

# RisCura - SAVCA South African Private Equity Performance Report

*As at 31 December 2017*

# Table of contents

# Foreword

**May 2018**

We are pleased to release the December 2017 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*

**Tanya van Lill**

*Chief Executive Officer: SAVCA*

# Market commentary

A new dawn, on the back of political change in South Africa has provided some welcomed relief (perceived or real) from the challenges previously faced by the country's economy. Between the last quarter of 2017 to the beginning of 2018, signs of improvement were evident - from investor sentiment, the strengthening of the Rand to the Dollar (from about R14.50 per Dollar in October 2017 down to about R11.60 in March 2018), a 25bps interest rate cut, and the South African Reserve Bank inflation forecast showing moderate improvements.

Goldman Sachs anticipates that "South Africa will be the big emerging market story of 2018". The impact of such optimistic momentum is expected to translate into a positive outlook for private equity (PE) portfolio companies, given the rising investor confidence and the cost of borrowing being on a negative trajectory for the short to medium-term.

The mining and commodities sector continues to remain a strengthening contributor to the South African economy, with a 2.4% increase in mining production year-on-year, accelerated particularly by the growth in iron ore production. The positive sentiments in the commodities markets, in general, have rubbed off on mining and industrial counters. The Department of Energy's affirmation of the Independent Power Producer (IPP) programme will also add to positive investor sentiment and, in time, boost both local and foreign infrastructure investment. Data on other sectors continues to be mixed.

The credit rating agencies continue to watch the South African investment economy, with Moody's revising its outlook for South Africa from negative to stable. This news was welcomed by the bond market as the yields are on a decrease, driving an increase in equity market valuations.

Despite the perceived improvement in the investment landscape, the country continues to face challenges of (inter alia) social inequality, severe unemployment, benign growth and the uncertainty of policy direction regarding possible land expropriation.

Given the challenges that we face, it would be refreshing, in future, to see the PE industry also measure itself on sustainability in the South African context by focusing on job creation, transformation, governance, social upliftment and environmental sustainability.



**Lelo Rantloane**  
CEO, Ata Capital (Pty) Ltd

# 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)

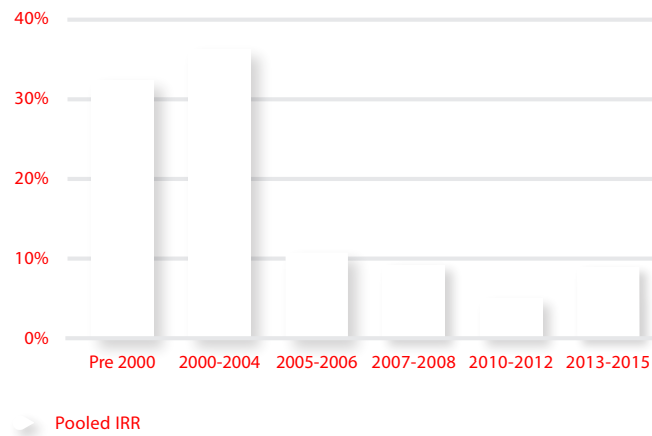
This measure seeks to equate the heavily timing-dependent returns of private equity funds with the returns of public market indices. The measure is a ratio of the net outflows from PE funds re-invested into the public index to the end of the fund's life, divided by the inflows into a PE fund invested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

