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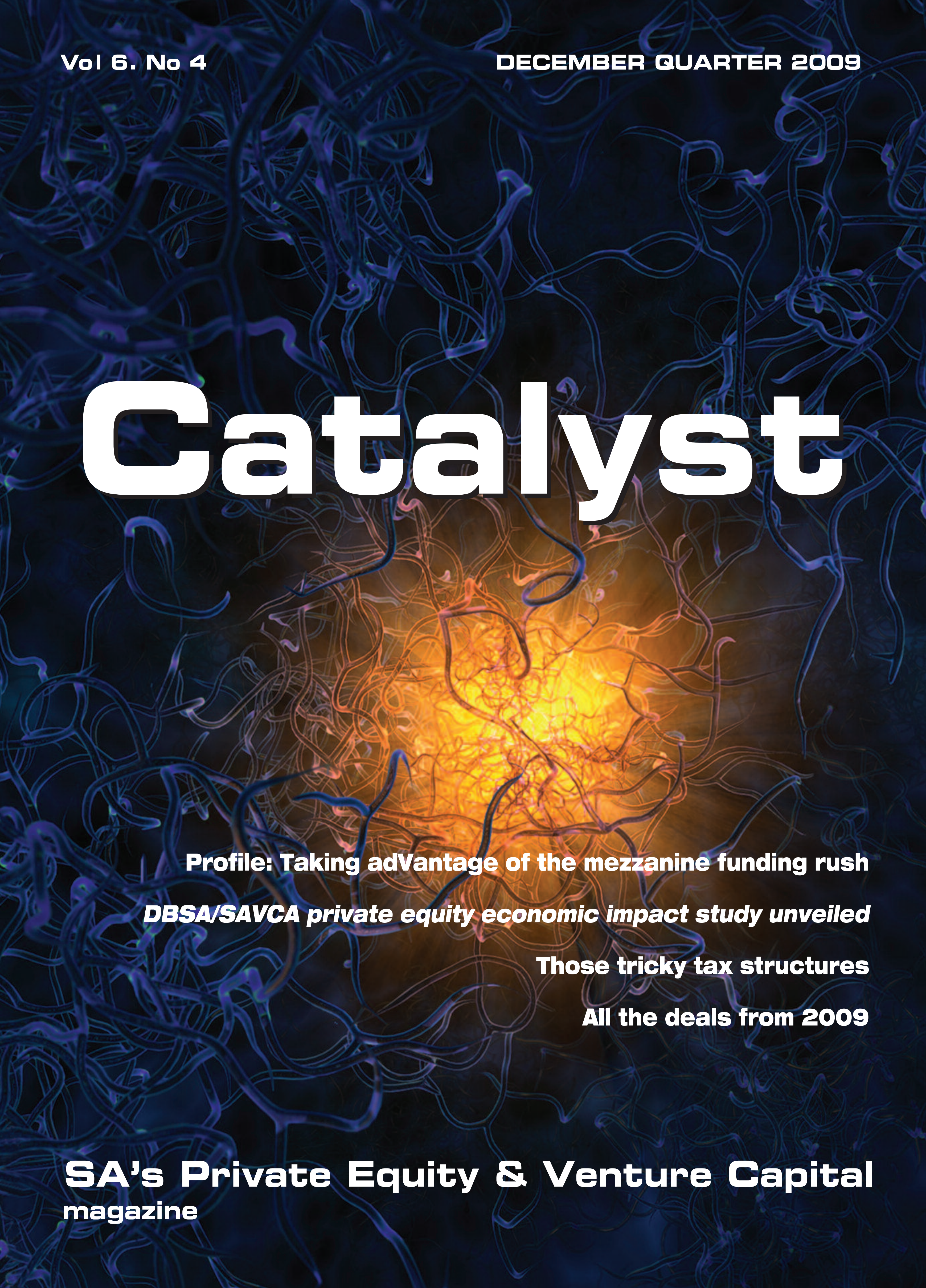

Catalyst

Profile: Taking adVantage of the mezzanine funding rush

DBSA/SAVCA private equity economic impact study unveiled

Those tricky tax structures

All the deals from 2009

SA's Private Equity & Venture Capital magazine

Catalyst

From the Editor's desk

At first blush one would be forgiven for thinking that 2009 was a thoroughly boring year for private equity. The moribund trend in deal flow, exits and fund raising continued into the fourth quarter – in fact the fourth quarter produced a record low in terms of deal activity. But, before one gets carried away in the glumness of it all, some flickers of light have gradually appeared, particularly on the deal flow side of the equation.

