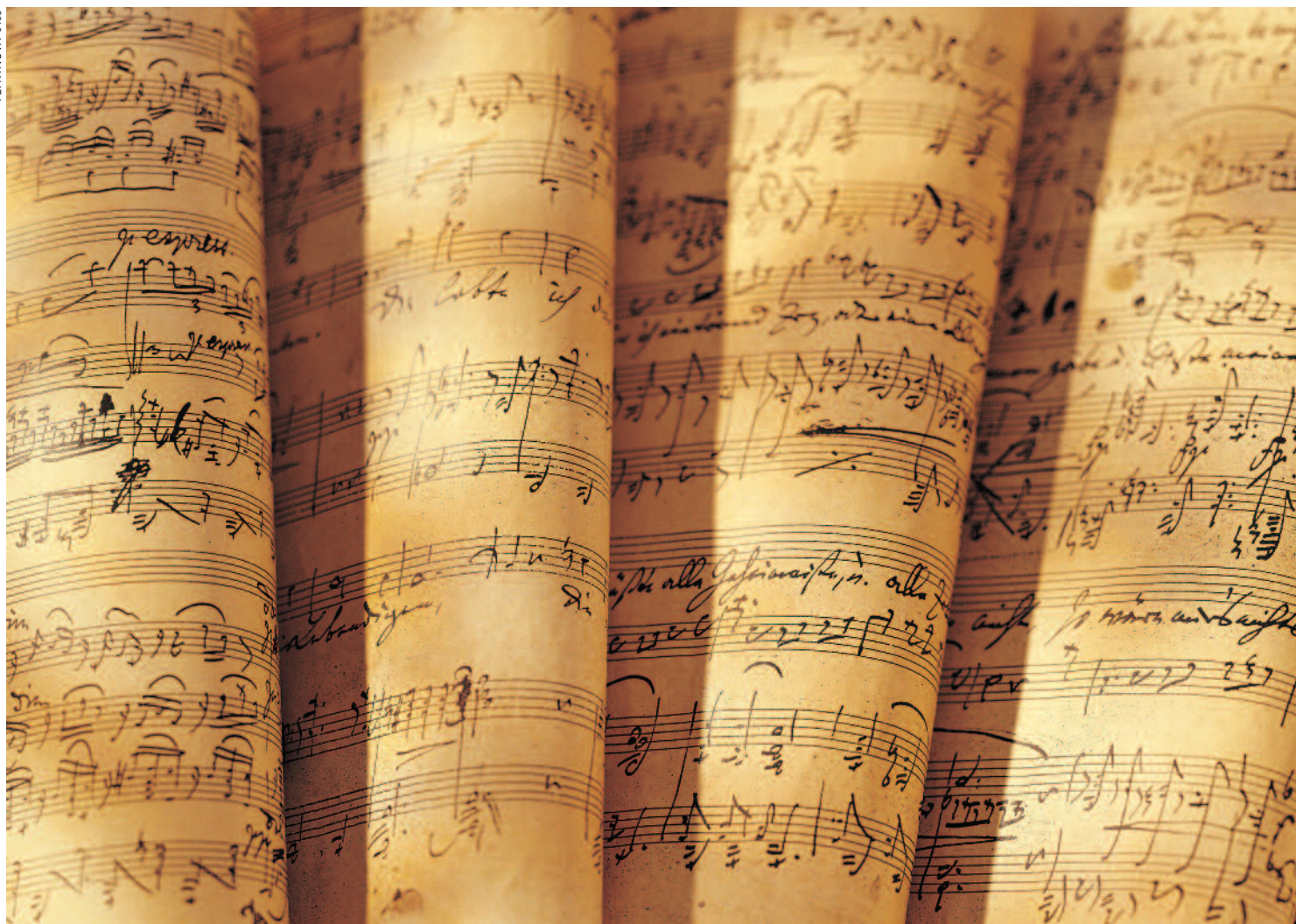


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Catalyst

SA's quarterly Private Equity
& Venture Capital magazine



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From the Editor's desk

Happy birthday, Stevie boy, thanks for the lousy publicity

The tipping point at which private equity went from hot flavour of the year to poster child for all that is perceived as bad about financial markets was probably when Blackstone CEO Steve Schwarzman pressed ahead with plans for his lavish 60th birthday party in Manhattan in February this year.

That was the moment at which nascent concerns about "locusts," "vultures" and heartless asset strippers bubbled to the surface and much of the hard work done by the industry prior to that in improving its image disappeared amid the blur of finger-pointing over the sheer over-the-topness of the event ... and its timing.

