Catalyst

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Infrastructure plans - Harith and EPPF weigh in

What's next for PE in Covid aftermath?

Will big tech be caged?

FROM THE EDITOR'S DESK

Over the past forty years or so, the corporate world has been thriving on debt as government policymakers, particularly in the US and Europe, have inflated credit and money supply to keep the unemployment rate low.

The economic community justified the use of debt by theorising that changes in a company's debt/equity ratio had little or no effect on a company's cost of capital.

But times have caught up with this use of debt, as the coronavirus pandemic and the economic recession have wreaked havoc in the businesses that have over-leveraged their balance sheets.

Standard & Poor's recorded 88 corporate bond defaults through the second quarter of 2020. Millions of smaller businesses have gone under.

Goldman Sachs has reported that the shares of companies with stronger balance sheets "have massively outperformed those with weaker ones…."

But, the debt problem is all over the place. Sovereign debt throughout the world is pushing records everywhere; and debt is overwhelming many smaller sectors of the business community.

In South Africa, we have a different problem with the cost of capital being inflated by sovereign risk. This means that the real rate of return that companies have to achieve to compete with government bonds at 9% plus equity risk premium of 5% is 14%.

While the rest of the world pumps more liquidity into the system, South Africa is paddling in the other direction.

Brian Kantor, economist and head of the Research Institute at Investec Wealth & Investment puts it this way:

"Assume an investment world with income, initially 100, expected to grow at 5% p.a. over the next 20 years. Assume a developed world discount rate of 6% - 1% which is all that is available from government bonds, plus an assumed 5% extra for risky equity. The present value of this expected income or cash flow stream will be 320. Moreover, 81% of its current market value can be attributed to income expected after 5 years. The same business, with the same prospects in SA, and with the same risk premium, but competing with government bonds offering 9%, would have future income discounted at 14% p.a. That is at more than double the discount rate applied to an averagely risky investment in the developed world. It would have a present market value of 116, about a third lower. And, of which, only 54.9% of its present market value will be attributed to income to be expected after 5 years. Inexorably forcing such a business to adopt a much shorter focus with far fewer viable investment opportunities."

The one message that President Cyril Ramaphosa's administration must understand is that reforms should be aimed at reducing the cost of capital. Anything short of that will not see the necessary investment flowing into the real economy, and growth – with all the jobs and prosperity and good things that are tucked into its slipstream – will remain as elusive as the status quo is stultifying. ◆

Michael Avery

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Eskom CIO calls for Asset Owners Forum to Spur Infrastructure Investment

Predictably, President Cyril Ramaphosa's Economic Reconstruction and Recovery Plan placed a grand R1trn infrastructure plan (leveraging up to R660bn of 'crowded in' private sector capital, or so it is hoped) at the centre. But plans are wearing thin and only execution matters at this late stage, to pull South Africa back from the brink of failed statehood.

Catalyst sat down with one of the leading infrastructure-focused general partners, Harith – the country's second largest defined benefit fund, The Eskom Pension and Provident Fund – and private equity advisory firm, RisCura, to thrash out what happens next to unblock the constipated infrastructure pipeline.


Emile Du Toit

Harith General Partners started investing in infrastructure in 2007.

Emile Du Toit, MD: Fund Raising and Liabilities Management at Harith General Partners, is as credentialed as they come in this space, having headed Corporate Finance at the Development Bank of Southern Africa in South Africa for several years before joining Harith in 2011.

Harith manages two pan-African infrastructure funds with a combined commitment value of just over US$1bn.

"And our investors are all African-based investors as well," Du Toit points out.

"We've had 13 years of experience investing in various infrastructure projects, ranging from power to transport to telecoms and, by and large, the experience has been exceptionally good. Early on, we clearly had some lessons to learn about how to invest in certain parts of Africa. But over the period, we've managed to hone our risk management skills and identify the projects where we can provide good risk-adjusted returns to our investors, the bulk of which are pension funds and DFIs. It's important for us to ensure that we provide those long term consistent cash flow returns, and that the risks are well mitigated. Whether you talk political risk or currency risk. Those are really the value adds that we have as portfolio manager."

But what about COVID's impact on the asset class?

"I think as we've seen coming through this COVID period, our entire portfolio has held up extremely well," says Du Toit. "There are obviously some elements of longer-term impacts on power projects, for example, but where we've seen the biggest impact is in a certain section of the transport sector, which is the airports. We are also a big investor in Lanseria and that's clearly been severely impacted by the COVID crisis."

Du Toit hastens to add that the rest of the portfolio is benefiting from the fact that infrastructure assets are, primarily, essential services; whether its power, fibre telecoms, water, or transport such as ports, which has meant that it has proved to be a very good defensive asset class, especially for pension funds.

"Our argument has always been that infrastructure is the foundation of all other asset classes. In order for other assets in your portfolio to grow, you have to have sustainable infrastructure in the country or region where you are investing."

And the proof really is in the fact that Harith has almost fully invested its second fund and is starting a new fund-raising cycle.

In the South African environment, pension funds are increasingly looking at this space, perhaps driven by where South Africa finds itself.

Ndabe Mkhize

Du Toit says he's seen different countries on the continent going through these cycles, and he believes that the South African space is opening up and becoming a very large area of potential investment for Harith in the future.

Ndabe Mkhize is Chief Investment Officer of the Eskom Pension and Provident Fund, which is a giant on the African continent with more than R150bn of assets under management (AUM) and more than 80,000 members.