The comparison with 2008 is encouraging though due consideration must be given to the fact that it provides such a low base for analysis. 2009 saw 29 deals executed compared with 2008's 21 deals. That's an increase of 27% year on year. This is clear indication that activity is increasing.

Analysing the total value of deals executed proves tricky as less then half of all deals captured over these periods had a publicly available value attached. Nevertheless, out of the 29 deals executed in 2009, 16 had publicly available values and these totalled R3,75bn. This compares quite poorly with 2008's total value of R11,3bn from 8 deals with values announced.

What can be observed from this is, though activity may be increasing, we are certainly seeing less of the larger buyouts or "mega" deals that characterised the heyday of private equity from 2001 to 2007.

Clearly funds are being invested in the lower to middle segment of the market and part of the reason for this may be found in a recent report issued by *Moody's* that states, albeit, implicitly, that there is little reason to believe the current credit market is an easy place to get new debt financing, at least not without paying higher rates. There is also no reason to believe that the economic rebound in 2010 is likely to be robust enough to help companies which have cash flow well under their debt service costs.

South Africa and other emerging markets may, however, find the going a little bit easier as appetite for risk and the low hanging juicy growth fruit tempt LP's into increasing fund commitments to this rapidly developing market.

On the regulatory front, the private equity industry has been engaging National Treasury and the Reserve Bank on Exchange Controls for some time now; specifically the approval process relating cross border transactions in Africa. Insiders say that the process is still ongoing and draft policy proposals have been submitted. Sentiment is that changes will have to be made to the proposals, which have aimed high, in order for a middle ground to be attained.

Looking ahead, 2010 promises to be yet another year dominated by GP's tending to the flock as the bad debt wolves lurk perilously, waiting for an opportunity to pounce on a weakened stray.

Catalyst

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Profile

Vantage Capital recently opened offices in Cairo and in so doing has established itself as a major Pan-African private equity player. Catalyst met up with co-founder Colin Rezek and Luc Albinski who heads up the mezzanine fund, to uncover what it took to create one of the most successful independent private equity funds in South Africa

Not shy to take (ad)vantage

Rezek, after graduating with a BCom and MBA, was enticed by the family into the motor business, which he grew over time from one dealership to become the largest privately owned motor group at the time with 11dealerships employing up to 400 people.

"At that point we decided to merge with the larger Williams Hunt group and then sold that business off to Unitrans," explained the stylishly attired Rezek.

Albinski

"So, in the late 1990's I was looking to change direction and I met my original partner, former Savca chairman Mutle Mogase, who is now chairman of Vantage. Mutle and I decided to establish a private equity business and by the end of 2001 we raised our first fund, a technology fund."

In fact Vantage Capital was one of the first black-owned and managed private equity companies in South Africa, and is one of few remaining independent black-owned private equity and investment companies which are not linked to any major financial institution.

Launched in 2001 after a merger with MMR Equity Capital, the venture capital Technology Fund received commitments from the Industrial Development Corporation (IDC), the Transnet Retirement Fund and the Eskom Pension and Provident Fund.

It was a remarkable time to be raising a tech fund with the sound of the bursting dotcom bubble still ringing in investors' ears; something Rezek is quick to admit.

"Yes, at the time we took on the challenge and I think we're happy to say that we developed it into a decent fund with good returns and, in fact, one of the competing funds at the time lost 100% of the capital. So we showed our mettle at the time."

The Technology Fund has invested R130m in 10 investments ranging from small start-ups to larger, established listed entities. Five investments, Mosaic Software, Vox Telecom, ComTech, Aquitec and Grapevine have been successfully exited. The remaining actively-managed investments are all cash flow positive and have exciting growth plans. The fund is now closed, although additional funding is available for follow-on investments.

"We then developed the Group to do some on-balance-sheet investments and increased our empowerment stake to 50% so that we could play in the empowerment space," says Rezek.

In the latter part of 2004, Vantage Capital Investments was established to source proprietary investment opportunities, which would not conflict with the existing Technology Fund in terms of industry sector and size of transaction. To date, Vantage Capital Investments has participated in three such transactions (Incwala, ComCorp and Kwikspace) and is in the process of considering several more.

Incwala never reached the potential that mining rainmaker and brains trust behind the project, Brian Gilberston, had hoped for but Kwikspace proved to be a real success in a very short space of time.

"We invested into Kwikspace as a BEE partner, listed the business with the shareholders and then with Absa Capital delisted the company 14 months later," explains Albinski, who puts the exceedingly quick turnaround time down to a bit of good fortune.