Happy birthday, Steve (Schwarzman), his colleagues in the industry might have said ... and thanks for nothing

It really wasn't so much that Rod Stewart was there to lead the singing of "Happy Birthday," or that guests included New York's high profile A-list. And it wasn't just the US\$3m price tag. Rather, the fact that the man of the moment (Blackstone's record-breaking buyout of EOP was making headlines) in this industry that had prided itself on discretion, on keeping

its head low and its financials even lower, was advertising his wealth and power at the worst possible time.

This was a red rag to a bull market, to those who roared that hedge funds and private equity firms needed to be reined in, to the revenue authorities examining the tax regime under which the industry fell (page 9) and the antitrust authorities taking a close look at club deals (page 4).

Happy birthday, Steve, his colleagues in the industry might have said ... and thanks for nothing.

One of the spin-offs of the new scrutiny of private equity and the hostility towards the asset class in the US and the UK has been a focus on the question of tax on carried interest, the "super profit" earned by private equity fund managers. What has emerged from this process is that the buyout industry around the world, this country included, has failed spectacularly to communicate about itself, how it functions, how its business model works and how it earns its keep. Here the Southern African Venture Capital Association and industry leaders are now engaged with National Treasury in a process of discussion around various issues (page 7). *Catalyst* will keep readers posted on these as they evolve.

One of the areas of criticism of private equity is that large public to private buyouts are depleting stock exchanges of good investment opportunities. Asset managers whose man-

The JSE's Loubser believes the myth that private equity has a 'magic bullet' needs to be shattered

dates preclude them from investing in unlisted vehicles are among the complainants in this regard, hence the reworking of some recent deals (Alexander Forbes, Shoprite) to include a reinvestment option. JSE CEO Russell Loubser, however, is not particularly worried about losing major market capitalisation to private equity, but he does question the industry's view that it has some sort of "magic bullet" for extracting value from companies. See page 5 for Loubser's views on private equity and the concerns he has, among them the impact of a rising interest rate environment and management's role in a buyout.

Meanwhile, *Catalyst* is now back in the body of *DealMakers*, as the publisher hopes that the broader audience will garner more support for the publication. Any comments welcome, to jstrachan@palimpsest.co.za.

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verb. (trans).

Wash (something) with clean water to remove soap, detergent, dirt or impurities: always rinse your hair thoroughly | mussels should be well rinsed before use.

- wash (something) quickly, esp. without soap: Rose rinsed out a tumbler.
- clean (one's mouth) by swilling around and then spitting out a mouthful of water or mouthwash

RIO | ree-oh |

acronym. (abbr. Re-Investment Option).
The point at which Private Equity and Institutions meet. Pioneered by Rand Merchant Bank as part of the Actis-led Alexander Forbes

LBO to open a new investment frontier allowing shareholders continued exposure to prized assets. Thinking that has revolutionised the South African financial landscape.

RIP | rip |

verb. (ripped, ripping)

(trans.) tear or pull (something) quickly or forcibly away from something or someone.

(trans.) make a long tear or cut in.

make (a hole) by force.

(trans.) come violently apart; tear

(wood) in the direction of the grain.



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The increasing size of private equity deals, both in South Africa and abroad, has seen a rise in the number of 'club' deals, where private equity firms come together to make a joint buyout bid. This practice is, however, attracting the attention of competition authorities.

If the slipper fits, competition authorities may investigate

In the US such deals are already under scrutiny by the antitrust division of the Department of Justice. At the same time, a class action lawsuit has been filed in Manhattan by shareholders who claim they were short-changed because the firms restrained bidding for leveraged buyouts. It alleges the firms broke antitrust laws by forming "clubs" to make offers, sharing information and agreeing not to outbid each other.

The trend towards "clubbing" is being spurred by the vast size of the funds being raised by private equity firms today and the need for them to make investments within a relatively short period of time. Yet many of them have caps on the amount they can invest in a single deal. By combining forces with other private equity firms they are able to make huge acquisitions, pool expertise and share costs and risks.



Michael Judin

In South Africa, attorney Michael Judin of Johannesburg attorneys Goldman Judin Inc and Advocate Greta Engelbrecht argue that joint bidding may fall foul of collusive tendering provisions.

They say that joint bidding could fall foul of the restrictive horizontal practices provisions of the Competition Act, and in particular the prohibition against collusive tendering in s4. "But, so the private equity firms may argue, club deals are in effect legitimate joint ventures between competitors that ought to raise no competition concerns. These deals, they will say, are designed to spread commercial risk and cost, which in turn enables a fund that might not have otherwise participated in a transaction to do so, or to offer a higher price than might otherwise have been offered."

However, they point out, the collusive tendering provision in the Competition Act does not allow culprits to argue pro-competitive defences. Once there is a finding that collusive tendering has occurred, the prohibition stands.