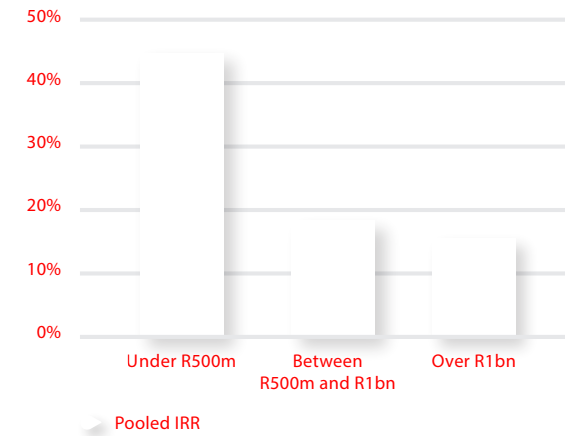
**Pooled IRR by time period**



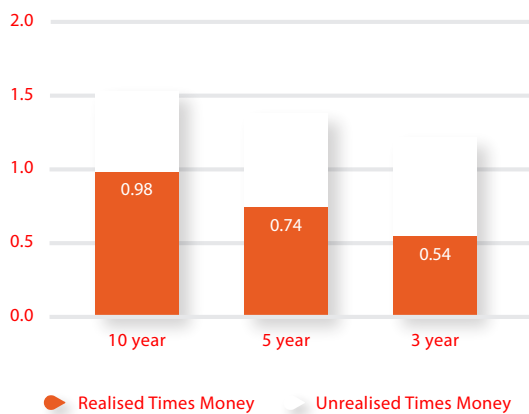
**Pooled IRR by vintage year**



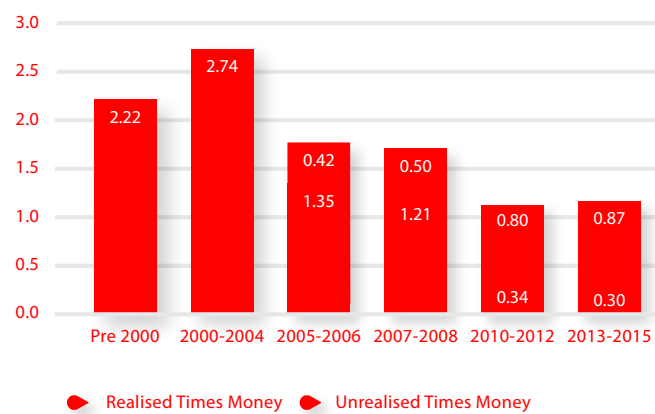
**Pooled IRR by fund size**



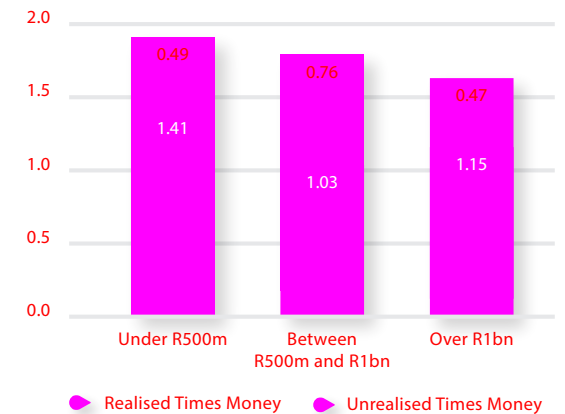
**Times Money by time period**



**Times Money by vintage year**



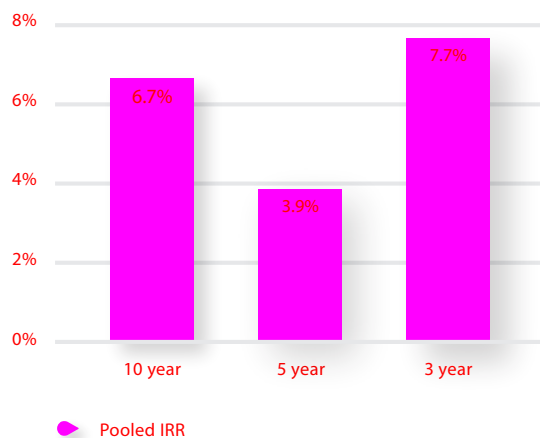
**Times Money by fund size**



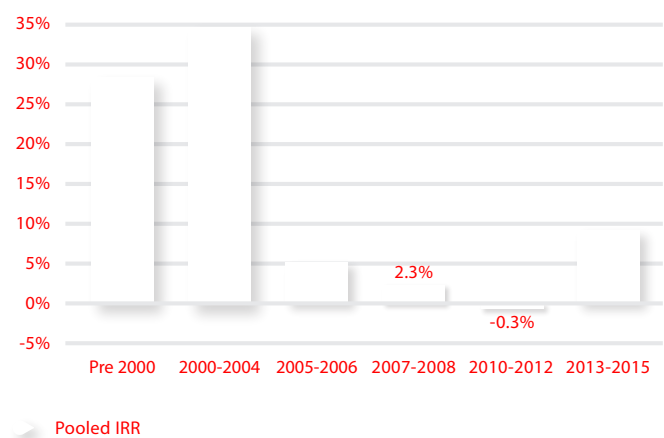
\*Fund Size is reflected as committed capital in South African Rands.