Rezek

"It's really a sign of the times. When we got the business it was booming and we listed it but then the markets collapsed and investors weren't interested in smaller companies. Kwikspace had a market cap of under R1bn and interest in the stock just evaporated and we felt that by delisting it we could acquire a larger stake in the business so our shareholding went up to 45% and we now have much more influence on the day-to-day operations and management of the business."

"Once we had invested the tech fund and concluded the balance sheet transactions we decided that it was opportune to get involved in mezzanine financing," says Rezek.

In early 2005 Vantage Capital started to explore the possibility of raising a second fund. With the help of the Netherlands Development Finance Company (FMO), it was decided that the low interest rate environment then prevailing in SA - which represented a significant departure from the high interest rates that characterised the eighties and nineties in the country - supported the establishment of a mezzanine or risk capital fund.

The fund raising process culminated in the final closing of the Vantage Mezzanine Fund in November 2007, with commitments of just over R1bn (US$125m). One-third of the funds were raised from foreign investors and the balance from local institutions and from the group as a co-investment commitment.

"It's a general fund," says Rezek. "We invested in five different sectors including media (Primedia), food, catering and facilities management, (Tsebo) recycling ferrous and non-ferrous metals (Reclam) and chemicals (Safripol).

"In three of the five deals we did take equity sweeteners to enhance our returns. We have also funded empowerment deals and these deals are suited to mezz because they're less dilutive but we do take equity upside in those investments," adds Rezek.

"The demand is getting stronger due to the massive impact that Basel II is having on the banks"

Albinski believes the time for independents' to take a larger slice of the mezzanine financing pie has arrived. And that's thanks mainly to one thing.

"The demand is getting stronger due to the massive impact that Basel II is having on the banks," opines Albinski. "This means that the capital that the banks have to set aside for their mezzanine positions has increased three fold so mezzanine has become quite pricy for the banks from a capital point of view. Therefore, they are unlikely to want to take big chunks and that opens up the market for independent funds like ourselves. We see Basel II as a long-term structural change to the market that will support the growth of independent mezz funds."

Vantage is uniquely positioned as the only independent mezzanine fund in South Africa and also the first independent Pan-African mezz fund of substance.

This is imperative for Vantage's growth as the company is establishing infrastructure in Botswana and more recently Egypt with the launch of its Egypt office in February 2010.

"We are quite focussed on North Africa," says Rezek. "Egypt is the second biggest private equity market in Africa with a high degree of sophistication and lots of capital so it makes perfect sense for us to open an office in Cairo to help service our Gulf investors."

"We are currently looking at a couple of deals in Kenya, Nigeria and even some more exotic locations such as Liberia and Equatorial Guinea.

With the first mezzanine fund over 97% invested, Vantage is now in the process of raising a second mezzanine fund which will be a substantially larger fund. Vantage will seek to capitalise on its strong position in the South African mezzanine market to build a portfolio of income generating mezzanine assets locally and in the rest of Africa.

Mutle Mogase, Chris Lister-James and Colin Rezek, the three founders of Vantage Capital, remain the driving force behind this success story. ◆

The general perception that private equity is generated by a race for quick profits, and does so without care for individuals or the companies concerned, an impression encouraged by the media, has no basis in fact. That's the outcome of a detailed and exhaustive research project, the results of which were released on October 2009

No barbarians here

The first edition of the highly anticipated study entitled: *Economic Impact of Venture Capital and Private Equity in South Africa 2009*, produced findings which will provide general partners with enough ammunition to make a firm case for increasing investment limits into private equity by pension funds and the like.

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For many years private equity's impact on the South African economy has largely been based on speculative information, very little quantitative analysis and no small amount of journalistic hyperbole in the financial press. The South African Venture Capital and Private Equity Association in partnership with the Development Bank of Southern Africa and research firm IE Consulting, have endeavoured to fill the void of research-based knowledge on the role that private equity plays within the broader economy.

While an array of research into the venture capital and private equity industry exists, the opinions of the businesses that have been the recipients of private equity funding has not previously been compiled.

The response to the survey was unprecedented. A sample size of 327 respondent companies indicates that the industry is starting to show signs of greater maturity and a willingness to communicate in a more proactive and transparent manner.

