Catalyst

SA's quarterly Private Equity & Venture Capital magazine

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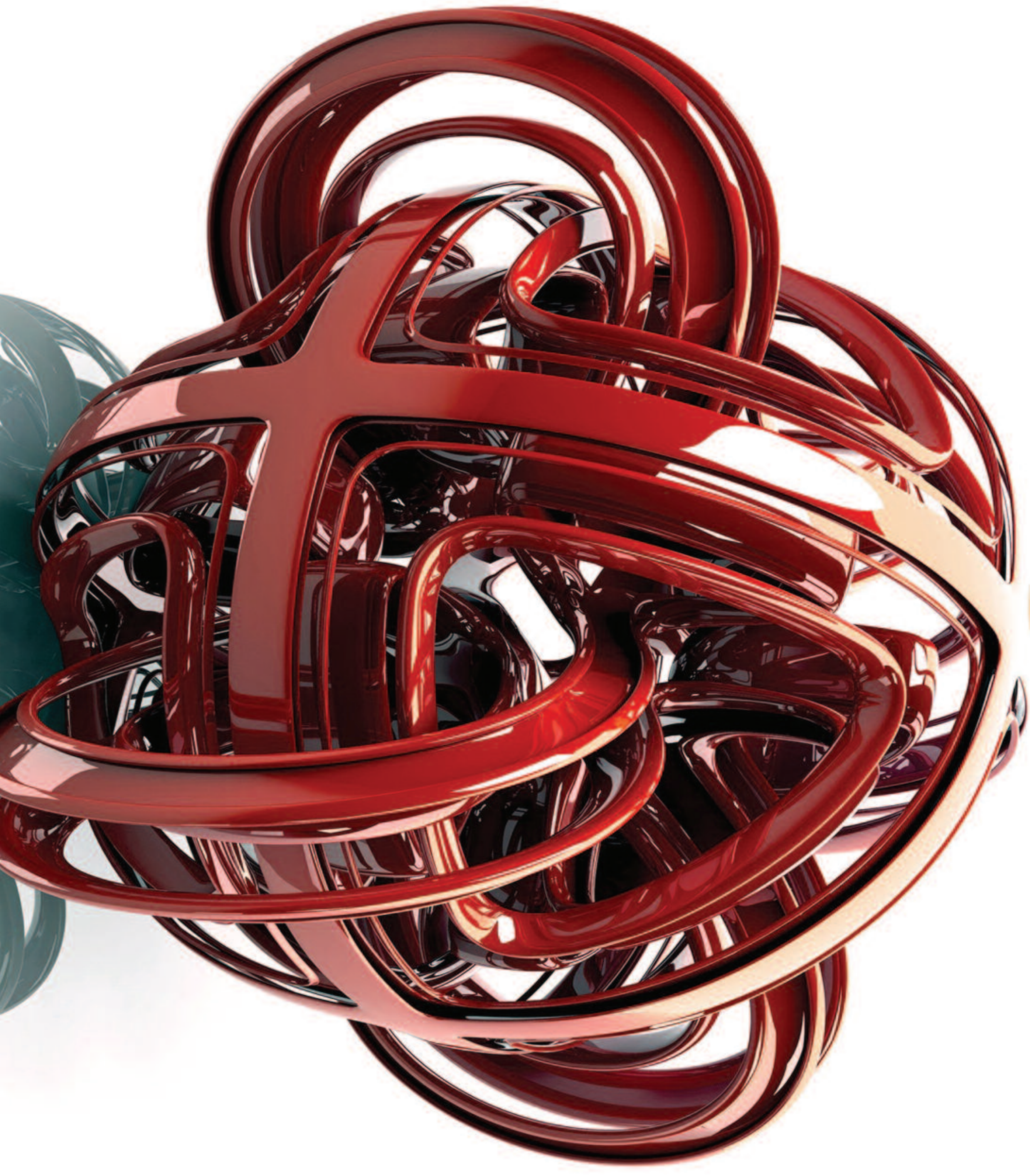
Africa's largest pension fund profiled

How will the new draft BEE Codes impact Private Equity?

Venture Capital lessons from Israel

The mega buyout returns



FROM THE EDITOR'S DESK

A business colleague of mine recently had a discussion with an offshore private equity firm investing in South Africa. The point they raised, he told me, is that the country today resembles Britain in the 1970's, more notably during the Winter of Discontent.

"Mining (coal) was at the end of its viable life there (as it is here in the case of gold), unions were in firm control and jobs were being demanded as a right, even if the economic reality arising from the end of life of mine was being ignored by unions. The cost of labour bore no resemblance to the productivity of that labour, and workers were reluctant to change skills and migrate to other places where new jobs in different sectors might be available (mining was seen as a basic right by virtue of the fact that it had been done by generations of a given family in a given place).