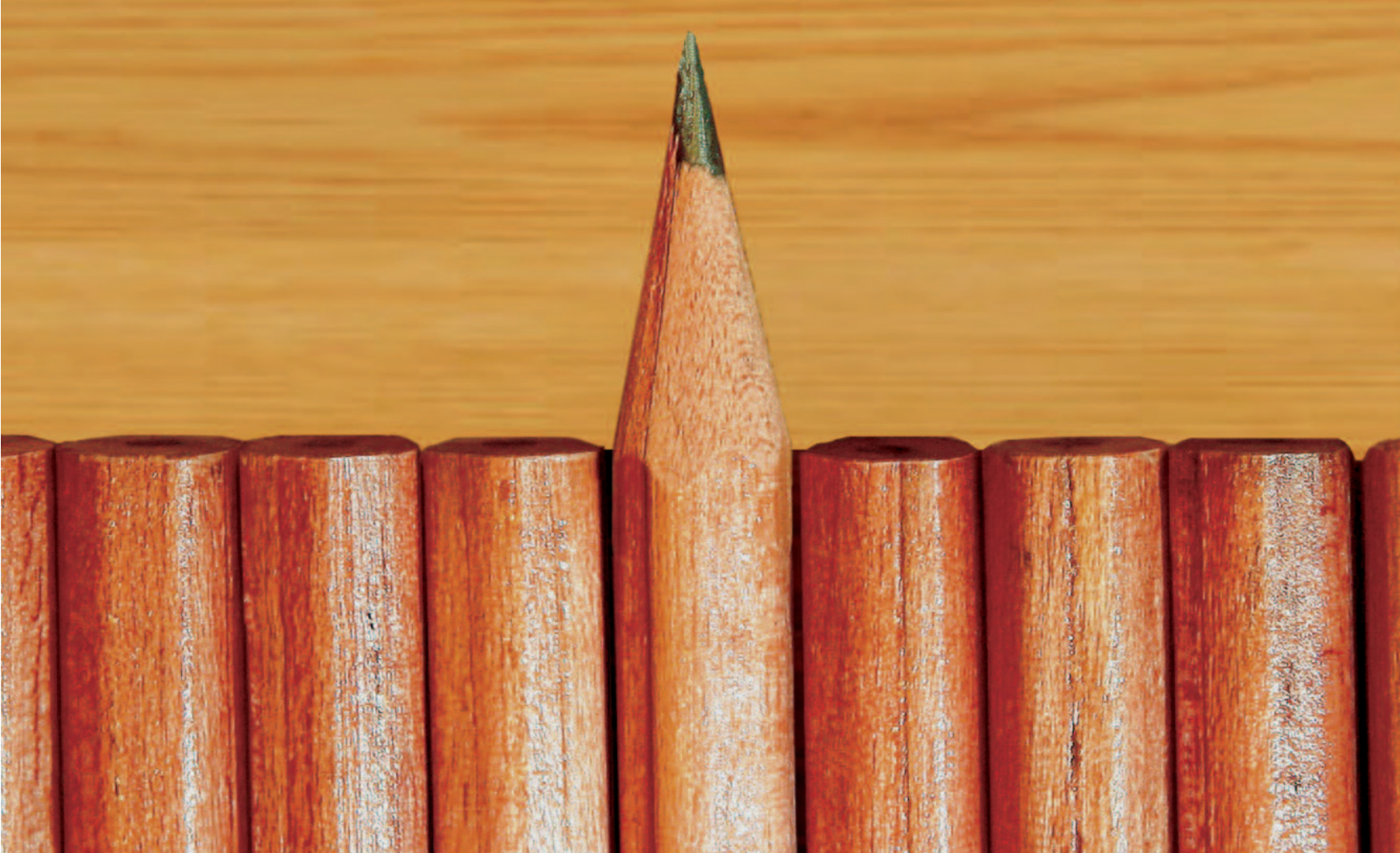
A finding that a firm has engaged in anti-competitive practices in section 4(1)(b), including collusive tendering, may lead to the imposition of an administrative penalty of up to 10% of annual turnover of the guilty party in the preceding financial year even for a first offence. Importantly, also, s65 of the Act entitles a person who has suffered loss or damage as a result of a prohibited practice to commence action in a civil court for the assessment or awarding of damages consequent upon that prohibited practice.

It is in a similar context that the US class action suit has been filed.

Odie Strydom, Senior Consultant, KPMG Competition Advisory Practice, writing in the newsletter of the Competition Commission, notes the increasing prevalence of club deals in this country.

