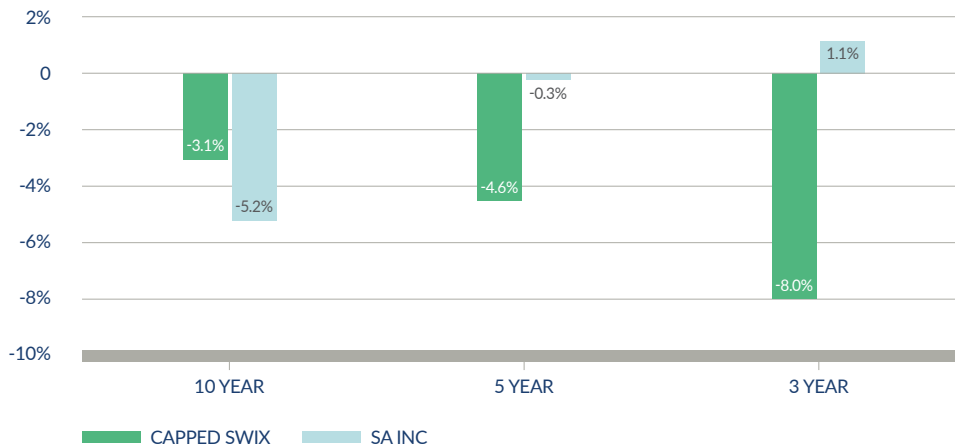
## 7. Listed equity comparison (ZAR)

### CAGR

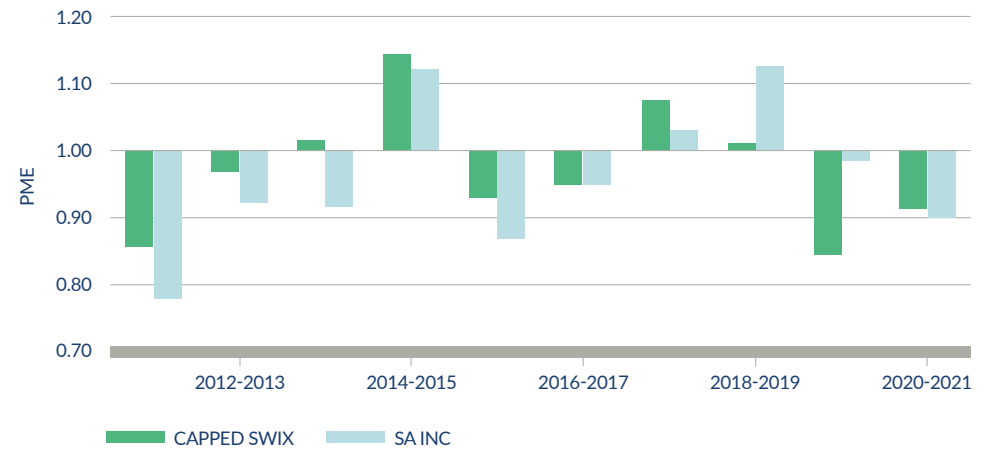
Year Period	Pooled IRR	CAPPED SWIX TRI*	SA INC TRI
2011Q4 - 2021Q4	7.7%	10.7%	12.5%
2016Q4 - 2021Q4	1.8%	7.2%	2.6%
2018Q4 - 2021Q4	1.5%	10.9%	1.0%

\*Listed index returns are before fees.