Table 1

Comparison of growth rates – 2005/6 – 2008/9

Modified Average	Private Equity Backed	Listed Companies - JSE	Listed Companies - ALSI 40
Sales	20%	18%	16%
Pre-tax profit/EBITDA	16%	14%	15%
Worldwide Employment	9%	4%	7%
Investment	16%	26%	29%
R&D	7%	1%	12%

Source: Economic Impact of Venture Capital and Private Equity in South Africa 2009

> **"Fifty-four percent of portfolio companies said the introduction of BEE was only made possible through private equity investment"**

Over the three-year period from 2005/6 to 2008/9, which the study uses as its base, private equity backed companies in South Africa have achieved :

- Annual world-wide employment growth rates of 9%, compared with JSE listed business's growth rates of 4% and 8% recorded for private equity backed businesses in the UK.
- Employment of 5% of South African formal sector employees which equates to around 427 000 jobs.
- Average domestic employment growth rates of 10% per annum, compared with 1% across all businesses in South Africa and 4% for UK private equity backed businesses.
- Average turnover growth of 20%, compared with 18% for JSE businesses and 8% for UK private equity backed businesses.
- Pre-tax profit growth of 16% per annum compared with 14% for JSE businesses and 11% for UK private equity backed businesses.
- Growth in exports of 31% per annum, on average, compared with 24% nationally and 10% for UK private equity backed businesses.
- Average R&D expenditure growth of 7% compared with 1% for JSE-listed businesses.

A striking aspect of the research relates to the dramatic uptick in BEE in the investee companies post investment. Though the report doesn't attribute this to the professional management provided by the general partners it is implicit in the findings.

Fifty-four percent of portfolio companies said the introduction of BEE was only made possible through private equity investment. Post-investment, the number of black-empowered enterprises nearly tripled and the number of black woman-owned enterprises increased.

"Prior to investment, 59% of respondents had no empowerment shareholding at all. After investment, 72% were black-owned, black-empowered or were community or broad-based enterprises. This represents an increase of 31 percentage points."

Another fascinating nugget of information comes in the form of the employment statistics. It has often been said that private equity managers are merely asset strippers and therefore sacrifice jobs on the altar of internal rate of returns.

However, this research points in the totally opposite direction.

Private equity backed companies outperformed their listed peers over the period of assessment.

The growth in five key areas including sales, pre-tax profits, worldwide employment, investment and R&D were compared across private equity backed companies, all companies listed on the Johannesburg Stock Exchange and the listed businesses that make up the ALSI 40 Index (see table 1).

The growth rates achieved in sales, profit and employment by private equity backed businesses were ahead of those recorded for the public market.

It was only in investment growth that the public market out-performed private equity backed businesses.

It is envisaged that this first report will lay the foundations for a solid body of empirical data that will help policymakers, analysts, investors and investee businesses better understand the role that private funding can play in the economic transformation of South Africa.

The fourth quarter exit by Horizon Equity is the clearest indication yet that the private equity market thaw is gathering pace

MediKredit expands Horizons

Horizon Equity's sale of MediKredit Integrated Healthcare Solutions to Nasdaq-listed Net 1 UEPS Technologies for R74m (approximately US$10m) in cash, is the realisation of a nine-year investment – slightly longer than the traditional seven-year holding period for private equity investments but unsurprising given market conditions over the past two years.

> **"The synergies to be derived from combining Net1's payments processing expertise with MediKredit's claims management solutions should lead to exciting innovation possibilities within the South African healthcare environment"**

MediKredit is a privately held South African information technology company based in Johannesburg. The company established its footprint in healthcare as far back as 1941 and is one of the pioneers that changed the face of healthcare claims processing by moving from a paper-based environment to EDI (Electronic Document Interchange), where medical claims are received electronically in a real-time environment. MediKredit has developed and commercialised a suite of software applications and processing services that enable on-line real-time claims adjudication and processing of medical claims for healthcare plans.

Private healthcare in South Africa is moving towards the empowerment of patients by enabling them to take ownership of the financial and clinical management of their healthcare plans. This has necessitated the need for the implementation of managed healthcare principles, medical savings accounts and member co-payments, where appropriate. MediKredit is inimitably positioned to take advantage of this significant shift in the provision of healthcare by providing on-line real-time processing and automated claims adjudication processes.

Net 1 Management believes that the South African government's stated intention to implement the controversial national health insurance program will create significant opportunities for MediKredit and Net1.

"We are delighted as it presents us with the ideal platform to expand our transaction processing capabilities and provide an entry point for our technology in the rapidly growing global health care market," said Dr. Serge Belamant, Net1's Chairman and Chief Executive Officer.

"We can now provide a turnkey solution to healthcare providers, funders and governments that encompasses transaction processing, rule administration and payment for their members and citizens."