The trend towards "clubbing" is being spurred by the vast size of the funds being raised by private equity firms today and the need for them to make investments within a relatively short period of time

She agrees that offers structured in this way could pose competition concerns, as an auction process could be manipulated. "Not only could bidders agree to fix the purchasing price; they could also agree to only one bidder tendering for the business of the target. Any bidder would prefer avoiding a price war, as private equity transactions involve a



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high degree of planning and expenditure. Depending on the circumstances, club deals could further reduce the actual number of bidders, leading to relatively uncompetitive offers. This behaviour would precipitate an investigation by the competition authorities.

Another aspect of the mega-deals is the tendency to lock up as many big lenders in exclusive agreements as they can, making it difficult for potential rival bidders to finance a competing bid. This, though, does not appear to be under specific scrutiny.

Judin and Engelbrecht conclude: "The line

between legitimate collaboration and collusion is a fine one and competition authorities may well not be able to find sufficient evidence that private equity companies that linked up contravened the law in some way. Nevertheless, even if no finding of anti-competitive conduct eventuates, the process of investigation triggered by either a complaint or a decision of the Commission to investigate will affect private equity firms.

"The Commission has in recent years not made full use of its investigative powers under the Act, but if it believes that evidence of collusion or bid-rigging could

be found, a full investigation that includes cumbersome requests for information, the use of subpoena and search and seizure powers and such like could occupy the industry for some time."

A final word from Simon Perry, head of Ernst & Young's global private-equity practice, who suggested in *The Economist* that "club" might be the wrong term for these alliances. "'Club' engenders a warm, slipper-like feeling," he was quoted as saying. "These are well-run, profit-oriented organisations that are finding it in their self-interest to associate." ♦

One aspect of the hysterical writings about private equity in the past year has been a view that the JSE should be seriously concerned about the trend of buyout firms to acquire and delist companies.

Claims that private equity possesses a magic bullet is stretching credulity

JSE CEO Russell Loubser isn't particularly worried about losing major market capitalisation to private equity, but he does question the industry's view that it has some sort of magic bullet for extracting value from companies.

"We don't badmouth private equity," he tells *Catalyst*. "You can't say they are all good or all bad; you have to look at each deal on its own merits. If it's the right commercial decision to take a company off the exchange, or to bring it back, for that matter, then so be it."

But – and here's the thing – buyouts are often less about the pure fundamentals of the business than about other considerations, not all of them in the long-term interests of the enterprise. "Some private equity deals are about finding companies that are cash-rich and/or have low gearing, then introducing heavy gearing. I question whether that is always good for the companies concerned. It's all very well in an environment of low or declining interest rates,

but think about what's going to happen when rates are on the up."

Further concerns are around management's role in a buyout and whose interests management serves. "If managers are involved in negotiating the buyout, as they so often are, it begs the question as to whether or not they are acting appropriately with regard to the interests of their existing shareholders. One also has to ask," Loubser feels, "what management has been doing all along that there is this enormous value just sitting there waiting for exploitation."

But Loubser's primary gripe is the fact that some private equity firms appear to suggest that they have some sort of magic fix for companies, that they know best – about everything.

This implies, he says, that the target company's managers are "complete fools" and that somebody with no specialist knowledge of that industry has all the answers to making it a better business. "I don't discount the fact that man-



Russell Loubser

Catalyst

agement can sometimes have tunnel vision and not see the bigger picture, but I don't buy that it is always the case that private equity fund managers in plush offices somewhere know it all much better than current management."

Loubser's primary gripe is that some private equity firms seem to suggest that they have some sort of magic fix for companies, that they know best - about everything

And what is often "glossed over" by private equity firms, he believes, is this: if the work they claim they would be able to do privately is so obvious and good for the company, then why not keep the entity listed and turn it around for the benefit of all shareholders?

The private equity industry's answer would be that the demands of performing in the public eye, with the requirement of six monthly reporting and the pressure from analysts and shareholders for con-

tinuous growth, are onerous when a company is undergoing major change.

Loubser retort is that he understands that some things are easier to achieve "under the radar," but that analysts, shareholders and the JSE are probably more understanding than the buyout firms give them credit. "For example, if you could convince me that the high gearing was good for the company in the long term, that it was not too aggressive, I would say fine, sounds OK. And I think analysts and the big shareholders would too. Same if a (listed) company said listen, we are not going to make money for the next two years, we need to bite the bullet and invest for the future." Not all private equity fund managers would agree with him, however.

He goes on: "It's the other things that happen under the radar that concern me, though, such as the reduction in transparency and disclosure."

That said, he does not buy the view that firms might go private merely because without regulatory governance they can get away with actions that are truly not above board. "No, I would not support that view."