# Performance in US Dollars

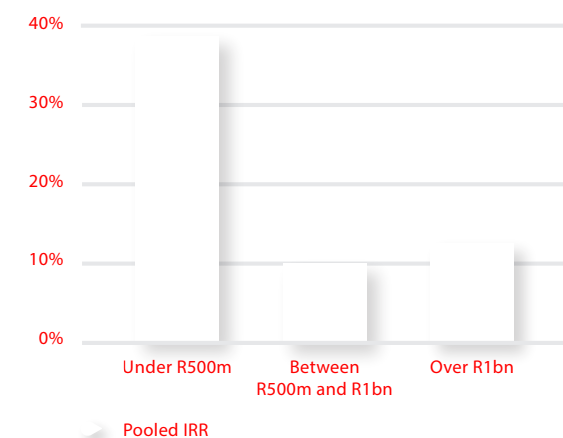
**Pooled IRR by time period**



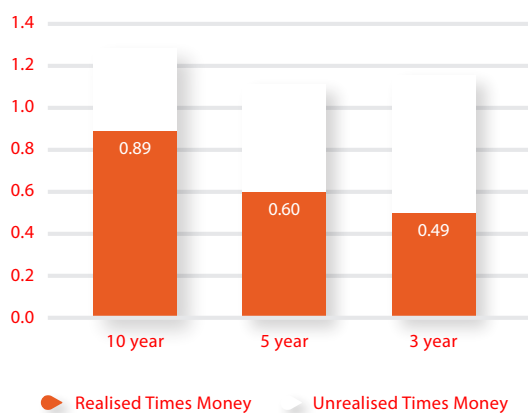
**Pooled IRR by vintage year**



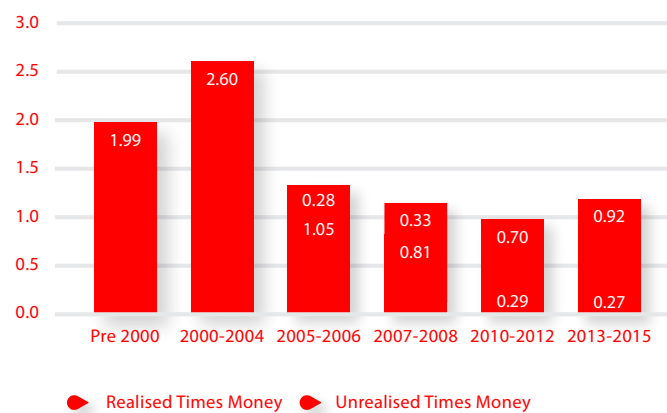
**Pooled IRR by fund size**



**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.



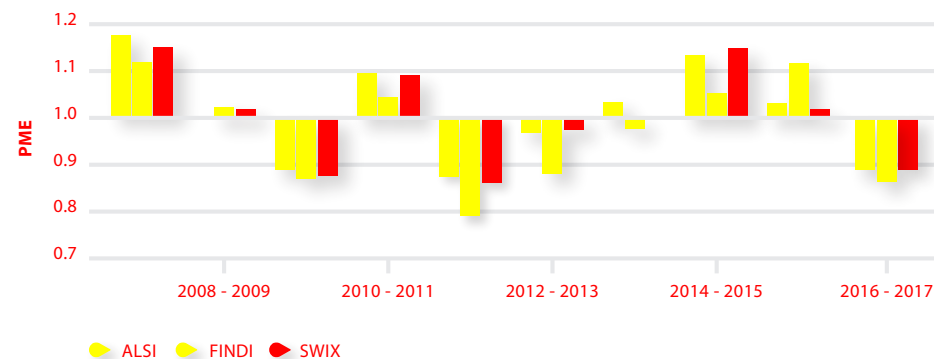
# Listed equity comparison (ZAR)

## CAGR

Time period	Pooled IRR	ALSI TRI*	FINDI TRI*	SWIX TRI*
2007Q4 - 2017Q4	11.6%	10.7%	15.8%	11.7%
2012Q4 - 2017Q4	13.1%	11.9%	16.9%	12.8%
2014Q4 - 2017Q4	10.9%	9.3%	10.9%	9.4%

\*Listed index returns are before fees.

