Catalyst

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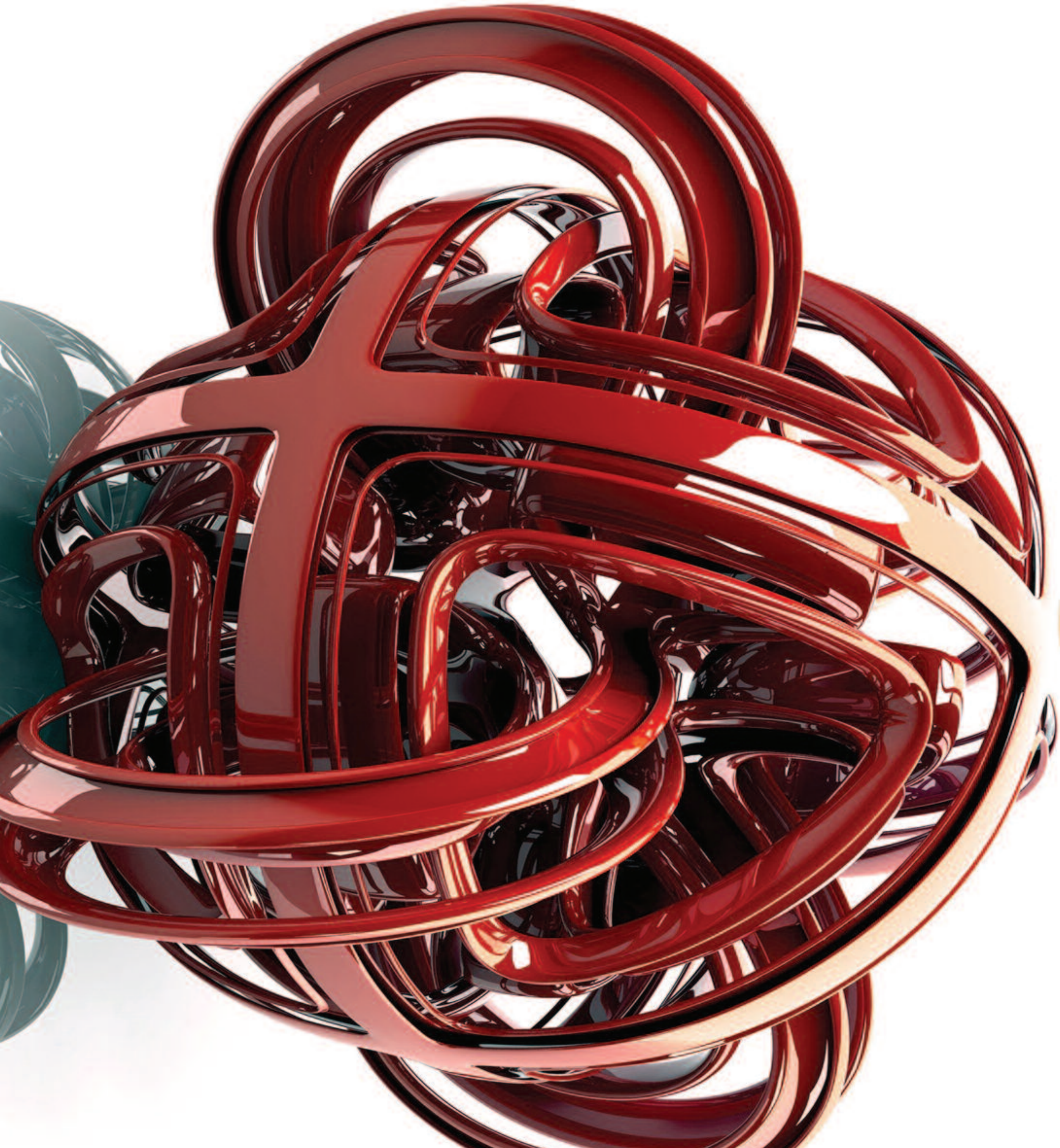
First 12J VC company

Aquaculture and PE

Actis in electronic payments

ANC at Mauritius PE conference



FROM THE EDITOR'S DESK

If there isn't any growth, you'll have to invent it

Another day, another downer. In the past quarter, much of the news from South Africa has been downright depressing.

Only congenital optimists such as political commentator JP Landman are unruffled.

In his recent book, *The Long View*, Landman exhorts readers to downplay the headlines and look at the macro-fundamentals. One to which Landman habitually refers in his optimistic presentations is that South Africa's economic growth has well exceeded its declining population growth in the past, resulting in South Africans overall becoming wealthier. Based on an expectation of 3% annual GDP growth in future, and a population growth rate of 1.1% a year currently, Landman expects this positive pattern to continue.

Trouble is, Landman himself says that the population growth rate is likely to rise to 1.6% a year because of successful HIV treatment. And also, we are not actually likely to reach GDP growth of 3% anytime soon – indeed, we will be lucky to get 2% this year.

The difference between 2% and 1.6% is 0.4%, which is a narrow ledge from which to tackle large societal problems.

Nor is government helping to create higher growth.

It is true that Trade & Industry Minister Rob Davies is dangling all kinds of incentives in front of business and industry.