MediKredit has 165 employees and provides its services to approximately 5,000 health care providers in South Africa (90% of total market size), 90 healthcare plans (60% of total market size), 12 healthcare administrators (65% of total market size) and processed 60m transactions during 2008. MediKredit also owns a globally unique national coding system for all pharmaceutical, surgical and healthcare consumable products, the National Pharmaceutical Product Index (NAPPI) product suite, which has become the national electronic standard for the transfer of information throughout the healthcare delivery chain in South Africa.

The acquisition will expand Net1's offering in some of its existing markets like Ghana and Nigeria, where national health insurance schemes have been introduced and where the UEPS platform and installed card base could offer a complete national solution when combined with the MediKredit system.

In addition, MediKredit offers Net1 a small, strategic entry point for the US healthcare administration market. MediKredit's wholly-wned subsidiary in the US, XeoHealth Corporation, recently launched its proven real-time Adjudication rules engine for the health care industry in the US.

Net1 and MediKredit both operate similar back-end systems, which require skilled developers and technicians. The addition of MediKredit will, according to Net 1, significantly broaden Net1's base of qualified development employees.

"The synergies to be derived from combining Net1's payments processing expertise with MediKredit's claims management solutions should lead to exciting innovation possibilities within the South African healthcare environment," enthuses MediKredit CE Wimpie du Plessis.

"Furthermore, being part of a NASDAQ listed company will provide XeoHealth Corporation with a significant platform to make available our innovative claims adjudication solutions for the US healthcare market and the other international markets that Net1 currently operates in."

The transaction is expected to close in February 2010 when all regulatory approvals have been obtained. ◆

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Whatever your view on South Africa's exchange control regulations, there is no doubt that their existence adds a layer of complexity to South African private equity funds that is rare in other countries

To PE or not to PE, that is the question

Tanya Engels

This article considers South African-managed private equity funds that aim to attract both South African and foreign investors, and examines how the concept of a "dual fund structure" creates tax complications for the foreign investors.

In setting up a private equity fund in South Africa, the Reserve Bank (or SARB's) prohibition on so-called "loop structures" creates particularly thorny issues for potential investors. Briefly, a "loop structure" is when a South African investor invests in an entity outside of the Common Monetary Area (or CMA[1]), and that entity in turn invests back into the CMA. Though SARB was historically open to considering "loop structures" if there were special circumstances, recently it has clamped down on this and now no longer allows the creation of "loop structures"– often even in cases where there are real and demonstrable benefits to the South African economy arising from such structures.

Engels

Unfortunately, a typical private equity fund lends itself to being a classic example of a "loop structure." Investors invest in the private equity vehicle, which, in the case of foreign funds, is usually a limited liability partnership set up in an offshore tax haven. The partnership will, in turn, acquire shares in the underlying portfolio companies. Where the portfolio companies are located in CMA countries, a South African partner participating in the partnership causes the structure to become a "loop structure." Because this is a contravention of exchange control regulations, the South African investor will not be granted approval to enter into this arrangement.

In order to get around this problem, the concept of a "dual fund structure" was developed. A dual fund allows South Africans as well as foreign investors to invest in a fund that holds a portfolio across multiple jurisdictions. A typical dual fund structure involves more than one investment vehicle – one established in South Africa, and one (or more) established offshore, generally in a tax-efficient country such as Guernsey, Jersey, or the Cayman Islands.

The South African investment vehicle is usually a bewind trust or an en commandite partnership – the latter is generally preferred by foreign investors because they are more familiar with the concept of a partnership than that of a trust. For ease of reference let us assume that a partnership is used.

The South African investors will become partners only in the South African partnership, which will hold the shares in all the portfolio companies. Because South African investors are not "looping" their investments into CMA via an offshore fund vehicle, a "loop structure" is avoided.

The two (or more) fund partnerships typically enter into a co-investment agreement in terms of which they appoint a common investment adviser, and agree to invest and disinvest in the same portfolio companies at the same time (to the extent permitted), as recommended by the investment adviser. Despite the existence of an investment adviser, however, the general partner (or GP) of the fund partnership is responsible for making the ultimate investment and disinvestment decisions.

What is crucial to remember is that South African tax legislation does not recognise a partnership as a separate legal entity

What is crucial to remember is that South African tax legislation does not recognise a partnership as a separate legal entity. Thus, SARS "looks through" the partnership, to the partners, to determine any tax liability. Income derived by the partnership is regarded as being earned directly by the partners, in proportion to their partnership interest. Thus, even where the GP of a partnership is another partnership (as is usually the case), SARS simply looks through all the layers of partnership, to the ultimate partners of the fund. Hence a partnership is also sometimes referred to as a "fiscally transparent" entity.