"The country was plagued by rampant strikes and frankly was becoming ungovernable. This is exactly what is happening in South Africa today. Bottom line is that SA is becoming uninvestable from a PE perspective…."

Harsh words that might seem a touch on the hyperbolic side but it would be foolhardy not to be playing close attention to this space as it unfolds.

Contrast the gloomy local picture with the rest of the continent and the poles couldn't be further apart. AVCA, the African Private Equity and Venture Capital Association, hosted its annual jamboree in Cape Town recently and all accounts share a theme of bullishness regarding the African growth story. A significant LP attendance and participation provides this belief with a firm underpin.

And the head of actuarial investment at the Government Employees Pension Fund, John Oliphant, certainly underlined just how important Africa is to the Fund's desire to keep on growing it's now R1,2 trillion assets under management (page 1).

Further evidence of this country's listing towards the seas of complacency is contained in Ernst & Young's recent 'Private Equity Roundup – Africa' report. The global professional service firm highlights how the continent's private equity landscape is shifting; driven in part by a burgeoning middle class, growing urbanisation and increasingly political stability.

The Ernst & Young report notes that while private equity penetration in sub-Saharan Africa continues to punch below its weight, countries like South Africa and Nigeria are edging closer to other emerging market penetration levels. The report noted: "As a percentage of GDP, private equity now represents 0.12% in South Africa, compared with 0.10% in Brazil, 0.14% in China, 0.33% in India, 0.08% in Russia, 0.75% in UK the 0.98% in the US. Countries such as Ghana, Kenya, Ethiopia, Uganda, Tanzania, Zambia and Angola have fairly sizable economies that are less penetrated by private equity and are, therefore, becoming increasingly attractive."

But the real devil is in the details tucked away deep in the report where it says that whereas South Africa has traditionally received the biggest slice of Africa's private equity pie, this is slowly changing, driven, in part, by higher growth rates than are being achieved in South Africa. Indeed, in 2011 Nigeria's private equity investment total exceeded that of South Africa, largely due to a US$750m investment by an Africa Capital Alliance-led consortium in Union Bank of Nigeria. ◆

Michael Avery

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After some years of patiently waiting for reform to filter through it appears some headway is finally being made towards reforming the Government Employees Pension Fund (GEPF) in ways that bode well for the private equity industry.

Time to PIC investment ideas wisely

GEPF Principal Officer and Head: Investments & Actuarial, John Oliphant's keynote presentation at the annual Private Equity in Southern Africa Summit, hosted by the SA Private Equity and Venture Capital Association, Emerging Markets Private Equity Association and FT Live, was clear enough. His door is open, and the time is ripe to forge into Africa to take advantage of exit opportunities that will present in a few years time when the rest of the world alights to the possibilities glistening across the once dark continent.

John Oliphant

The African growth story is often touted but in reality little understood. The key to the continent's growth is the perfect confluence of factors presenting an unrivalled opportunity to propel the continent's development ahead at warp speed.

Not only is it coming off a generally low economic base, presenting investors with a wealth of prospects but this scenario is also located within a declining global return on assets for pension funds and a vastly improved African political risk profile compared with 30 years ago. This is Oliphant's compelling pitch.

Catalyst caught up with Oliphant after the SAVCA conference to understand better his optimism for private equity's future role in the GEPF's grand vision for Africa.

If anyone needs reminding of the GEPF's importance in the South African economy, it sits on assets worth R1 trillion, making it Africa's largest pension fund and the tenth largest in the world with more than 1.2 million active members and roughly 360 000 pensioners and beneficiaries. Its role as chief distributor of capital cannot be understated.

The funds are managed through the Public Investment Corporation (PIC). And Oliphant says that it is this relationship, or more specifically an important change to the way in which it is structured, that is so central to his belief that private equity will be able to play a much bigger role in the GEPF's planning in future.

"The change is towards paying PIC market related fees so that they are able to attract and retain talent".

And once the talent pool is sufficiently deepened at the PIC he is hoping the deal flow between it and the private equity industry will increase dramatically.

Oliphant signalled that the GEPF has African growth at the core of its investment strategy and it sees private equity trumping normal equity in the foreseeable future. For him "outperformance is found in the unlisted space".

Globally pension funds are seeing assets under-performing liabilities by a margin of roughly 3 – 4%. Either these funds must increase members' contributions to fund the shortfall, or they must change their investment strategies to target higher growth.

And this growth is clearly occurring in Africa where several African economies were in the top ten fastest growing economies between 2001 and 2011. Six in fact. And seven are predicted to be in the top ten fastest growing economies to 2015.

This is a function of two things according to Oliphant. Africa's political risk profile has improved exponentially when laid over a map of African conflict from the 1970's. And Africa's growth is coming off a significantly low base (the continent currently contributes roughly 2,2% to global GDP).