"We have responsibilities to our members to manage our assets responsibly," says Ndaba. "We have to invest for the long term and to ensure we have enough assets to meet our liabilities as they fall due. We look at assets that diversify our exposure. Infrastructure and real assets like property are good assets because they provide high returns, double digit returns, and lower risk. If you look at private debt, it tends to have lower loss ratios than some of the corporate debt [being offered]."

Ndaba points to the economic multipliers as a key non-financial metric that is attractive to the EPPF because it offers the ability to have job-creating growth and drive impact, especially as the country is looking to catalyse growth in the wake of COVID-19.

"Infrastructure assets will be able to give us that push to restart the economy. More importantly, our members don't have to wait for retirement before they start enjoying the benefits of the pension fund. They can start

"Infrastructure assets will be able to give us that push to restart the economy. More importantly, our members don't have to wait for retirement before they start enjoying the benefits of the pension fund. They can start enjoying exposure to some of the investments we are making, be it in affordable education and affordable healthcare under the social infrastructure bucket, or the economic infrastructure in renewable energy or in telecoms and transport [such as] in dry ports. The Canadians, the Australians and other international pension funds have been playing this game for a long time and we just need to catch up with them." - Mkhize

enjoying exposure to some of the investments we are making, be it in affordable education and affordable healthcare under the social infrastructure bucket, or the economic infrastructure in renewable energy or in telecoms and transport [such as] in dry ports. The Canadians, the Australians and other international pension funds have been playing this game for a long time and we just need to catch up with them."

And the reason that South Africa has been lagging behind the rest of the world when it comes to private sector participation in public infrastructure is largely a legacy of the apartheid era, when state-owned enterprises were created to insulate the country from sanctions and wound up dominating their vertical sectors and becoming monopolistic behemoths; a structural feature of the South African economy that worked well when these behemoths were better managed and also enjoyed the added benefits of artificially cheap inputs in apartheid-era labour and sweetheart iron ore pricing for steel, for example.

"So the development of new projects or sponsors coming to market, pitching new projects, has not really been as active in SA as other places," says Du Toit. "But with the position we find the country in at the moment, and with government opening it up to more public private partnerships, I think these opportunities will open up."

And the belief is that, despite the political and currency risk that South Africa presents, investors will go where there are good opportunities to invest and where the ground rules are known.

"I think we are in a very exciting stage in SA, where a lot of people are willing to look at these projects," says Du Toit, referencing some of the recently gazetted Strategic Infrastructure Projects. "Clearly, some development of projects needs to take place. That's often been a bottleneck in many places, and especially in SA. But I don't think those stumbling blocks are very difficult to overcome. We've been looking at the South African market for a long time and we've probably invested about 20-25% of our portfolio already in SA, and we potentially see that growing going forward."

Ndaba adds the fact that the asset class lacks profile among pension funds trustees as a key choke point to its growth in the past.

"The availability of bankable projects, as well. I would also add that we've also seen high due diligence costs. Information asymmetry, meaning the person who is selling the infrastructure project knows more about it than you do, as well as the lack of skills to be able to analyse the proposal being made by private equity or private markets players, and to see whether those are relevant to the pension fund. We believe, though, that those challenges can be overcome."

One of the biggest recurring themes that Ndaba says he has seen in South Africa and across the continent is the trust deficit between members of pension funds and government and the public at large. "People do not trust their governments," he says bluntly. "They know that they need things like energy and digital healthcare, but they don't trust that government will be able to do what it says it will do."

It's unfortunate for the African continent because we are seeing international players investing in this asset class and, therefore, benefiting their economies.

So what has to happen to shift the narrative?

Ndaba believes that the creation of something akin to an asset owners' forum, where the pension funds and other institutional investors can come together and talk peer to peer (when you are not listening to a 'silver-tongued private equity player trying to sell you something') is a step in the right direction.

"And finding a way of sharing those high due diligence costs in financial, commercial and legal aspects, being able to negotiate even more meaningful fees with those private equity players, and to upskill the trustees at the same time. And lastly, to be able to engage with government so that the trust gap can be closed. To look at the terms to make sure there is transparency and good governance. We believe that it has to be done and we cannot sit on the sidelines and wait for government to be trustworthy. The large institutional investors need to come together with a plan and make sure this asset class is understandable."

On the point of ensuring that there is no ambiguity about what needs to happen, the Association of Savings and Investment South Africa (ASISA) recently introduced the infrastructure standard.

ASISA is a non-profit company formed in 2008 to represent the savings, investment and insurance industry that contributes trillions of rand to South Africa's economy. Some put the AUM of its collective memberships at R8trn.

Heleen Goussard, Head of Alternative Investment Services at RisCura, believes that ensuring clarity will help guide decision-making and improve allocation to the asset class into the future.

Heleen Goussard

"When we say we want to increase the funding that goes to infrastructure, the first thing we've got to do is decide, what does infrastructure mean? So that when we speak to an investment fund that is offering its product to the market, for example, and they say this is an infrastructure product, we know we are talking the same language when we go from one fund to the next fund. In addition, when asset owners, like the pension funds, want to report, there is some consistency on what that means," says Goussard.

Infrastructure, like most other asset classes has some overlaps and, in some areas, it does not appear immediately apparent whether it is part of the asset class. There is also a debate about whether it is indeed an asset class or whether it's an investment theme, which is not necessarily the most relevant.