The activities of the South African-based GP raise interesting – to say the least – tax issues for the foreign investors. The decision-making powers of the South African GP vis-à-vis the offshore GP, particularly in a co-investment relationship, can create an unexpected South African tax liability for the foreign investors[2] (the same analysis set out below will apply if the foreign investor, for whatever reason, decides to become a partner in the South African partnership).

In order to understand why these issues arise, it is necessary to understand the concept of a "permanent establishment", or simply, a PE. Basically, a PE is a fixed place where business is carried on, either wholly or partly. In the case of a private equity fund, the "business" is acquiring investments, usually with a long-term intention of deriving income from such investment (and of course ultimately hoping that the disposal of the investment will result in a gratifying profit). The argument is that the GP in South Africa, when making investment decisions on behalf of the private equity fund, is carrying on the fund's "business." If one then takes this a step further and applies the "look through" principle to the partnership, it follows that the GP is essentially carrying on the "business" of the foreign investor, and doing so in South Africa. This creates a PE of the foreign investor in South Africa.

You are probably asking yourself why creating a PE in South Africa is of any relevance to the foreign investor. The simple answer is that this could result in a tax liability for the foreign investor in South Africa.

For example, let us consider what happens if the fund disposes of a South African investment and makes a capital gain. Foreign companies are subject to capital gains tax in South Africa in respect of all assets that are attributable to a PE in South Africa. Because the foreign investor has now (inadvertently) established a PE in South Africa, and the investment is attributable to that PE, he is now subject to South African capital gains tax at 16,5% on his portion of that profit. Any other income earned by the fund from that investment could conceivably also attract South African tax at 33%, subject of course to normal exemptions, such as the one in respect of South African dividends received. Even a double tax treaty between South Africa and the foreign investor's country will usually not remove South Africa's right to tax if there is a PE in South Africa.

Foreign investors might not be too perturbed by the South African tax liability if they are also subject to tax in their own countries on the same income at an equal or higher tax rate, as they can generally claim the South African taxes as a credit against their local taxes. However, investors who invested in a fund set up in a tax-efficient country and fully expected to receive only tax-free income, might not be too happy about having an unexpected tax liability in South Africa.

It is, therefore, crucially important, when setting up a South African-managed private equity fund, to ensure that your foreign investors have carefully considered the tax implications, not only in their own country, but also in South Africa. ◆

Engels is Director: International and Corporate Tax, KPMG Tax Service

1 The CMA consists of South Africa, Namibia, Lesotho and Swaziland.

2 If the South African GP makes all the investment and disinvestment decisions, and the offshore GP merely "rubber-stamps" them, this could also result in the offshore GP becoming fully taxable in South Africa. A discussion of this falls outside the scope of this article, however.

2009 will be remembered as an *annus horribilis* for the private equity industry both locally and abroad. This was confirmed by the release of The Emerging Markets Private Equity Association (EMPEA) report entitled 2009 *in Perspective and Predictions for 2010*

2009: Taking stock after the storm

The one shining light for South African private equity funds is that the tectonic shifts in the global pe market have created a significantly altered landscape, one which favours the emerging market players.

Founded in 2004, The Emerging Markets Private Equity Association (EMPEA) is a non-profit, independent, global industry association that promotes greater understanding of and a more favorable climate for private equity and venture capital investing in the emerging markets of Africa, Asia, Europe, Latin America and the Middle East.

The sheer drop in fundraising activity makes for painful reading. Through the nine months to September 30th, 116 funds had raised $19bn versus $55bn in capital raised by 193 funds during the same period in 2008 – a decline of 65,4%. The end result is tighter competition for a shrinking pool of capital.

Ominously, some managers polled by EMPEA contend that 2009 was the first of several challenging years to come. As of November 30, of the 313 funds launched in 2009, 66 had held at least one close. When fund raising, a firm will announce a first closing to release or drawdown the money raised to date so that it can start investing. A fund may have many closings, but the usual number is around three. Only when a firm announces a final closing is it no longer open to new investors

EMPEA suggests the outlook for fundraising in 2010 is unclear, given uncertainty around Limited Partners' (capital providers) ability to commit to new funds (a function of resumed distributions from developed market funds), and how institutions will respond to the denominator effect of 2009.

However, the EMPEA report paints a much improved picture for emerging markets even though, in dollar terms, emerging market funds still represent a small portion of most LP portfolios.

The paper goes on to say that "[a] shift in LP thinking underway bodes well for emerging market managers. Investors are coming to realize they are under-exposed to high-growth markets, and the accepted wisdom about risk has changed."