> "The change is towards paying PIC market related fees so that they are able to attract and retain talent" – John Oliphant

Predictably, a large proportion of this growth will be driven by a massive ramping up of infrastructure, which opens up several opportunities for the GEPF and private equity GP's to partner in delivering large-scale projects on time and within budget.

The continent is home to 13% of the global population but only 3% of consumption

Oliphant pointed out that there is tremendous potential for hydropower with 21 of 54 countries having resources but only 7% currently being exploited.

He predicts that 50% of Africans will make the urban migration by 2030.

Transport is another key driver. Africa has the most number of landlocked countries across any continent. Oliphant said that given the vast nature of the continent it implies African countries, on average, spend three times as much as developed countries in getting goods to market.

With globalization, de-bottlenecking of ports and expansion of airports is critical and already several key projects are underway.

Ten transport corridors are being developed across the region; Nine Trans-African Highways ($9,2bn); rail networks ($14,8bn); and port developments ($3,2bn).

Up to 30% of the population do not have access to clean drinking water and investment in the water sector (one corner of the water-energy-food nexus) is another critical component for Africa's growth.

Some more mind-boggling data from Oliphant's pitch is that 1,1 billion Africans will be of working age by 2030, creating a truly massive labour force to rival those in India and China – provided we ensure they have the skills to compete of course. And if Oliphant has his way the GEPF will be at the forefront of providing the infrastructure to ensure an army of graduates will be working in an environment significantly unblocked from the existing infrastructure bottlenecks.

This also sits synergistically with the GEPF's move towards building a developmental portfolio. It decided in 2010 that 5% of assets under management must be made in "developmental investments". These are housed in the Isibaya Fund.

Isibiya General Manager Roy Rajdhar told a parliamentary finance committee at the time of the decision that since the shift in emphasis "much of the black economic empowerment portfolio had been unwound and funds deployed into developmental areas".

PIC CEO Elias Masilela said that "the problem with these deals [MTN, Telkom's BEE deals for example] was that they were not broad enough".

Oliphant explains that Isibaya is targeted at providing finance for projects that support the economic, social and environmental growth of South Africa.

The GEPF has allocated 5% (R50bn) of its total assets for developmental investments in the country. Typically, Isibaya will provide funding from R20m to R2bn either directly or through intermediaries such as development finance institutions or fund managers.

Importantly, Isibaya also seeks to co-invest with other institutions such as private equity funds.

Oliphant's message was unambiguous. If general partners of private equity funds approach the GEPF with clever investment ideas, focussed on African infrastructure that can further the development of the continent, then his door (and chequebook) remain open. ◆

To understand better how South Africa can grow its entrepreneurial class and use Venture Capital (VC) to create jobs one needs look no further than Israel.

Lessons in VC from Israel

The country has become the other technological pole, along with Silicon Valley in California, in an increasingly bipolar world. **Catalyst** caught up with renowned venture capitalist, Jonathan Medved, in Tel Aviv, to discover the "secret sauce" as he calls it to making the perfect entrepreneurial sandwich in society.

Medved is a serial entrepreneur and according to the *Washington Post* (Dec 5, 2007) "one of Israel's leading high tech venture capitalists". In the September, 2008 *New York Times* Supplement "Israel at 60" Medved was named one of the top 10 most influential Americans who have impacted Israel.

He is currently the founder and CEO of OurCrowd, a new crowdfunding organization for accredited investors and angels focused on investing in Israeli startups. OurCrowd is launching in October 2012.

Medved's pedigree to pontificate on the role of venture capital is unquestionable, having been both an entrepreneur and investor: he has been part of the founding teams at several successful Israeli startups, and as a venture and angel investor over the past two decades he invested in almost 100 Israeli startup companies, helping to bring 11 of them to values in excess of $100m . Medved has currently 14 startup companies in his personal angel investor portfolio.

Writing in **Catalyst** last year (Q2 2012) Stephan Lamprecht of Venture Solutions, an SA based innovation and commercialisation consultancy, bemoaned the fact that in emerging markets there is no conclusive view on what role VC should play in the "fortunes of countries wanting to compete globally, nor standardised and proven business models and policies for macro-economic adoption of VC". This despite a comprehensive survey of VC in SA undertaken by the self same Venture Solutions and SAVCA showing that, remarkably, despite the on-going recession and challenges in accessing institutional funding for VC, the growth trend is pointed skyward: more VCs, more investments, and more positive returns to investors through a number of successful exits.

From Medved's perspective the debate was long ago settled.

"There's no question that innovation and entrepreneurship drive job creation all over the world. That's not unique to South Africa or Israel."