"In the longer term, once we know what it means, we can then report on levels of current exposure and ongoing exposure," explains Goussard.

"Then, even longer term, we can start reporting on returns of the asset class."

This also allows us to start analysing the risk profile against performance and whether the two match up for investors.

The bottom line for Du Toit is that capacity exists to speed up delivery, and South Africa needs to leverage the skills that it has in the country.

"There is a significant skills base in the private sector," says Du Toit, "in private equity fund managers like ourselves, or within the banks who have been significant providers of infrastructure debt, for example, on the continent and in South Africa. And then we also have a very strong legal profession, in terms of expertise in structuring these projects. The real difficulty is that pension funds will find it very difficult to invest directly into greenfield infrastructure projects because of the level of financial and legal structuring, which is extremely complicated. Sometimes, it takes us three to four years to finalise a project before we can start building.

Government needs to even the playing field, firstly, between the public and private sectors so that, for example, areas where Eskom and Transnet have had a monopoly are opened up to the private sector on a competitive basis.

"The real issue is that if you offer infrastructure projects on a competitive basis, you will find the capital chasing those projects. And ultimately, what you do is you bid on the end price of the infrastructure, so you get private sector players bidding for the lowest possible provision of infrastructure to the public, at a very high quality. And the benefit in structuring it that way is that you don't have these risks on cost overruns and time overruns that we've seen in some of the large public sector projects. There just needs to be good differentiation between who the players are, what the rules are, who the referees are, and the fact that government can't be all three."

Has the president's plan assuaged those concerns? Only time will tell. ◆

How will GPs and LPs adapt to the new normal?

While the COVID-19 pandemic has dented economies badly, downturns always reveal pockets of investment opportunity. One of these is private equity which is currently sitting on mountains of dry powder – an estimated $2.5 trillion (at December 2019) according to Bain & Co.

Jacolene Otto

This extent of dry powder points to vast opportunities that are likely to open up in the coming years, especially as governments and the private sector seek to boost economic growth through infrastructure projects. Another major current and future investment trend is in technology where private equity is also able to unlock opportunities.

How will GPs and LPs change to the new normal?

There are likely to be some changes in the way GPs and LPs interact and collaborate. LPs can see that there are opportunities and they will need GPs to demonstrate how they are planning to take advantage of these opportunities. There will likely be increased communication between GPs and LPs with each trying to understand the other's perspectives so that they can collaborate to the benefit of investors.

There will also be stronger communication between GPs and portfolio companies. Portfolio companies need to reveal their strategies and processes in more detail, in order for GPs to understand the potential risks before allocating capital and resources to help mitigate these risks.

The largest asset allocators in the private equity industry are institutional investors such as pension funds and development finance

> "...a positive outcome from the bleak COVID-19 landscape is that communication and transparency in the private equity sector will improve, which can only bode well once dry powder starts being used."

institutions, who invest in private equity knowing it is a long-term play. As LPs, they will be looking at how their GPs have responded to the crisis and adjusted to manage risk. Asset classes will be impacted to varying degrees by the pandemic - LPs are focusing on how GPs are responding to this and helping their portfolio companies to stabilise throughout the pandemic.

Otto

In short, a positive outcome from the bleak COVID-19 landscape is that communication and transparency in the private equity sector will improve, which can only bode well once dry powder starts being used.

Investment trend to ESG

ESG is nothing new to the private equity industry, with allocators such as development finance institutions allocating millions to ESG investments. But what is now clear is that ESG is no longer a tick-box exercise in the due diligence process. Daily, the investment media write about a changed world post-COVID-19, a more caring world where precious resources are safeguarded and communities are helped through infrastructure investment, with a concomitant focus on governance.

And so, there is likely to be a greater focus on understanding ESG factors, particularly governance and the impacts on underlying portfolio companies, regardless of whether a fund has an ESG focus.

Work from home – has it hindered private equity?

Enhanced Business Continuity Plans (BCP) are forcing firms to identify weaknesses and tackle issues head on. Key service providers have been subjected to even more stringent oversight. For example, do firms understand the BCP plan of their administrator and how that impacts their business and the service they receive?

Technology, of course, has come to the fore with virtual meetings enabling more or less business as usual – and making business more efficient as the need for travel is obviated. Indeed, fund raising and deal making have continued with GPs, LPs and portfolio companies adapting quickly to continue meeting prospective investors and investments virtually.

Managers are continuing to complete transactions remotely. Board meetings, due diligence and document signing are all being done remotely and while this will return to some normality after lockdown, it should help to streamline certain processes.

In sum, private equity appears not only to be adapting well to the new circumstances, but changes have led to positive behavioural trends. The industry will truly take off again once that mountain of dry powder starts to be catalysed. ◆

Otto is Head of Private Equity & Real Estate, Maitland

Big tech – cage the tigers, or unleash the hounds?

A lawsuit filed by the United States Department of Justice (DOJ) against Google, one of the biggest in the history of American antitrust, follows months of debate by competition lawyers and economists around the world about how to deal with "Big Tech". Last week, our Competition Commission joined the debate, with the publication of a discussion paper on competition in the digital economy.