This is borne out by the numbers: emerging market funds' share of the global total has risen, from only 5% in 2004 to 20% of total capital raised as of June 2009, and from 7% to 24% of global private equity investment totals over the same period. Some managers predict the EM portion of institutional PE allocations could soon tip into the double digits.

In general the economic impact on emerging markets was less severe than in the developed markets, and EMPEA believes the strength of underlying portfolios is expected to yield healthy returns. "Manage[ments] that can demonstrate capable stewardship of their portfolio companies through the crisis have a unique opportunity to drive home the case for EM PE among LPs aggressively seeking growth. Additionally, managers are encouraged by improving valuations and exit prospects fueled in part by the rebound in the public markets."

Ominously, some managers polled by EMPEA contend that 2009 was the first of several challenging years to come

The EMPEA flags regulation as a key factor when gazing into its crystal ball. The General Partners polled cautioned against ignoring the events unfolding in developed markets, and advocated clearer thinking about how to improve understanding of the industry among lawmakers and the general public.

"Regulations such as the pending directive concerning alternative investments in the EU, for instance, could inadvertently adversely affect emerging market funds that market to European LPs. In markets without clear rules governing PE, regulators could take their cues from lawmakers in the EU and the US on issues such as fund marketing and taxation."

The report singles out the sterling work being undertaken by GPs (fund managers) in South Africa and India to effect growth and regulatory change (read understanding) in their respective markets. Surely this is a clear indication that the South African Venture Capital and Private Equity Association's tireless lobbying and interaction with lawmakers is starting to pay meaningful dividends.

Perhaps the most encouraging comment contained in the report came from André Roux, Chief Executive, Ethos Private Equity, who said: "In South Africa we are seeing clear signs of portfolio valuations turning the corner, deal flow picking up, credit becoming available and, not uncharacteristically at this stage in the cycle, the IPO window starting to open up for exits." ◆

International

Who's doing what and where?

Infrastructure will remain the top sector in 2010 says the Indian-based *Business Standard*. Talking to Anil Ahuja who heads up 3i, a global private equity fund based out of UK and invests across buyouts, growth capital and infrastructure deals, ***The Business Standard*** says fund raising activity will be more selective in 2010.

"It will be better in 2010 compared to what we saw in 2008-09," Ahuja told the *Standard*. "LPs will be lot more careful in allocating capital to first time funds. Established funds will have their task easier as LPs will feel more comfortable with funds having a track record. Number of funds that get allocations from LPs is going to come down significantly as it is very difficult for them to keep a tab on 100 fund managers."

The ***Wall Street Journal*** says the secondary deal market is rebooting as private equity fund valuations recover according to new analysis from adviser Cogent Partners.

Cogent's analysis shows that the average high bid for funds in the second half of 2009 was 72% of net asset value, or NAV, up dramatically from the 39.6% level seen in the first half. The increase marks a return to NAV levels seen in 2003, two years after the last economic downturn, and Cogent expects continued improvement in 2010.

Cogent said the increase in secondary market pricing tracked corresponding increases in public equity, showing "the correlation private equity does share with the overall public equity markets."

Industries exposed to private equity activity are growing faster than those that are not, a study by the World Economic Forum (WEF) showed, providing a boost for a sector struggling with public perception and a dearth of deals.

Reuters reports that production, value-added and employment were all higher in industries where deals happened in the period between 1991 and 2007, according to the study. "If structured appropriately, private equity is indeed a vital catalyst to sustained economic growth on a global basis," Joncarlo Mark, portfolio manager at Calpers -- the biggest U.S. public pension fund -- said in a press release.