"What governments need to do," adds Medved with a telling nod to the current crop of developmental interventionists at the helm of SA Inc, "is to create, first of all, an absence of barriers for entrepreneurial activity both in terms of the tax structure and the regulatory environment to allow people to set companies up quickly and get them going.

"And then once these companies are successful they need to treat the entrepreneur fairly in terms of the tax burden. There are certain countries that I've been to that are scary in that regard. There are countries that take months to get a company established. That's not the way you're going to create entrepreneurs. In countries like Israel or the US, you can set up a company in a day."

The global nature of commerce is one of the key drivers of the need to have regulatory certainty and above all attractiveness, such as the ability to be in a situation where you're able to shut down a flailing or failing company.

"The cruel reality of this business is that like turtles who go and swim in the sea not all of them survive and grow to be big and lay eggs and give you value. Many of them die along the way," says Medved with a stern assuredness that indicates this is the nature of things.

"What's important particularly for a venture capitalist is to be able to put [these failed businesses] to rest quickly so that they can get on work on the good ones.

"There are many countries in which you struggle to shut companies down."

The same goes for hiring and firing and in South Africa this is arguably the country's largest stumbling block.

"You can't have a situation where all you can do is hire people easily. You have also have to have a situation where you can fire people."

And Medved laments that there are certain countries around the world that are antithetical to the whole entrepreneurial and innovation eco system.

"Very often, your companies are going to get into trouble and then they have to cut their burden rate in an instant, and literally every day that you hesitate is threatening the existence of the company. I've encountered countless times the situation where I've had to let go of as much as half or maybe even more of the workforce in order to survive. It's a heart-wrenching terrible thing to have to do but you do it in order to save the jobs for the other half."

But there's more to fostering and cultivating the right entrepreneurial ecosystem than merely having the right regulatory environment and Medved points out that some of the softer, perhaps less well understood issues, are equally as important.

Beyond the legislation and the tax regime it's really about a culture that celebrates these kinds of entrepreneurs and celebrates entrepreneurial activity. And this relates mostly to an attitude towards risk.

Jonathan Medved

"If you're a society that celebrates risk, that accepts risk, then you're going to have this kind of activity. If you're a society where risk is a vastly four letter word," Medved tails off but the conclusion is clear.

Israel is risk central in Medved's eyes. Israelis are reminded of it everyday when they open up their newspapers and turn on their radios. "When your country is being threatened with being wiped off the face of the earth, that's real risk."

> "...there's another aspect to what makes successful ecosystems for entrepreneurs and the Rainbow Nation has it in spades: diversity is a critical element."

"The risk of setting up a company is simply on a different plane. If I try and I fail and I lose my job in the process, and I lose some money for an investor, big deal, get over it."

And that's the appropriate attitude response that Medved would like to see more of in South Africa. Not to be cavalier about it, he cautions, but to realise that failure is part of the process. Not every start-up succeeds, not every wonderful test cricket team wins every test match. They do lose occasionally but you continue supporting the game.

Now there's another aspect to what makes successful ecosystems for entrepreneurs and the Rainbow Nation has it in spades: diversity is a critical element.

"Monolithic cultures typically don't produce great entrepreneurs," Medved states matter-of-factly. "The rainbow countries are the ones that really excel at entrepreneurial activity. And it's that interplay between ideas, and backgrounds and different experiences that drives entrepreneurship."

Diversity is often also linked to an origin component of entrepreneurship that is the correlation between a society with immigrants and high levels of entrepreneurship.

"Immigrants make great entrepreneurs because they basically did it in their own life already. They were the CEO of MyLife.com. They took the risk to move to another country and all the financial and legal requirements and risks that entails."

Understanding the cultural underpinnings towards entrepreneurship, whether it's attitudes towards risk, or its diversity or its immigration, are really important elements in addition to the government providing a framework to enable businesses to get on with business.

"What you don't want is government getting too involved in this, picking winners and making decisions like investors because then no matter where you are it's rife with corruption and it doesn't work. Businesses need to move fast and I don't know any government in the world who moves fast enough to keep up with entrepreneurs." ◆

Jonathan Medved, leading venture capitalist and serial entrepreneur, has his eye on the water-energy-food nexus. In 2011 the World Economic Forum described the nexus as number three on a list of four overarching global risks to monitor over the coming years.

Business opportunities in the Water-Energy-Food Nexus

Water security, food security and energy security are chronic impediments to economic growth and social stability. These are tightly interrelated: food production requires water and energy; water; extraction and distribution requires energy; and energy production requires water. Food prices are also highly sensitive to the cost of energy inputs through fertilizers, irrigation, transport and processing.

It's a natural fit. Israel is a world leader in water technology, and not far off that status in the other two areas as Medved points out with an understandable sense of national pride.

"We're a country without water that will probably become a net exporter of water within the next decade. That's because we are incredibly expert at renewal in terms of reclamation [a process by which wastewater from homes and businesses is cleaned using biological and chemical treatment so that the water can be reused] and recycle."