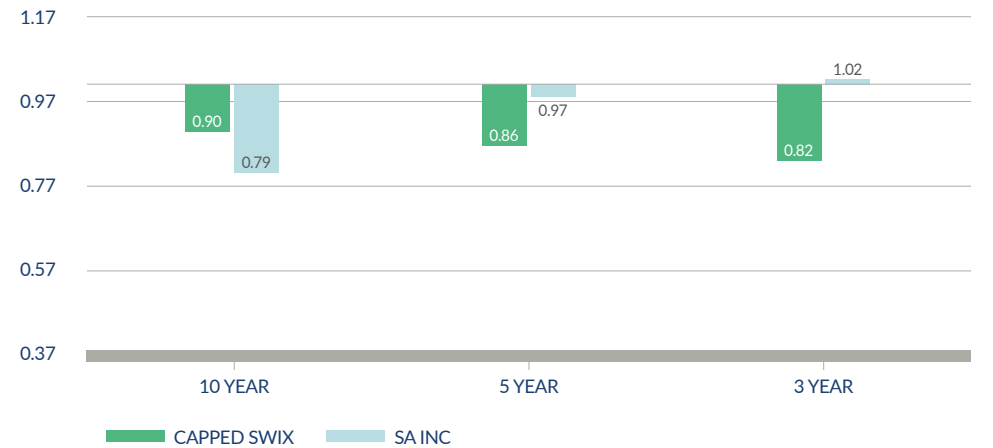
### Direct Alpha



### Performance compared to listed equity markets



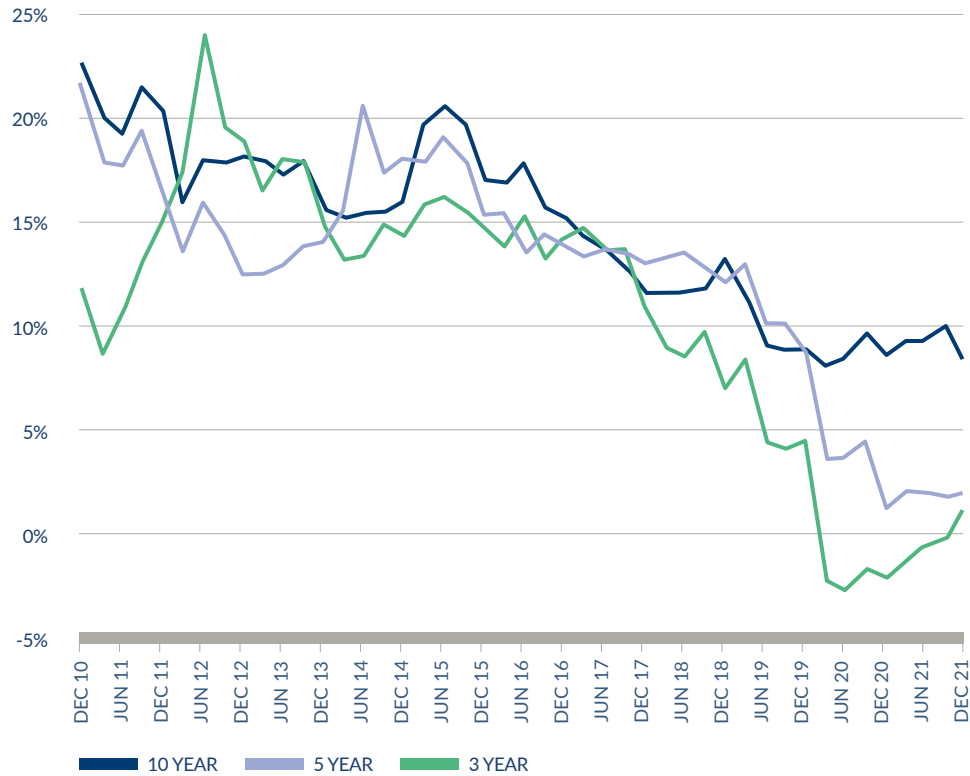
### Public market equivalent results



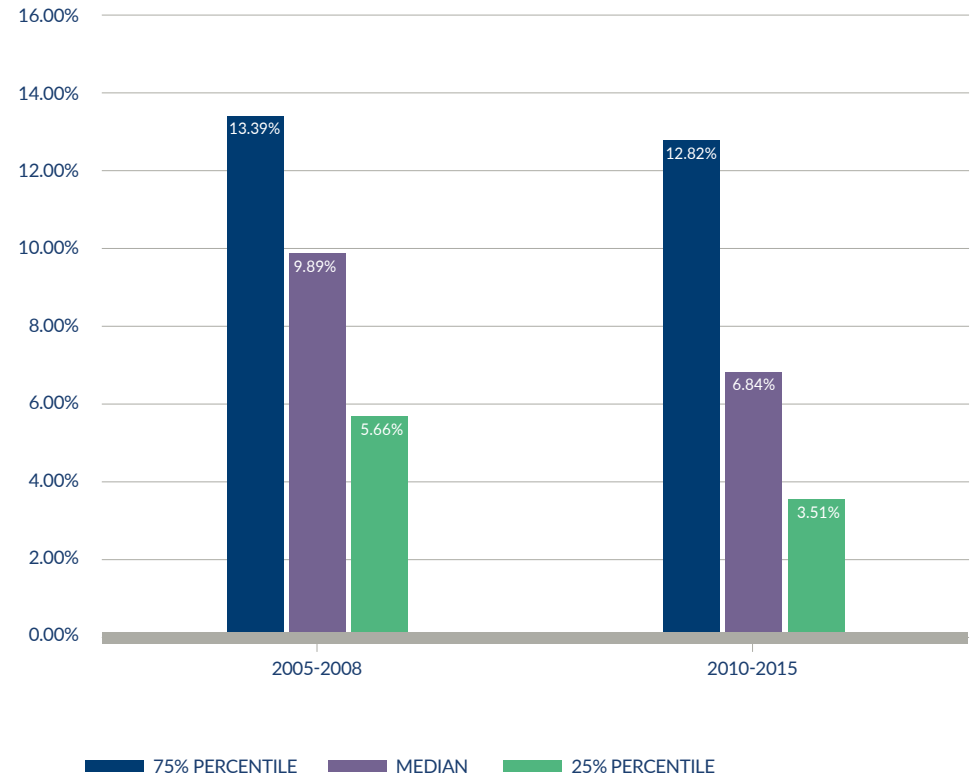


# 8. Private equity returns over time

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



Distribution of fund performance