SOUTH AFRICA PRIVATE EQUITY DEALS 2009

NATURE	PARTIES	ASSET	ADVISORS	VALUE	DATE
Acquisition by	Old Mutual and Ethos from Rand Merchant Bank (FirstRand)	stake in Indwala Industrial Holdings	Brink Cohen Le Roux	not disclosed	Jan 29
Acquisition by	Spirit Capital	majority interest in Lucite International South Africa		not disclosed	January
Investment by	African Development Partners	Q-Venture Holdings (25%-60% shareholding could result when shares are converted)	Development Partners International; Deloitte; Read Hope Phillips; Webber Wentzel; O'Melveny & Myers LLP; Appleby; Conyers Dill & Pearman	not disclosed	Feb 16
Acquisition by	Primedia and Capricorn Capital Partners from major shareholders (Tiso Capital Partners, Mineworkers I nvestment Company, Safika Holdings, Investec Bank and Investec Employee Benefits)	72,3% (3 012 102) and 79,5% (97 413 748) stakes in Nail ordinary and 'N' shares	Investec Bank; PricewaterhouseCoopers Corporate Finance; Edward Nathan Sonnenbergs	R23,8m	Feb 24
Acquisition by	Primedia and Capricorn Capital Partners from New Africa Investments shareholders	remaining 'N' and 'O' Nail shares	Investec Bank; PricewaterhouseCoopers Corporate Finance; Edward Nathan Sonnenbergs	R834 922	Feb 24
Sale by	Buildworks to Pan-African Investment Partners II (Kingdom Zephyr)	29,6% stake in Buildworks	Investec Bank; Java Capital; Edward Nathan Sonnenbergs; Webber Wentzel	R196m	Mar 13
Acquisition by	Thembeka Capital	10% of Overberg Agri and 26% of Bontebok Limeworks	PSG Capital	R100m	Mar 18
Acquisition by	Marlow Capital-led consortium from shareholders including Suez Environment	Wasteman Group	Marlow Advisers; Werksmans; Edward Nathan Sonnenbergs; Deneys Reitz	R380m	Mar 26
Acquisition by	LiquidAfrica Private Equity	20% stake in Tree Organic Technology	Liquid Africa; Edward Nathan Sonnenbergs	not disclosed	not announced
Sale by	Medu Capital	Stake in Vitalaire	iCapital	not disclosed	not announced
Acquisition by	Consortium including existing Protea BB-Bee partners, Investec Private Equity Protea management from Stella Hospitality Group	74% stake in Protea Hotels	Cadiz Corporate Solutions; Cliffe Dekker Hofmeyr; Edward Nathan Sonnenbergs	not disclosed	Apr 15
Sale by	Mediscor to Pan -African Capital	25% of Mediscor		not disclosed	Apr 23
Acquisition by	Cost2Coast Private Equity	stake in St Pie		R30m	Apr 24
Acquisition by	Medu Capital	40% stake in Medipost Courier Pharmacy and 40% stake in Kawari Wholesaler		not disclosed	May 11
Acquisition by	Management, private equity and BEE partners	Masslift Africa	Nodus Capital; Tugendhaft Wapnick Banchetti	not disclosed	May 12
Sale by	Casinos Austria to a local South African fund	20,6% stake in Gold Reef Resorts	Deutsche Bank; Nedbank Capital; Cliffe Dekker Hofmeyr; Edward Nathan Sonnenbergs	R1,08bn	May 22
Acquisition by	Aureos Africa Fund LLC	controlling stake in RJ Southey	Deneys Reitz	R213m	Jul 8
Acquisition by	Treacle Private Equity	shareholding in Teraco Data Environments		approx $4m	Jul 13
Sale by	Metorex to Medu Capital	15% stake (37 500 shares) in Vergenoeg Mining	Barnard Jacobs Mellet; Venmyn Rand; Bowman Gilfillan; Webber Wentzel; Deloitte	R108,75m	Jul 29
Acquisition by	Spirit Capital	58% stake in Tidy Files SA	CJM corporate advisers	not disclosed	July
Sale by	Mazor to Global Capital	10% stake (12 284 722 shares) in Mazor	Bridge Capital	R27,3m	Aug 7
Acquisition by	InVenFin	minority stake in ChessCube		not disclosed	Aug 12
Acquisition by	Aurora Empowerment Systems from Pamodzi Gold and liquidators	Orkney gold mine	Standard Bank	R215m	Aug 25
Acquisition by	Aureos Capital and management	an additional 29% for Aureos and 20% for management in Sandbox		R66m	Aug 26
Acquisition by	Helios Investment Partners, MSG Afrika Investment, Citi Venture Capital International and RMB Corvest from Independent News & Media (SA)	INM Outdoors	Deloitte; Edward Nathan Sonnenbergs; Cliffe Dekker Hofmeyr; Werksmans	R1,1bn	Aug 31~
Acquisition by	Medu Capital from Erbacon Investment	67,41m pref shares (29,41% econmoic interest)	PSG Capital;QuestCo Sponsors;Cliffe Dekker Hofmeyr; Read Hope Phillips Thomas & Cadman	R113,25m	Sep 22
Acquisition by	Net1 UEPS Technologies from Horizon Equity	MediKredit Integrated Healthcare Solutions	Deutsche Securities; Cliffe Dekker Hofmeyr	R74m	Nov 24
Acquisition by	Spirit Capital	Majority interest in Ascot Site Solutions	Spirit Capital	not disclosed	November
Acquisition by	Paladin Capital	20% stake in Spirit Capital		not disclosed	Dec 3