Heather Irvine

The DOJ complaint alleges that Google has monopolised search advertising and that

"American consumers are forced to accept Google's policies, privacy practices, and use of

personal data; and new companies with innovative business models cannot emerge from Google's long shadow." It alleges that Alphabet Inc. maintains its status as a gatekeeper through an unlawful web of exclusionary and interlocking business practices which shut out competitors. For example, the government alleges that Google uses its substantial advertising revenues to pay mobile phone manufacturers, carriers and browsers to pre-set Google as the default search engine. Google has vociferously denied contravening any competition laws. In its press statement on the complaint, Google admits that it pays to promote its services, just like a cereal brand might pay a supermarket to stock its products at the end of a row, or on a shelf at eye level. For digital services, the home screen is the equivalent of an "eye level shelf" which, in the mobile phone space, is controlled by Apple, as well as companies like AT&T, Verizon, Samsung and LG. In the desktop computer space, that shelf space is controlled by Microsoft.

The DOJ lawsuit follows the publication of a report on competition in digital markets by the United States House of Representatives Antitrust Committee, after a 16-month investigation, which concludes that *"companies that once were scrappy, underdog startups that challenged the status quo have become the kinds of monopolies we last saw in the era of oil barons and railroad tycoons."* The report alleges that *"by controlling access to markets, these giants can pick winners and losers throughout our economy. They not only wield tremendous power, but they also abuse it by charging exorbitant fees, imposing oppressive contract terms, and extracting valuable data from the people and businesses that rely on them."* It suggests that United States lawmakers should define a new standard for antitrust violations, to ensure that competition law is *"designed to protect not just consumers, but also workers, entrepreneurs, independent businesses, open markets, a fair economy, and democratic ideals."*

This echoes a growing chorus of policy recommendations at European Union and European national levels for new 'ex-ante measures' in order *"to ensure that markets characterised by large platforms with significant network effects acting as gate-keepers, remain fair and contestable for innovators, businesses, and new market entrants".* It is proposed that these 'up front' rules should apply to all digital firms – regardless of size –

Irvine

> "It is by no means clear that any of the more drastic measures which are currently being contemplated in the United States or Europe could be swiftly implemented in South Africa."

in order to set the ground rules for how they interact with consumers and competitors at all times – rather than merely tackling them piecemeal, if they decide to merge, or engage in conduct which causes customers or competitors to complain to the competition authorities.

The South African Competition Commission's paper on the Digital Economy, published just a week before the DOJ's lawsuit, asks what our authorities should do in order to preserve contestable digital spaces in South Africa, and ensure that the digital revolution contributes to transformation and inclusive growth. It suggests a series of interventions, including enhancing the scrutiny of digital mergers and applying new provisions of the Competition Act to restrict abuses by dominant online platforms which purchase from small South African suppliers. However, all of the remedies proposed by the Commission would occur within the existing statutory framework which empowers the Competition authorities, as well as the Consumer Commission and the Information Regulator. It is by no means clear that any of the more drastic measures which are currently being contemplated in the United States or Europe could be swiftly implemented in South Africa. Firstly, there is a jurisdiction problem: the Competition Appeal Court recently made it clear, in a decision on the Commission's attempt to prosecute several offshore banks for alleged forex price fixing, that the Commission has to demonstrate that it has jurisdiction over both the company and the conduct which forms the subject of a complaint, by demonstrating "sufficient connecting factors" to South Africa. This may not be easy, with respect to some of the global "digital gatekeepers". Secondly, while our legislation does allow for the Competition Tribunal to make interim orders pending investigation by the Commission, like those being applied in Europe, very few applications for interim relief have been granted to date, mainly because the Competition Tribunal has required that complainant's seeking this kind of remedy show that they will suffer "irreparable harm". It is particularly challenging to show this in complaints about exclusion of rivals in digital spaces. Lastly, South Africa has a poor track record when it comes to successfully applying ex ante regulation. The Electronic Communications Act (**ECA**) enables the Independent Communications Authority (**ICASA**) to define relevant product, geographic and functional markets, to identify licensees which wield significant market power (or dominant firms) in those markets and, if it finds that the normal competitive functioning of the market has failed to apply pro-competitive measures, to foster competition. Whist ICASA has regulated wholesale mobile call prices using this process, this was interrupted by High Court litigation and took several years. Subsequent inquiries by ICASA – in terms of section 67 of the ECA – to address high mobile data prices, as well as a persistent lack of competitors in subscription television broadcasting, have stalled. Although both the Commission and ICASA have jurisdiction to deal with competition complaints in the communications and broadcasting sectors, to date, not a single complaint about an abuse of dominance has been litigated by either authority.

The most immediate outcome of the Commission's report seems likely to be a market inquiry into competition in the digital sector by the Commission, in terms of the Competition Act. This would at least allow the Commission to study the South African elements of the various digital markets in detail, and to identify whether there are barriers to South African competitors, or practices which harm local consumers when they search, shop or socialise online. The Commission has been able to score some quick wins for smaller competitors as a result of these inquiries in the past – for example, by concluding agreements with the major retailers to eliminate exclusivity provisions which hamper smaller retailers from leasing space in large shopping malls. The Commission has also used these inquiries to extract promises of short-term relief for poorer consumers, for example, by means of agreements reached with the mobile operators to eliminate higher priced, lower volume data bundles.

However, deeper structural changes to enhance competition in digital markets in South Africa over the longer term are likely to require extensive legislative changes. This typically takes years: for example, a previous round of proposed amendments to the ECA has been mired in the parliamentary process for more than 2 years and, so far, no bills have been tabled to address the concerns about competition in the communications sector, as identified by the Commission in its report on mobile data prices. Amendments to the Competition Act, late last year, enable the Commission to approach the Tribunal for an order compelling a company to sell part of its business pursuant to a market inquiry. In theory, this could provide the mechanism for the Commission to force the "break up" proposed by the US lawmakers – but the new market inquiry provisions are poorly drafted, and digital firms facing litigation or regulation in multiple jurisdictions may be far more willing than the local retailers or mobile networks to test the Commission's findings and proposed remedies in the Tribunal, the Competition Appeal Court, and beyond.