However, he challenges the industry's claim that the type of reporting and governance frameworks they have in place due to demands from their own investors are as robust as those required in the listed environment. "I think that would be stretching it."

Back, then, to the impact of private

equity on the JSE: Yes, taking companies off the exchange reduces liquidity to an extent, and puts pressure on those investors whose mandates preclude them from following a buyout, but R60bn out of a total market cap of about R6tn is not in itself a major issue. It would become one only if a particular sector became the focus of a number of buyouts, thus reducing access to that sector by institutional investors, or if it impacted significantly on overall liquidity, which is not yet the case.

"It's the other things that happen under the radar that concern me, such as the reduction in transparency and disclosure"

"Until then, I think there has been a lot of unnecessary attention on this issue as a result of a few fairly large deals coming close together, generating complete hype," Loubser concludes. "Private equity has been around a long time, so let's not suddenly get hysterical about it. Rather let's look at each deal on its own merits, while shattering this myth of magic around private equity." ♦

The high profile of private equity both internationally and in South Africa has prompted an information-gathering and educational exchange between the industry and National Treasury.

Talking to Treasury

The Southern African Venture Capital and Private Equity Association (SAVCA)'s JP Fourie says the process is about exchanging information, addressing any concerns and ensuring that any impediments to progress are dealt with before they become material problems.

From Treasury's perspective, it is

understood to be engaging with the private equity industry with a view to deepening its understanding of this increasingly high profile business sector. However, a representative told *Catalyst* that the department is "still in the process of consulting internally and with various experts in the field" and would not com-

ment publicly until it has exhausted this process. It is likely, though, that matters under discussion will include the implications of private equity in terms of, for example, tax, currency flows and debt structuring.

As part of the exchange, some top private equity firms have presented case stud-

ies of various large recent deals, as well as discussing private equity and venture capital concepts in general, including Actis (Alexander Forbes), Brait (Consol), Ethos (Moresport), ABSA Capital (Safripol), Vantage Capital and Business Partners (on a cross-section of activity in the expansion

and development capital end of the market).

Brait's Bruce MacRobert says the process to date has been extremely constructive and was likely to be good for the industry. He adds that the need for this interaction is in part a reflection of the disservice the industry has done

itself in maintaining such a low profile.

Brait is one of the firms that has been at the sharp end of Treasury and SARS concerns about private equity buyouts: one of the objections to the subsequently aborted Shoprite transaction was "that it was designed to avoid tax." ♦

National Treasury's examination of private equity is consistent with what is happening elsewhere in the world, says André Roux, CEO of private equity manager Ethos. And it is perfectly appropriate, he adds.

Examination by National Treasury is appropriate, says Ethos's Roux

"If one looks at the UK and Europe, for example, regulators there have been scrutinising the industry from a number of perspectives, in particular tax issues and the overall debate on private equity as a force for good – or bad," Roux says.

In South Africa he believes that



André Roux

Treasury's interest is being driven primarily by concerns around tax leakage flowing from some of the large transactions in which most of the debt financing has been raised from offshore sources.

"If the debt were being raised locally, the transactions would be tax neutral, but tax leakage to the fiscus arises when

interest on some of these deals flows to offshore investors as South Africa has abolished withholding taxes on interest."

Thus he believes Treasury is right to be contemplating this dilemma, but at the same time needs to be sensitive to encouraging inward portfolio flows to finance the current account deficit. Private equity portfolio flows have helped fund the savings deficit in South Africa, albeit partially, he says, which have been useful to Treasury in managing the balance of payments. It follows, therefore, that Treasury would want to tread carefully in considering any punitive measures on inward portfolio investments.

"And of course, linked with this challenge is the technical minefield of double tax treaties. However, to date National Treasury has been constructive and considered in its approach to tax matters."

Another issue is the deductibility of interest and the fact that the private equity industry has been able, due to its traditional funding structures, to take advantage of interest deductibility in funding acquisitions, to a far greater extent than other role players in the South African economy, though it is available to any taxpayer. "It's an international debating point and it would be difficult for any regulator to single out a particular industry for taking advantage, perfectly legally, of the tax codes. One solution to this, one imagines, would be to make

the cost of equity deductible, thus creating a level playing field between debt and equity, though this is hardly likely, given the significant consequences for the fiscus and the problems in defining the cost of equity."

In terms of private equity as a 'force for good,' Roux says there is very little focus on this yet, though Treasury might be interested in this debate.

"It is very much a philosophical discussion, with the populist view holding that private equity is about asset stripping, layoffs and an end to transparency. Each of these aspects is worthy of examination and we shouldn't shy away from it."