## Performance compared to listed equity markets



## Direct Alpha

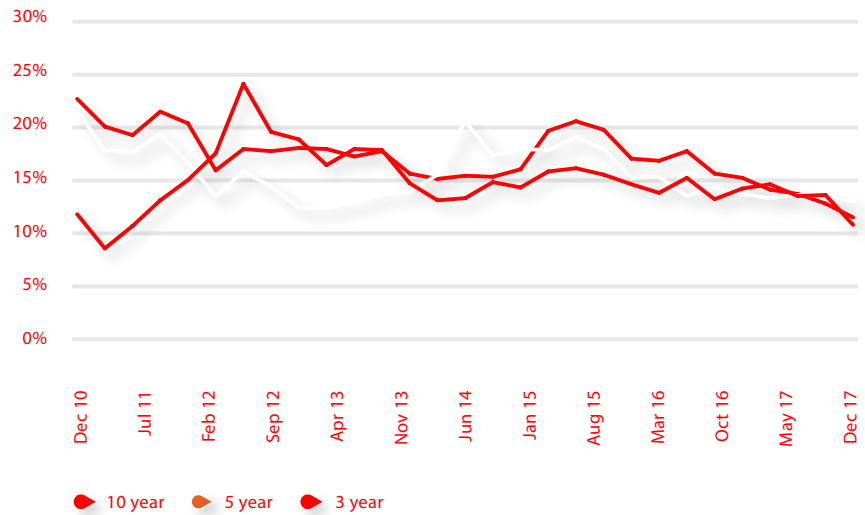


## Public market equivalent results by time period

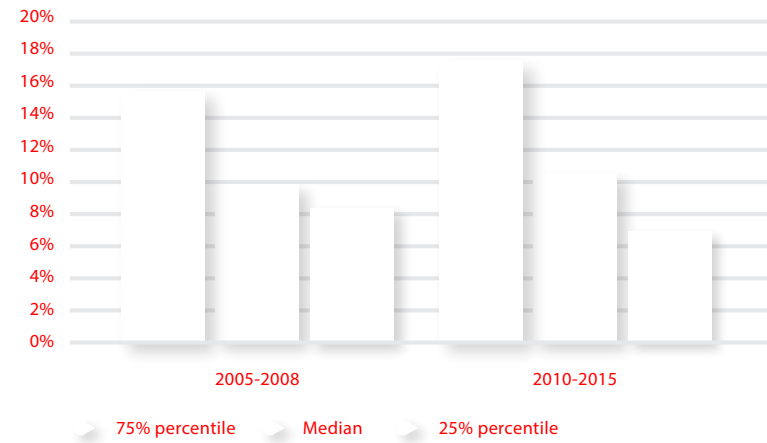


# Private equity returns over time

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



Distribution of fund performance



# 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

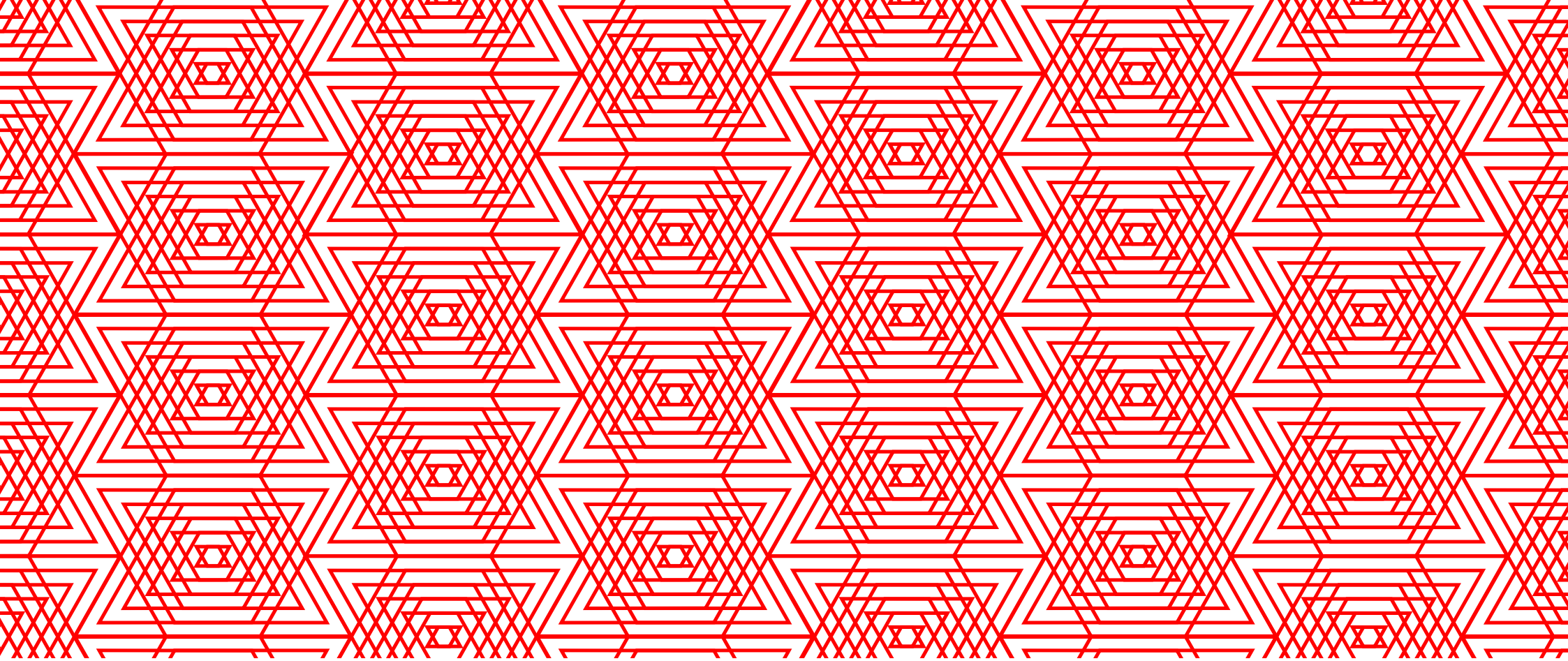
RisCura is a global, independent provider of professional investment services. RisCura services institutional investors, asset managers, hedge funds and private equity firms with over USD200 billion in assets under advice. RisCura is a leading provider of investment consulting, independent valuation,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

**For more information about RisCura visit [www.riscura.com](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)**



# RIS

[info@riscura.com](mailto:info@riscura.com) | [www.riscura.com](http://www.riscura.com)