Any regulation – whether by the Commission after a market inquiry or a complaint, or 'ex ante' – will have to balance consumers' needs to access innovative (and often free) online services, with the broader "public interest" imperatives envisaged in the Preamble to the Competition Act, which include providing small and historically disadvantaged suppliers with an opportunity to participate fairly in the national economy. The national lockdown has driven millions of South Africans online, and poor consumers, in particular, are increasingly dependent on services like Facebook for access to education and healthcare information. The pace of this digital revolution in South Africa will only increase after the planned spectrum auction. The question for competition authorities, including our own, is likely to remain: how to regulate digital companies in a manner that doesn't harm consumers and hinder innovation. ◆

Irvine is a Partner in Bowman's Competition practice.

BOWMANS
THE VALUE OF KNOWING

HAVAÍC sees growth in the pandemic aftermath

In the context of the social and economic realities that we are all witnessing as a result of the COVID-19 pandemic, it is our belief that technology-led cloud-based businesses, solving real world problems with the ability to scale and adapt quickly, are best placed to weather this storm, and even to thrive.

Ian Lessem

In this low touch and socially distant world that is our reality, three themes continue to emerge.

First, the important role of technology in the post COVID-19 world and how this crisis has acted as a catalyst for technology adoption. Second, the economic necessity to support SMEs in this time, as well as post this crisis; and third, the interconnectivity of societies and economies and the importance of supporting local while still thinking global.

However, it does feel that while these high level themes seem to be widely accepted, very few seem to have practical insights into the world of African tech and innovation and, in particular, how this is woven into the many SMEs that go largely unnoticed. Within a rapidly evolving and growing technology-enabled world, the difficulty is that you simply don't know what you don't know.

At HAVAÍC, we continue to work with, support and interact with many local, technology-driven SMEs and entrepreneurs who are serving local and international clients and operating in global markets, yet little is known about them locally. And if you don't know about them, then through no fault of your own, you are unable to utilise their solutions, to support them and, importantly, to learn how they could provide important services to help you and your businesses, or serve the greater local economy.

"And what was once perceived as riskier, but is a tech-enabled, a cloud-based, scalable business with low overheads, a highly functional virtual office, global reach and experienced tech savvy management team, may in fact be the new safer bet."

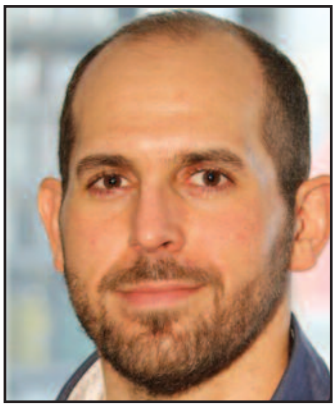
We are fortunate that the nature of our activities affords us the opportunity to see this local innovation in action. We invest in and work with early stage technology businesses, i.e. tech enabled SMEs.

So far, many SMEs are fairing comparatively well in this crisis. In fact, many are even thriving, hiring staff, releasing new products and attracting new clients. Not only through our portfolio, but through our daily engagements, we see a myriad great examples of relevant African tech businesses commercialising their solutions the world over. Our thesis is to invest in businesses that solve real world problems and, in particular, our healthtech, safetech and digital business solutions, all of which run off the cloud and are supported by a virtual scaleable workforce, and which are proving to be very resilient in these challenging times.

CASE STUDIES

Two great examples include a Johannesburg-based high growth company in the safetech space – AURA – and a Nairobi-based post-revenue start-up in the fintech space – Tanda.

AURA solves the problem that existing security services face because they only provide location-specific solutions; yet people are exposed to crime irrespective of location. Using their technology-driven control room and smart phone GPS-enabled solutions, AURA provides clients with access to the nearest available responder. Building on their success providing on-demand access to security, AURA has extended its solution to emergency services, such as ambulances and paramedics.



Lessem

With access to 180 private security companies and 182 emergency response companies, and coupled with their proprietary technology, AURA is set to become the leader in on-demand emergency services.

While there are many examples of the ways that AURA has become more relevant post the COVID-19 outbreak, one unique example is the need for their clients, which include large blue-chip corporates, to provide affordable and reliable access to private security for their employees, while working from home. With clients such as multinational banks, whose employees can access the bank's proprietary systems from home, demand for AURA's solution has spiked as a result of the crisis. One may argue that this trend may pass; however, with many of these corporates realising that their employees can, in fact, work effectively from home, and with the significant cost savings that WFH has created by reducing property and travel costs, it is clear that this trend is here to stay.

Tanda has developed a mobile-based tech platform that can expand a microretailer or *duka's* product offering from basic consumables to financial services such as airtime, electricity, bus tickets, insurance and ATM services, at the lower end of the consumer pyramid.

Tanda is the fastest growing retail distributor of such products in sub-Saharan Africa. In less than 12 months, it acquired 7,000 agents (duka owners) – 4,700 in Nairobi county and the rest in 30 counties across Kenya – at an acquisition cost substantially lower than traditional industry players.