## 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.

## 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.

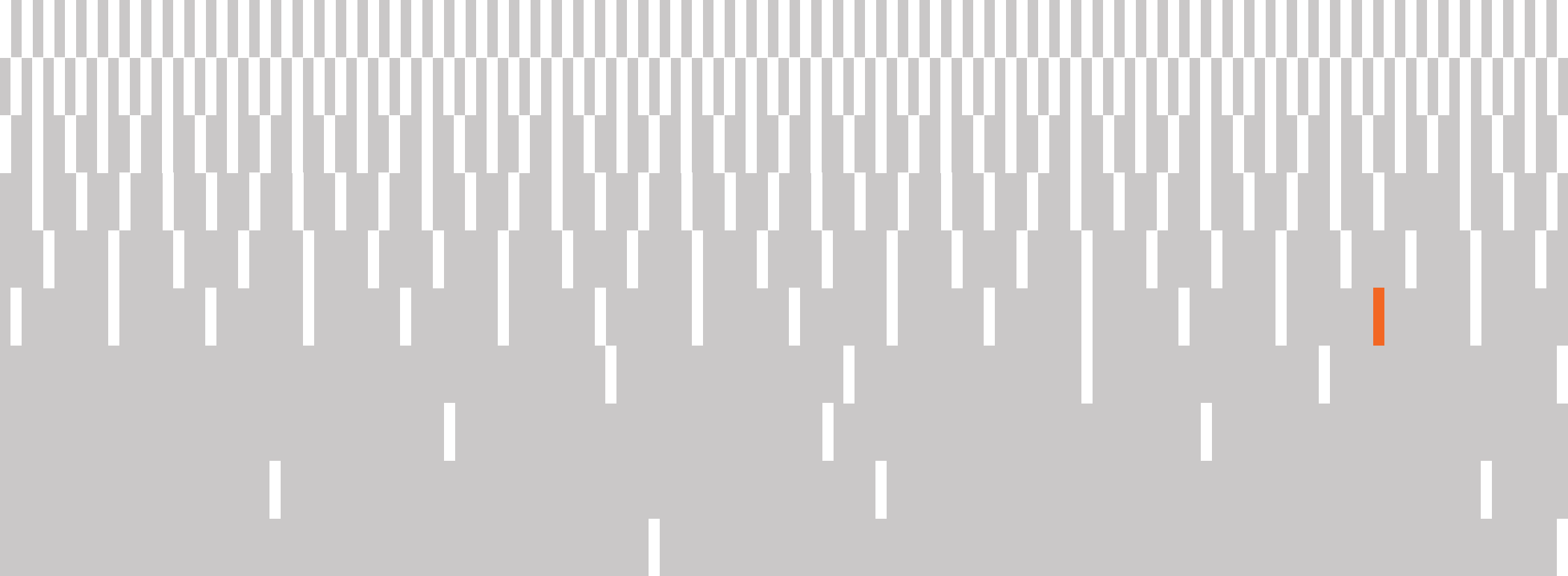
RisCura has won numerous industry awards and has a footprint in South Africa, the United Kingdom, the US, China, Hong Kong, Botswana, Kenya, Mauritius, Namibia, Nigeria, Zambia and Ireland.

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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