With regard to transparency, he believes that the rapid growth of the industry means that the mantra 'private means private' is no longer appropriate. "However, it is critical that the industry should be taking the initiative in this rather than waiting for the imposition of transparency compliance regulations."

Finally, he urges detractors to recognise that all that is happening right now is that private markets are taking advantage of inefficiencies in the public markets – but that the time will come when cyclical and most likely secular forces reverse this situation.

"When the wheel turns and the system self-corrects, it will be up to the private equity industry to be sure it is able to withstand it." ♦

The taxation of the carried interest earned by executives in private equity funds has generated fierce debate in both the US and the UK, with legislative changes possible in both.

The great international debate on changes to tax on carried interest may be echoed in SA

The taxation of the carried interest earned by executives in private equity funds has generated fierce debate in both the US and the UK, with legislative changes possible in both.

The tussle is over the taxation of carried interest ('carry') on a capital gains or a revenue basis, with the former attracting a lower tax burden than the latter.

In South Africa the matter is seemingly not yet on the radar screen in Pretoria – and private equity fund managers are not keen to highlight it.

In the UK private equity receives a public grilling

The June grilling of private equity executives before the UK House of Commons Treasury Select Committee saw a vitriolic attack on the buyout industry led by senior trade union officials.

Three particular aspects of the attack were around the issue of taxation, transparency and the risks to workers in private equity buyouts.

"Witnesses" from the private equity industry were Damon Buffini (Permira), Dominic Murphy (Kohlberg Kravis Roberts), Philip Yea (3i Group) and Robert Easton (Carlyle Group).

In terms of tax, witnesses were asked if they were "proud" to be paying less tax (proportionately) than their cleaners. Easton's response was that he paid "41% income tax and pay the relevant capital gains tax on whatever my investments realise as capital gains."

Frequent mention was made by the unions of threats to jobs, with the acquisition by Permira of AA being a case in point. After AA was bought in 2004, about one third of its workforce of 10 000 lost their jobs. As one observer comments, though, what was not discussed was the

fact that had the buyout not taken place it is highly likely that AA would have been forced to close its doors altogether.

Permira head Buffini also argued that private equity deals were to the benefit of millions of pensioners. "We have 30 million pensioners in our pension funds. And we've produced world class returns for them in an era where pension fund deficits are a big issue. And I think that's a big positive for the country."

The British Venture Capital Association, in its submission to the committee, noted that "around the world, tax jurisdictions compete for human capital because of the general benefits brought to the economy. France and Germany, unlike the UK, both have specific regimes designed to tax private equity executive's equity gains at lower rates. Other countries follow the UK position and tax as capital gains but often with the benefit of a zero rate or deferral e.g. Holland, Switzerland, Spain and Sweden."

British Prime Minister Gordon Brown, prior to taking over from Tony Blair, said he would scrutinise tax laws that favoured private equity firms. However, new Chancellor Alistair Darling has hinted that he would not make hasty "knee-jerk" changes to the tax regime for private equity.

The US legislative proposals

Two pieces of legislation have been proposed in the US which, if passed, would impact significantly on private equity funds and their executives.

US Democratic Party Congressman Sander Levin recently introduced legislation that would change the ways that investment fund managers would be taxed on carried interest.

The Levin proposal is aimed at ensuring that those "who take a share of the funds' profits as compensation for investment management services, known as 'carried interest,' would be taxed at an appropriate ordinary income tax rate.

"Currently, the managers of private investment partnerships are able to receive compensation for these services at the much lower 15% capital gains tax rate rather than the ordinary income tax rate by virtue of their fund's partnership structure.

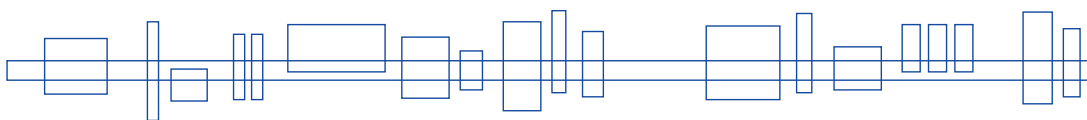
"Congress must ensure that our tax code is fair. We have to be sure that the lower capital gains tax rate is not being inappropriately substituted for the tax rate on wages and earnings," said Levin.

He argued that investment fund employees should not pay a lower rate of tax on

In terms of tax, witnesses were asked if they were "proud" to be paying less tax (proportionately) than their cleaners

their compensation for services than other Americans. "These investment managers are being paid to provide a service to their limited partners and fairness requires they be taxed at the rates applicable to service income just as any other American worker."