Incredibly Israel recycles around 85% of its water currently, which is four times as much as its closest competitor, Spain, at roughly 20%.

The Israeli's build reservoirs all over the place. This is an activity Medved ascribes to the Israeli's Nabataean heritage

– a cursory internet search reveals that Nabateans were ancient Arabs of North Arabia, whose oasis settlements in the first century AD, gave the name of Nabatene to the borderland between Arabia and Syria, from the Euphrates to the Red Sea. They operated a loosely-controlled trading network, which centred on strings of oases that they controlled, where agriculture was intensively practiced in limited areas.

And many countries are pursuing Israeli expertise from desalination to building dairies in India and China as those economies move towards greater use of dairy in their diets.

"Whether it's new companies finding municipal water leaks by sending up infra-red drones or incredible network-based big data analysis of water flows Israeli hydrological prowess is at the cutting edge of science and technology," exclaims Medved.

Additionally, Israel's agricultural prowess is world renowned, whether it's seed stock, or growing technologies or animal husbandry.

"We're the inventors of drip irrigation that changed the face of agriculture in the world."

Israel's aquaculture, an area of increasing investment by local private equity funds, is without any competition.

"Right now Israel is taking over the world's caviar market because the Russians and the Iranians have basically fished and polluted those poor sturgeon to the brink of extinction. And it turns out most of the fine caviar being eaten in Paris, New York and London is being grown in Israel's kibbutz's."

Energy may be the weaker card of Israel's three nexus convergence points but that doesn't mean Israel is holding a dud hand when it comes to powering its cities and smart phones.

The world's largest geothermal company, Ormat Industries, which has geothermal plants in 40 countries around the world, was born in Israel.

"We have probably the leading scalable solar energy production technology, building the world's largest solar farms in the Mojave Desert for the US giants Pacific Gas and Electric and California Edison, with help from the US government."

Bar the grand statements and self congratulation what are South Africans and Israelis doing to harness this knowledge and share the opportunities that converge in the nexus? After all, South Africa is listed as a water scarce country, our power system is undergoing well documented challenges and the country became a net-importer of food for the first time about two years ago.

"The fact that we're not deeply engaged yet with South Africa is something that is, in my opinion, a missed opportunity both for Israeli entrepreneurs and South African entrepreneurs.

"When I ask why aren't we doing more I'm confronted by things like, 'well it's the political situation', but with all due respect that doesn't wash because our trade with our Arab neighbours who have a lot more political issues with us than South Africa, is going through the roof. It's going up by roughly 20% per year – and it's very hard to count by the way because [the Arab countries] don't like to publish their statistics – if you look at the flights that are leaving from Ben Gurion [Israel's main international airport, handling over 13,1 million passengers in 2012] and then on to Amman and on to the Arab world, they're filled and there's huge trade going on. Our trade with Turkey is at an all time high."

If ever an invitation was made to engage with private equity capital in South Africa. That was it. ◆

A reverse-osmosis desalination plant in Israel

"The fact that we're not deeply engaged yet with South Africa is something that is, in my opinion, a missed opportunity both for Israeli entrepreneurs and South African entrepreneurs." Jonathan Medved

The release of the latest edition of RisCura's quarterly South African Private Equity Performance Report makes a strong case for greater institutional investment in the asset class as returns continue to outstrip the JSE's All Share Index.

Private pays

The report to December 2012 tracked the performance of a representative basket of South African private equity funds revealing that Private Equity has outperformed the Index over a three, five and ten year cycle.

Rory Ord, head of RisCura Fundamentals, a provider of independent valuation, risk and performance services to investors in unlisted instruments in Africa, said that private equity continued to perform strongly.

"We have compared the Internal Rate of Return (or IRR, a widely used measure of private equity performance) of the private equity asset class to the total return (including dividends) of the JSE All Share index over three, five and ten years.

"Private equity has done better in each period."

The cumulative annual growth rate of returns for private equity over ten years is 20.6% versus 18% for the All Share Index, over five years it is 11.4% versus 8.8% and for the three year period is was 17.6% versus 14.9%.

Even if the returns are compared with popular benchmark the JSE's Top 40 SWIX index (which adjusts constituent weights for foreign shareholding, cross holdings and strategic holdings), private equity has performed marginally better than listed equity returns over five and ten years and has had similar performance over three years.

"And this is over a period of exceptional returns for listed South African equities," Ord noted.

"Private equity has a low correlation to stock market returns, which means it is an important element in a diversified portfolio," says Erika van der Merwe, CEO of SAVCA, the industry body for private equity and venture capital in South Africa. "Looking at international data, South African money managers are still underweight private equity as an asset class."