As a result of the COVID-19 crisis, and with 80% of retail trade in Kenya already taking place at the 'duka' or informal level, the localisation of population buying patterns has increased even further, and beyond the basic purchase, as seen by a dramatic increase in services provided by Tanda. What the crisis has done is change the mindsets of consumers who may have, pre-crisis, travelled in crammed and expensive taxis into city centres to buy health insurance; now, they simply have to put on a face mask and walk a few hundred meters to their local "convenience" store to buy these types of policies.

REPRICING OPPORTUNITIES

From an investor's perspective, global volatility and uncertainty has resulted in significant repricing across assets. To sophisticated investors, this offers significant investment optionality and opportunities, and for the venture capital sector, it means that the higher returns (albeit off a riskier base) that they once offered investors on a stand-alone basis, may simply no longer be good enough. However, when one starts thinking through the current cycle of volatility and considers that what was once a great business may no longer be so, due to changes in social behaviour and new economic norms, the historically "safe bet" may now, in fact, be the riskier bet.

And what was once perceived as riskier, but is a tech-enabled, cloud-based, scalable business with low overheads, a highly functional virtual office, global reach and experienced tech-savvy management team, may in fact be the new safer bet.

Furthermore, with an increased awareness around community connectivity when making investment decisions, now more so than ever, we need to carefully consider how this affects the rest of our economy, and society at large. It has become increasingly apparent that it is no longer enough to simply invest in companies like Netflix or Amazon under the premise that they are a COVID-19-proof safe bet; consideration must be taken as to the benefit to our local economy. Smart investment decisions now need to include an awareness of this connected community and an understanding of how investment decisions can impact not only investors personally, but also the economy that they participate in.

It is clear that unlocking technology and the SME sector is key to securing our continent's economic future. Be it Tanda providing cashless payment solutions for the unbanked, or AURA creating access to a private security force of over 2,500 security personnel with the ability to respond to crime within 3,5 minutes, we have it all here in Africa; and venture capital, when applied smartly, when applied to technology and when applied locally, can have a positive impact on not only investors' returns and their greater community, but also their economy.

At HAVAÍC, we provide just that – access to investments in technology-enabled local businesses that are well-placed to survive and thrive during and post the COVID-19 crisis, all while uplifting the local economy and delivering returns to investors. ◆

Lessem is Managing Partner of HAVAÍC – an early-stage, high-growth technology VC investor

Impact investing gets COVID-19 boost

Over the past two years, South Africa and the rest of the continent have been ablaze with the concept of impact investing. This was after the fire was ignited in the southern-most tip of the continent, with South Africa joining the global movement when it was inaugurated in New Delhi, India in October 2018.

Elias Masilela

During our acceptance speech, South Africa fully embraced impact investing and proposed it as the Marshall Plan for Africa. This was after observing wide ranging policy failure and leadership gaps across the continent. Impact investing was seen as a solution to these gaps, living up to the expectations of the SDGs (sustainable development goals).

Fast forward to March 2020, South Africa was plunged into a deep and dark pool, in the form of the lockdown, owing to the unprecedented COVID-19 pandemic. Policy and leadership were further challenged and impact investing, yet again, was elevated to the top of the policy-choice pile. This has since been the agenda-setting movement, as a solution out of the crisis that the world finds itself in. However, for this intervention to be supported and successful, it should be believed by those it is meant to assist. Impact needs to be seen and felt. Therein lies the importance of measuring and managing impact – thus the historic publication and launch of the IMM Report[1].

Definition

It is instructive at this stage to clarify what it is that we would be measuring and managing, for practicality. In this regard, it is important to have a common understanding of what impact investing means. While there are many versions of what it means, the one definition that has been established for our purposes in South Africa and the continent is not too dissimilar from its meaning globally. This working definition is that impact investment is a new emphasis on investment philosophies. It is about investing for a measurable financial and social or environmental return. Investment that can help to tackle these imbalances (financial, social and environmental) in a way that adds up for everyone, delivering sustainable funding for service providers; financial returns and impact for investors and entrepreneurs; and breakthrough ideas that lead to lasting improvement for the world.

In short, it is about investments that have a positive human impact.


Masilela

That is why we need to show those whom we aim to assist that impact is real; that it is about people, not just money. The IMM report is going to provide an integral contribution to the integrity of the impact movement. But this needs to be well understood and have meaning to practitioners, owners of capital and those who manage this capital. It is important that they apply the principle correctly, transparently and consistently.

Applied right, impact investments have the potential to make a significant contribution to important outcomes and improve human conditions. In this regard, proposed is a framework that is premised on five pillars, namely:

- Strategy,
- Origination and structuring,
- Portfolio management,
- Exit, and
- Independent verification.

The last pillar is, for me, the ultimate test. Are we doing this for good or for narrow and short-term interests? Impact measurement and management takes over from this point and ensures the integrity, as well as robustness, of the impact investing process. It further keeps us in check with our domestic and global obligations (NDP, SDGs etc). It ensures improvement of our capitals (financial, natural, human, manufactured, social, relationship and intellectual). Finally, it gives confidence to all citizens that impact is working for them and not just a leadership elite, as we have been observing over the years.

This is critical because, if people do not see the result, they will stop believing and may revolt against what they see as failed promises. People will only see impact if the results are both visible on the ground and systematically documented.

> "Gone are the days when we looked up to government to do things for us. We now have to lead and do things ourselves."