The legislation presents the view that any income received from a partnership, capital or otherwise, in compensation for services is ordinary income for tax purposes. As a result, the managers of invest-



ment partnerships who receive a carried interest as compensation will pay regular income tax rates rather than capital gains rates on that compensation. The capital gains rate will continue to apply to the extent that the managers' income represents a reasonable return on capital they have actually invested in the partnership.

Then, in June, two senators proposed legislation that would tax publicly traded private equity funds as corporations. The Baucus-Grassley Bill seeks to prevent publicly traded private equity funds from

using an exception to avoid corporate taxation. The bill provides that a particular exception currently used by private equity firms will not apply to a partnership that has, directly or indirectly, any item of income or gain where the rights to such income or gain are derived from asset management services provided by an investment advisor, a person associated with an investment advisor or any person related to an investment advisor.

The Private Equity Council believes this legislation, by significantly raising taxes on

US private equity firms that seek to offer shares to the public, "will discourage them from tapping into the most robust capital market in the world – the United States."

The various Presidential candidates are split in their views on this matter: Hillary Clinton refers to the current system as a "glaring inequity." Democratic frontrunners Barack Obama and John Edwards also support a change in tax treatment for carried interest, while Republican candidates Rudy Giuliani and Mitt Romney say they want to maintain the *status quo*.

So what exactly IS carried interest?

Amidst the brouhaha about the taxation of carried interest, it is clear that not everyone offering opinions on the matter understands how it works.

The British Venture Capital Association (BVCA) describes it succinctly as equivalent to a performance fee, representing the share of a private equity fund's profit that will accrue to the general partners. A minimum return (hurdle rate) to investors must be achieved before a carry is permitted. A hurdle rate of 10%, for example, means that the private equity fund needs to achieve a return of at least 10% per annum before the profits are shared according to the carried interest arrangement. (Sometimes, when fund managers qualify for carry, they pay back the fees to the investors and then receive only carry.)

The US tax advisory firm Kilpatrick Stockton describes carried interest ('carry') as a fund manager's share of distributions from a private equity or hedge fund. Typically, the fund manager's entitlement to distributions arises after the fund distributes to the investors amounts sufficient to return invested capital plus provide some return on invested capital. This structure intends to provide incentive to the fund manager to achieve gains on fund investments, because the manager's economics from the fund is dependent on the fund's making distributions in excess of investments. This structure also permits the fund manager to receive an economic interest in fund profits greater than its proportionate capital contribution, they comment. ♦

A group of US institutional investors will visit South Africa later this year on a "Learning Journey" aimed at broadening their knowledge and exposure to investment opportunities in private equity, venture capital and medium-sized listed companies here.

US institutional investors heading for SA

The trip is being facilitated by the US Department of Commerce International Trade Administration, with the support of the South African Venture Capital and Private Equity Association (SAVCA) and the JSE.

Representatives of some significant public retirement fund systems are

already committed to attending the October/November programme, as are some large foundations.

The programme is designed to deliver insight into the macroeconomic environment, the regulatory environment, as well as a particular look at private equity

and the listed markets. It will also allow private equity firms to present their credentials to the investors.

This initiative is one of various SAVCA proposals around the question of access to capital and promotion of the industry. ♦

Two recent deals with companies focusing on the prepared and high value food sectors highlight the power of this industry niche.

One in, one out

Ethos exits its First Lifestyle investment

Ethos Private Equity has sold its interest in First Lifestyle Holdings, the high value food group with a focus on the convenience food market, after having held the investment in Ethos Fund IV for six years. The initial acquisition was for R492m and the sale, to Foodcorp, is at R1,2bn.

First Lifestyle's primary business is Pieman's Pantry and it owns Fifers Bakery and Seemann's Meat products. It is also the primary supplier of convenience foods to South Africa's top end private label retailer.

Ethos Partner Richard Pender says that with hindsight it seems obvious, but when the private equity firm first looked at the company in 2000 the convenience food industry in South Africa was nowhere near as strong as it is today. "We did considerable research here and around the world and concluded that this country would follow the trend in developed and developing countries of less home cooking, more buying of prepared foods.

"We called it correctly – the business has shown more than 25% EBIT growth annually for the last five years."

At the time of acquisition First Lifestyle also included a leisure products division, with products including garden furniture, plastic products and umbrellas. A decision was taken, however, in line with predictions for the prepared food market, to focus exclusively on the food business. Ethos sourced a buyer for the largest leisure products division.

"From the start of this investment we worked exceptionally closely with management," Pender comments. "An interesting feature of the group was that it was more entrepreneurial and less 'corporatised' than many of our previous investments." It comprised an assembly of strong but individual brands held together at the top by Corrie Roodt, who brought an abiding sense of entrepreneurship and ongoing innovation to the whole. Today First Lifestyle is a major corporate food group, the largest convenience food manufacturer in South Africa.