She noted however that private equity has a different nature to quoted equity and it is crucial that an institutional investor considers the appropriateness of private equity to its particular objectives.

"It's has proven a very resilient and lucrative asset class for a long time now and we expect the industry to attract more funds over the coming years," said van der Merwe.

Ord added that the financial crisis had had a negative effect on private equity in South Africa and the rest of the world but that it was recovering strongly as was evident from the uptick in rolling three-year returns. ◆

Private equity in the BEE world is a rather convoluted affair.

Simplicity is the new black

Paul Janisch

Logic dictates that if the private equity fund has any black ownership then that ownership would be passed onto the company that that fund invests in using the flow through principle. This should be a relatively simple calculation but BEE very rarely uses logic and simplicity in the measurement of benefits to black people.

The BEE codes define a private equity fund as a "*third party fund through which investments are made on behalf of the actual owner of the funds pursuant to a mandate given by that person to the private equity fund*". This simple definition in itself is somewhat problematic because of its very broad scope, it implies that any person that may which to invest money

Janisch

through a third party manager would be regarded as a private equity investor.

Practice, however, tends to narrow this definition to formal private equity investors.

Vuyo Jack (with Kyle Harris) in their book "*broad-based BEE: The complete guide*" sum up the requirements contained in the DTI's BEE Codes of Good Practice (gazetted in 2007) for black private equity with this definition "*black private equity refers to private equity of funds that are managed by a black fund manager who decides where to invest them.*"

The same Codes have attached a few conditions that need to be fulfilled before the black ownership that comes with black private equity accrues to the company that they choose to invest in. These include minimum levels of black voting rights in the PE fund, the distribution of profits and the fact that the PE fund manager must be more than 50% owned and controlled. The final requirement insists that more than 50% of the funds invested by the PE fund must be invested in companies that are more than 25% black owned. This last obligation is a strange limitation on black private equity that was probably included as an added incentive to white owned companies to conduct equity deals in order to attract black private equity. In this iteration the emphasis is on the attributed black ownership of the fund, with the fund manager's role taking a supplementary position in the transaction.

One can imagine the complexity of measuring the effective black ownership in a private equity fund when the equity is distributed across a wide variety of entities. This and the conditions contained in the codes of good practice are absolute and must be proven before the ownership can be accorded to the invested company. This evidence would need to be provided by the PE fund and should be a condition of investment.

If there is one unifying feature of Davies' tenure as minister of trade and industry it is the prevalence of legislation with onerous reporting requirements. His proposed BEE Codes of Good Practice are no exception to this trait. As can be expected the private equity requirement has undergone a proposed overhaul that places an even greater burden on black private equity in proving their black PE credentials.

The Code directs a greater emphasis on the black ownership status of the private equity fund manager that must still be black owned and controlled. The fund manager represents the equity investors and therefore would be present at a shareholders' meeting to vote on the shares that the equity fund has in a certain company. Fifty percent of the fund manager's profits derived from this investment must accrue to black people by written agreement. It appears that the black fund manager's blackness becomes the measurement of black ownership through this PE investment, which effectively removes the requirement to measure the black ownership of the fund. However the black fund manager is still required to invest more than 50% of the funds under management in companies that have at least 25% direct black shareholding (there is a ramp up period to meet this 50% over ten years). Davies generously permits the attributable black shareholding from the black fund manager to top up the shareholding in the investment company to 25%, where possible.

Strangely, there is merit to the minister's more complicated private equity Code. It appears to make the calculation of black ownership a lot easier and allows black fund managers to ramp up the investment of funds in 25% black owned business by using their own black ownership levels. The downside is that it does place a compliance burden on black fund managers who need to objectively demonstrate that;

i) 50% of the voting rights associated with the equity instruments through which the PE fund holds rights of ownership must be held by black people
ii) 50% of the profits generated by the investment go to black people by written agreement
iii) The black fund manager is black-owned and controlled
iv) More than 50% of the funds under management are invested in companies that have at least a 25% direct black shareholding.

This needs to be proved and documented on an annual basis. It's likely that this certification would be an additional expense to a standard BEE certificate and this expense will be borne by the black fund manager. If these codes are gazetted then black fund managers can expect a knock on the door from some carpetbagger who has deemed itself a competent agency to issue such a certificate – even though this has not been sanctioned by the DTI.

This assessment is my analysis of the existing and proposed Codes. However, there is no independent authority that is able to offer an objective statement on them. Herein lies the real problem: the minister is very quick to legislate but lacks the ability to back up this legislation with people who understand what he has promulgated. In the absence of this understanding the industry runs rabid and starts a trend of issuing a variety of expensive certificates and in so doing creates a practice that insists on these certificates before a BEE certificate can be issued. ◆

Janisch is a BEE compliance expert focusing on the financial sector and that sector's recently gazetted BEE scorecard. He keeps a regular blog on BEE matters at http://bbbee.typepad.com/paul_janisch and can be contacted at paul@caird.co.za

The beginning of 2013 saw the announcement of two private equity-backed buyouts of a scale not seen since the buyout boom era that ended in 2007. Does it herald the return of mega buyouts though?