As Sir Ronald Cohen once said, "If impact is a rocket to take us to our end-goal [the end-goal here being the eradication of inequality], then measurement is the navigation system". This simply means that without measurement, we are unlikely to realise our dreams.

I would like to extend this analogy even further by sharing a set of identities that a mentor of mine, Themba Gamedze, used to summarise a presentation I gave to the GEPF Board in January of 2020. He smartly summarised it by saying: "So, what you are telling us is that ESG is equal to 'do no harm'. Whereas impact investing equals 'to do good'". I could never have hoped to put it any better. This uniquely adds to the existing body of economic thinking.

What is our role?

Whenever I talk or write about impact investing, it is always with the aim of identifying and owning our roles as individuals, as well as groupings. Gone are the days when we looked up to government to do things for us. We now have to lead and do things ourselves; change our futures for ourselves. In particular, I am looking at that part of the private sector that commands and influences significant amounts of capital, such as pension funds, family funds, private investors, trustees and money managers. In here, I would also include the foot soldiers of the impact movement across the continent. What are the respective roles of each of these groupings?

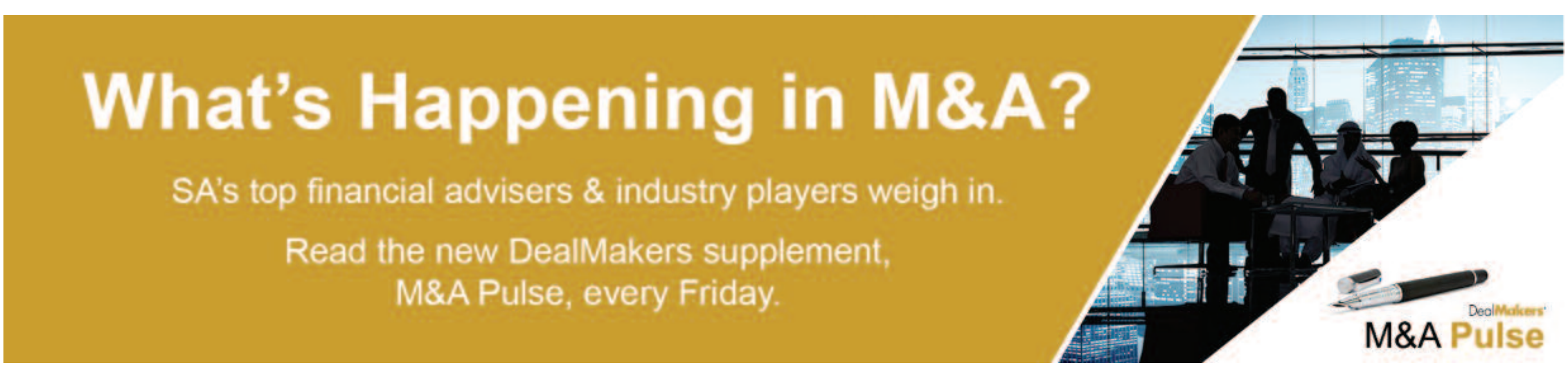
The premise for this consideration is that, as a society, we have been facing social and economic imbalances for a very long time. We have not done much to deal with these imbalances. Where interventions have been undertaken, these were found to be delayed and/or inadequate. That signals the need for a high level of urgency in the manner in which we think about and implement impact. Our duty, as the impact movement, ought not to be only to preach, but to drive an honest and considerate impact revolution – and to do so with urgency. We should be agents and ambassadors of urgency. The much-debated concept of 'radical' economic transformation is reminding us of this responsibility. Now is probably the time when 'radical' will unify us as a society.

We need to reconsider our beliefs, adopt impact as our own Marshall Plan. Finally, we need to ensure that policy, going forward, endogenises the impact cause. The responsibility of Impact Investing South Africa will be that of measuring and monitoring impact.

Impact is a movement whose time has come. ◆

Masilela is Chairman of Impact Investing SA and former CEO of the Public Investment Corporation

1 https://gsbberthacentre.uct.ac.za/img/imm-report-2020-ver-23-web.pdf



http://www.inceconnect.co.za/publication/DealMakers

Local news

In mid-September, PAPE Fund 3, the mid-cap South African private equity fund, announced the successful acquisition of 45% of the equity in the DDS Group of companies, a leading African beverage dispensing and refrigeration services provider. The DDS Group of companies provide beverage dispensing and refrigeration services on behalf of multinational distributors, as illustrated by the servicing of draught beer installations and coffee machines found in bars and restaurants. DDS also specialises in the sale, installation and servicing of refrigeration systems, ventilation systems, cold rooms and air conditioning units, as well as the sale and distribution of spare parts. PAPE Fund 3 has also provided loans to key members of the management team, to increase their equity stakes in the business. ◆

Lelo Rantloane, CEO of Ata Capital, has been appointed Chairman of SAVCA. The Industry lobby group also announced that two new directors have joined the SAVCA board: Natalie Kolbe, Partner at Actis and Sthembile Nkabinde, Founder and CEO of Khulasande Capital. ◆

Vantage Capital, Africa's largest mezzanine fund manager, announced in early October that it has made a $28m equity investment to acquire a significant minority shareholding in the Cliniques Internationales du Maroc Group.