Brait buys Nature's Choice

Brait Private Equity's Brait Fund IV has, for an undisclosed sum, acquired a substantial minority stake in Nature's Choice Holdings

(Pty) Ltd, a perishable food producer specialising in the production and processing of frozen vegetables, frozen French fries, prepared chilled vegetables and prepared meals.

Nature's Choice Holdings was started in Durban in the mid-1990s to import frozen produce from New Zealand but when the rand weakened against all major currencies in 2001, the founders moved into local production.



Brait Private Equity director Rolf Hartmann says no debt has been raised to fund the acquisition. "This is not about complicated financial engineering, it is about entrepreneurially driven growth," he comments. "The business has an unencumbered balance sheet, and this, together with shareholder support, will provide the business with the financial flexibility to grow through organic expansion and strategic acquisitions." Brait will appoint three directors to the board.

Think Nigerian financial services and one is likely to recall the generous offers made by those illiterate folk issuing 419 scam emails. Or of the bank collapses of the 1990s.

Nigerian reforms prompt renewed interest in banking sector

However, the banking sector has undergone a reform process that has opened the country to opportunities in this regard. As a result, Actis has announced the acquisition of a Nigerian bank and

Ethos Private Equity is understood to be on the verge of doing the same soon.

Actis recently led a R966m (US\$134m) investment into Diamond Bank Plc, one of Nigeria's leading banks. The investment

provides additional capital to the bank for its growth plans and gives Actis a 19,1% stake in the business. This transaction was one of the largest single private equity investments undertaken in Nigeria to date.

Diamond Bank is listed on the Nigerian Stock Exchange and was founded in 1991. It is a universal bank with activities across corporate, commercial and retail finance, and has 117 branches across Nigeria and Benin.

Actis Investment Principal Jacob Hinson concedes that concerns about the security of the Nigerian financial systems had to be acknowledged, but says that these are largely historical and considerable steps have been taken by the authorities in dealing with problem areas.

"That's why one has seen the higher levels of interest in the sector from abroad," Hinson says. "In addition, we were able to bring in some of our own international banking experts to work

on the ground with our new partners, which provided further comfort."



Jacob Hinson

Catalyst understands that Ethos Private Equity is partnering with Old Mutual to make an investment of close to US\$150m in Oceanic International Bank, following the bank's recent public offer.

Late in 2005 Standard Bank said it was in discussions with Oceanic regarding Oceanic acquiring Stanbic Bank Nigeria and Standard Bank acquiring a significant strategic minority shareholding in Oceanic, but this transaction was subsequently put on hold.

Then recently the Standard Bank Group agreed to merge its Nigerian operations with those of IBTC Chartered Bank plc, with Standard having a controlling (50,1%) interest in the merged entity. ♦

The Southern African Venture Capital and Private Equity Association (SAVCA) and Business Partners have launched a pilot internship programme for graduates looking to develop a career in the venture capital industry in Johannesburg.

Careers in Venture Capital – industry launches internship programme

It is also supported by the Department of Trade and Industry (DTI) and the CSIR. Five candidates are already up and running at Business Partners, says Ephraim Baloyi, Director Innovation and Technology at the DTI.

The one-year internship is aimed at developing capacity and skills to enable greater participation in the venture capital industry, as well as facilitating the commercialisation of innovation and technologies through venture capital investment in South Africa.

Says Baloyi: "The country has an abundance of fund managers in private equity as opposed to venture capital. We aim to broaden the pool of skilled fund managers able to identify opportunities for technologies being developed at, for example, science councils and universities, to see if they can be exploited commercially."

And Business Partners executive director Christo Botes says the organisation is "delighted" at the quality of interns enrolled into the programme. "We hope to go a long way towards equipping the interns with the basic skill needed to be players in this field full of challenges. Even the best venture capitalists around still learn every day, but the year's internship should nevertheless provide a strong foundation for a career in venture capital."

This internship will provide the successful candidate the opportunity to apply their recent post-graduate qualification in the pursuit of a career in this challenging industry.

The interneers are receiving structured on-the-job training and should, on completion of the term, have experience in:

- Undertaking viability studies (due diligence, cash flow analysis, industry analysis);

- Negotiating and structuring of investments;

- The management and optimising of returns on investments made; and

- Shadowing portfolio managers.

SAVCA executive director JP Fourie describes the programme as "a good start. We still have a long way to go in terms of growing skills in our industry".

- Business Partners is South Africa's leading specialist investment company for small and medium enterprises. In the 2006/2007 year, its investment portfolio under management rose to almost R1,5bn. During the year, 664 investments to the value of R876,6m were approved. ♦