New data points to mega buyout return

The deals in question are the US$24,4bn Silver Lake-backed privatization of Dell Inc. and the US$28bn Berkshire Hathaway and 3G Capital-backed buyout of H.J. Heinz Company.

This signals the continuation of a welcome trend for the private equity industry revealed in data released by global alternative asset manager Preqin during the first quarter of 2013.

"The number of large cap deals taking place that are valued at $1bn or more increased sharply each year between 2009 and 2012, signifying a healthier deal-making environment and growing confidence among investors," says Preqin's Manager Buyout and Venture Capital Deals, Anna Strumillo.

Large-cap deals in 2013 to date equate to 45% of the aggregate value of large-cap deals that took place in the whole of 2012.

Mega buyout fund managers have US$122bn available in dry powder and are in the market seeking US$84bn in fresh capital commitments

Preqin data highlights the steady growth in the number and value of large-cap deals over recent years, from the low level of 16 deals valued at an aggregate US$34bn in 2009 to 75 large-cap deals announced in 2012 with an aggregate deal value of US$137bn. Even with this notable increase in the amount and value of deals, buyout fund managers still hold a large amount of uninvested capital, currently standing at US$346bn across the whole buyout spectrum, indicating that the explosive start to 2013 could actually gather momentum.

This is borne out by some other interesting data released by Preqin that paints a picture of increasing activity in the mega buyout space.

The proportion of the number of global buyout deals made up by large-cap deals has been steadily increasing since 2009, from 3% of buyout deals in 2009 to 8% in 2012.

Only one mega buyout fund (larger than $4.5bn) closed in 2010: Blackstone Capital Partners VI, raising more than US$16bn. In 2012, however, four mega funds reached a final close raising a total of US$30bn.

And large-cap buyout deals accounted for 53% of the aggregate deal value in 2012 – the highest annual proportion of aggregate deal value in the 2008-2012 period.

Strumillo believes that, with increasing investor sentiment towards large and mega buyout funds, as shown in Preqin's latest investor survey, fundraising for these funds is likely to continue increasing throughout 2013.

"Buyout fund managers are still sitting on a large amount of dry powder, and with the potential of this amount increasing significantly throughout the year as funds close, there is certainly scope for more mega-sized buyout deals going forward."

Confidence returns to Europe

Meanwhile, research released by Investec in London reveals that confidence is starting to creep back into the market in Europe too.

Eighty-eight percent of General Partners of private equity firms expect to raise new funds over the next 12-24 months, according to research among senior private equity professionals by Investec Fund Finance, a leading private equity financier. Eighty three percent expect the size of the next fund to be as large, or larger, than existing funds and only 8% predict it would be smaller. Only a very small proportion (3%) suggested that they would not raise another fund.

Investec's Private Equity Barometer, now in its fourth year, reveals that confidence among GPs is returning. Over nine out of ten were satisfied with their career in private equity; 38% were more satisfied than a year ago. Over 80% expect to receive carried interest pay-outs from their existing funds. This carried interest is critical for GPs to be able to invest in their firm's next funds – with 70% of them reliant on the carried interest to cover their commitment to future funds.

Investors are increasingly expecting the GPs to commit more of their personal wealth to the new funds. Nearly half said that the team at their firm would have to commit at least 2% of the money raised in their next fund, with one in ten saying this commitment will be at least 7% of the new money raised. ◆

PRIVATE EQUITY DEALS Q1 2013 – SOUTH AFRICA

NATURE	PARTIES	ASSET	ADVISERS	ESTIMATED VALUE	DATE
Acquisition by	Standard Chartered PE and Ashmore Investment Management	minority stake in GZ Industries		not disclosed	Jan 14
Acquisition by	Investec Private Equity	30% equity stake in Assupol	Investec Bank	not disclosed	Feb 8
Acquisition by	TP Hentiq 6132 (RMB Corvest) from Harrison & White Investments	Sectional Poles	Cliffe Dekker Hofmeyr	not disclosed	Mar 20
Acquisition by	RMB Ventures	stake in Bluff Meat Supply		not disclosed	Mar 25
Acquisition by	Investec Bank (Private Equity)	43.2% of FFS Calpet	Cliffe Dekker Hofmeyr	not disclosed	not announced