The business was founded in 1994 by Professor Assad Chaara, an internationally renowned cardiologist who pioneered coronary angiography and catheterisation in Morocco, and the company has since grown into one of Morocco's leading healthcare groups. ◆

international news

The New York Post reports that the prospect of a Joe Biden presidency has large swaths of corporate America scared, and none more so than the whipping boys who run private equity businesses. If you read up on the exploits of the big PE firms — Blackstone Group, KKR, Carlyle Group, Apollo, etc. — in the liberal media, you would think that the guys running these outfits are modern-day robber barons. For every 10 success stories where workers' jobs were saved, there is breathless coverage of one-off disasters (read up on Toys 'R' Us).

This is why, during every presidential election — and this one is no exception — PE becomes a target of progressives looking to give some opium to the masses by drumming up class warfare. They highlight allegedly unfair tax breaks and claim that PE destroys jobs. *(Ed's note: this story was sourced while Catalyst was being put to bed and the polls all had the blue wave crashing over the US, but Ed thinks Trump will surprise pollsters and markets again.)* ◆

The Financial Times reports that European private equity firms are testing investors' appetite for returns with new sales of payment-in-kind bonds that offer juicy interest rates, but are among the riskiest deals since the COVID-19 crisis began.

The re-emergence of PIKs underscores how fixed-income investors are increasingly being asked to accept higher degrees of risk and more onerous terms from corporate bond issuers as soaring prices of higher-quality assets in recent months has deeply depressed yields.

A duo of highly-indebted borrowers are seeking to raise a combined $1bn through so-called PIK toggle deals, in which issuers are allowed to defer interest payments. The structure allows companies to pay interest using more debt, leading the amount that ultimately needs to be paid at the bond's maturity to balloon.

Apollo and Platinum Equity, the private equity parents of the two issuers, will receive bumper payouts from the proceeds of the bond sales if they go through as planned, writes the FT.

The deals follow a flurry of so-called dividend recapitalisations through the loan market, where private equity owners have used borrowings to fund payouts from their portfolio companies. ◆

PRIVATE EQUITY DEALS Q3 2020 – ASSET IN SOUTH AFRICA

NATURE	PARTIES	ASSET	ADVISERS	ESTIMATED VALUE	DATE
Disposal by	Franc	a stake in Franc (seed investment)		$300 000	Jul 9
Acquisition by	Aristotle Africa (Silverlands II SCSp) from institutional investors including Old Mutual and Allan Gray	32% stake (62 103 447 shares) in Quantum Foods	One Capital; SilverStreet Capital; PSG Capital; Cliffe Dekker Hofmeyr; Webber Wentzel	R372m	Jul 10
Acquisition by	Futuregrowth Asset Management (Old Mutual)	investment in SweepSouth		undisclosed	Jul 15
Acquisition by	Vumela Fund (FirstRand)	investment in Sea Monster		$1m	Jul 16
Disposal by	Enko Africa Private Equity Fund	its stake in AMI Worldwide		undisclosed	Jul 20
Acquisition by	100x Ventures, 4Di Capital, Bittrex and Montegray Capital	stake in VALR		R57m	Jul 21
Acquisition by	RMB Corvest (RMB Holdings)	equity interest in Switch	Cliffe Dekker Hofmeyr	undisclosed	Aug 3
Joint venture by	Lionpride and ETS PLATFORM	preventative telemedicine platform [pilot to run in SA and then extended to the rest of Africa]		undisclosed	Aug 3
Investment by	Entrepreneurs for Entrepreneurs (E4E) Africa	in Enlabeler		undisclosed	Aug 5
Acquisition by	AlphaCode (Rand Merchant Investment)	investment into Guidepost		undisclosed	Aug 6
Investment by	Endeavor	in Guidepost		undisclosed	Aug 6
Investment by	Sanari Capital	in Lightware LIDAR		R25m	Aug 17
Investment by	Enygma Ventures from the Shift Fund	in Job Crystal		R4,2m	Aug 25
Acquisition by	The Africa Food Security fund (Zebu Investment Partners)	a stake in IQ Logistica		undisclosed	Aug 26
Acquisition by	Medu Capital	51% stake in Secutel Technologies		undisclosed	Aug 31
Investment by	i7V	in Roundr (follow-on investment)		undisclosed	Sep 2
Investment by	Metier through its Sustainable Capital Fund	in Broadreach Energy		undisclosed	Sep 2
Investment by	Platform Investment Partners, Ruby Rock Investment and LBOS	in Yellow (Series A funding)		$3,3m	Sep 8
Investment by	GSV Ventures	in Valenture Institute		$7m	Sep 16
Acquisition by	PAPE Fund 3	a 45% stake in DDS Group of companies		undisclosed	Sep 16
Acquisition by	Naspers Foundry (Naspers)	investment in Food Supply Network		undisclosed	Sep 17
Disposal by	Brait SE to Capitalworks and T Hutchinson	majority stake in DGB		undisclosed	Sep 23
Acquisition by	Vuna Partners Fund from Mergon Group	an 80% stake in 4PL Group		undisclosed	Sep 25
Disposal by	Sanlam International Investment Partners (Sanlam) to Africa Management Consultancy (Africa Pledge Partners)	stake in SMC Global Securities	ENSafrica	$6,75m	not announced
Acquisition by	Greenstreet 1 through Stanlib Fund II SPV (Liberty) from Lombard Insurance	10% stake in Solar Capital De Aar 3	Cliffe Dekker Hofmeyr; Herbert Smith Freehills South Africa	R96,14m	not announced
Acquisition by	OMPE GP IV (Old Mutual) from 10x Investments minority shareholders	10x Investments	Cliffe Dekker Hofmeyr	R130,27m	not announced