PRIVATE EQUITY DEALS Q1 2013 – REST OF AFRICA

COUNTRY	NATURE OF DEAL	DETAILS	ADVISERS	ESTIMATED VALUE	DATE
Africa	Investment by	Leapfrog Investments (Mauritius) in Bima		$4,25m	Feb 21
Cote d'Ivoire	Acquisition by	The African Agricultural Fund of a minority stake in Continental Beverage Company		not disclosed	Feb 28
Kenya	Investment by	Amethis Finance in Chase Bank	Genghis Capital Corporate Finance	$10,5m	Mar 6
Morrocco	Acquisition by	Actis from Veolia Environment of it's water, wastewater and electricity services operate by Redal and Amendis		not disclosed	Mar 8
Namibia	Investment by	VPB Namibia in Ongwediva Medipark		not disclosed	Feb 11
Nigeria	Acquisition by	XerXes Global Investments and Copperbelt Energy (KANN Consortium) of a 60% stake in Abuja Electricity Distribution Company		$164m	Mar 5
Nigeria	Investment by	Summit Partners in the Jumia brand		$26m	Mar 19
Tanzania	Acquisition by	Catalyst Principal Partners of Chai Bora from Transcentury		not disclosed	Jan 16
Tunisia	Investment by	International Finance corporation and two funds managed by IFC Asset Management Company in Amen Bank		$48m	Jan 25
Uganda	Investment by	Anraaj Group in Vine Pharmaceuticals		not disclosed	Jan 31

National news

Women in Private Equity – Following an inaugural networking event of a few of ***SAVCA's*** female members and friends (sponsored by GEF), the Association announced that it is extending an invitation to all female professionals in the industry: The next meeting will be on Friday 28 June at 3.30pm; the venue will be announced.

A new index of institutional-quality private equity funds in Africa posted an 11.2% annualised return for the 10 years ending 30 September 2012.

This is the first quarterly report of a new African private equity and venture capital index, a collaboration between the African Venture Capital Association (AVCA) and Cambridge Associates.

The African Private Equity and Venture Capital Index comprises 40 institutional-quality private equity and venture capital funds based in Africa that invest third-party limited partner capital. The benchmark excludes captive funds, real estate funds and funds with open-ended structures. The total fund capitalisation is US$7.3bn, and the vintage years covered are 1995 to 2012.

In a separate report revealed by **Bloomberg**, research by AVCA and Ernst & Young shows private equity firms that have exited investments in Africa in the past six years are showing better returns than the JSE, The study analysed 62 exits, which showed that "private equities' strategic and operational improvements are generating returns of almost double that of the JSE all share index", the two said yesterday. The private equity industry in Africa may be worth US$25bn (R223bn) and more firms are considering investments in search of returns, according to Avca. ◆

International

Over in China, the issue of private equity fund regulation is evolving into quite a story.

Caixin Online, a Beijing-based media group, reports that The National Development and Reform Commission (NDRC), tasked with overseeing the private equity sector, rolled out another regulation regarding private equity funds, prohibiting them from running public funds and investing in publicly-traded securities.

This is in direct conflict with two policies announced by China Securities Regulatory Commission (CSRC) in February, according to Caixin, that allowed PE funds to operate public funds and invest in public companies.

The NDRC announcement also ordered local financial regulators to implement strictly an earlier policy that imposed a mandatory requirement on all equity investment companies to register with the NDRC or a designated provincial authority.

PE firms would be in violation of the regulation if they set up public funds or invested in publicly-traded securities, the announcement said, warning that violators would be publicly named.

The regulatory contradiction is the latest twist in a long battle between the two regulators for authority over PE funds.

Alec MacFarlane of **Dow Jones** reports that the world's largest pension fund is set to begin internal discussions over whether or not it should begin investing in alternative assets for the first time. With around $1.4 trillion of assets under management, Macfarlane reckons, rather litotically, the private equity industry is keeping its fingers firmly crossed.

In a move with some similarities to our own Government Employees Pension fund featured I this issue, Japan's Government Pension Investment Fund hired four companies last year – comprising European fund of funds manager Capital Dynamics, Tokyo-based private equity consultancy Brightrust PE Japan, Japanese law firm Atsumi & Sakai and Japanese asset manager T&D – to conduct feasibility studies into whether or not it the fund should diversify its assets into private equity, real estate and infrastructure. MacFarlane writes that the fund has since received reports from those studies and will shortly begin talks.

The potential capital that a move into private equity by the GPIF could release into the market has fund managers around the world talking. GPIF is nearly three times larger than the Government Pension Fund of Norway, the world's second largest pension fund. Should it choose to invest just 5% of its assets in private equity, the move would free up an additional $70bn of capital for cash-strapped fund managers globally according to Down Jones. This is more than double the current allocation of California Public Employees' Retirement System, which has more money allocated to the asset class than any public pension fund globally, with 12.57% of its US$254.5bn of assets under management invested in private equity – equivalent to $32bn, according to data provider Preqin. ◆