But, as usual, Davies misses the boat because most businesses don't want these incentives with all their associated red tape. What they really want is higher growth because higher growth fundamentally means that a potential client, when contacted, is likelier to say "yes" to a sales pitch than when there is lower growth.

In a recent presentation, Richard Pike, CEO of labour broker Adcorp, said in response to a question: "Yes, the socialist state has arrived in South Africa."

We may debate whether this is so, but assuming that South Africa is partially a socialist state, when last did you notice a socialist state which had fast growth?

But it doesn't help to whine – in fact it harms us psychologically. We have to accept that we are in a situation in which socialist/statist transformation is more important to the government than growth (hence all the empowerment requirements in any incentive which you might be offered by Davies).

So, what is a clean-living private equity or venture capital company to do?

It has to make its own growth by focusing on high-growth niches and markets.

Of course, if you could pick these consistently, you would have retired on a tropical island long ago.

So how to improve your chances a little bit?

One way is to observe personally those you are likely to invest in. I was impressed when I visited Grovest, the first operating section J12 venture capital company in South Africa (see following article), because its offices are within a privately-financed technology incubator. I could have been in a hive in Silicon Valley – not because of the industrial chic of the premises, but because of the many nerdish looking developers in their serried rows, absorbed in their laptops or in earnest and incomprehensible conversations.

Because Grovest's offices are within this incubator, its directors can observe personally the developers in whom they may invest.

It is said in personnel recruiting that no matter what psychometric or other tests you administer, you still have a 40% chance of a new employee failing to turn out well.

The chances of a bad result in investing in an early-stage company are undoubtably even higher. But the chance of striking a winner must be increased somewhat by personal observation of the developer.

And what are the high-growth markets? For many private equity and venture capital companies, the high-growth markets are technology, and particularly software, markets.

Yet there is also big technology innovation in many traditional industries. For instance, Time recently reported that in a very old industry, the oil and gas industry, there have, over the past 20-30 years, been "more technology leaps … than there's has been out of Silicon Valley." Fracking, whatever one may think of it, is one such technological advance.

In the search for high-growth markets, increasingly private equity companies must look to the rest of Africa for investments because of our own government's lack of political will to create the environment for higher growth here.

In the rest of Africa, technology advance will create opportunities both in frontier software niches, but also in more traditional industries like agriculture and oil. ◆

Teigue Payne

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Gleason Publications

South Africa's tax-incentivised venture capital industry was born this year, with Grovest being the first section 12J company to gain its legs and make its first investment in an operating business.

The first s12J VC company lifts off

Jeff Miller, chief executive of Grovest, says: " Despite a slow start the South African venture capital eco-system is growing rapidly." By this he means there is a rapid growth in the number of entrepreneurs looking for funding as well as angel investors, universities, incubators and accelerators, and state support (in the form of the Industrial Development Corporation, the Technology Innovation Agency, the Development Bank of Southern Africa, etc) actively participating to encourage the industry.

The s12J category of the local venture capital industry is the equivalent of the VCT (venture capital trust) industry in Britain, which has grown to be a billion pound movement. VCTs have proved to be successful investment vehicles. Miller says the same opportunity is available for South African investors as s12J venture capital companies (VCCs) have recently become retail investment products.

There is also strong growth in the number of non-section 12J VCCs in South Africa – Miller estimates that there are now eight other VCCs (besides Grovest) in South Africa.

Grovest is approved under s12J, which imparts a massive tax advantage. In terms of s12J, an individual who pays the maximum 40% tax rate may deduct the full amount (100%) of the investment from his/her taxable income. So an individual whose taxable income was R500,000 and who invested R100,000 would only pay tax on R400,000.

Assuming the investment is eventually returned, the first 40% that was initially received as a tax deduction will be treated as a recoupment – that is, R100,000. There is no capital gains tax in the hands of the investor as capital gains and dividend withholding tax will be taxed in the VCC.

This tax advantage is offered to individuals, companies and trusts, as well as funds of funds if they are owned by taxpaying entities.

Three companies have been granted s12J status since it became law in July 2009, but Grovest is apparently the only one operational.

Grovest gained its s12J VCC licence in February 2013 and began operating in mid-2013. It aims to raise R100m in its founding capital-raising exercise, which ends in February 2014. It has already raised more than the R20m minimum required for the fund to start operations; it has also made its first investment, and Miller says it also has a considerable pipeline of potential investments.

But if the tax advantages are so great, why have more of the growing number of VCCs not achieved. s12J status? Miller says simply that it's very hard to gain s12J status. The applicant must be an authorised financial services provider, which involves copious compliance requirements. Grovest is a Category 1 & 2 Authorised Financial Services provider registered with the Financial Services Board.

Jeff Miller ... more specialised s12J funds ahead.

He says the credibility of Grovest's five directors helped in the application's approval. The directors (all non-executive besides himself) are Malcolm Segal (64), former chairman of Grant Thornton; Jeffrey Livingstone (61), current chairman of Light & Livingstone Inc; Miller himself (52), who co-founded Brandcorp and a number of other companies; Don Millar (42), MD of Clarity Corporate Finance Solutions; and Mark Sonik (48), founder of the Consilium group of companies.

All but one is a CA - the exception, Mark Sonik, holds a BCom and is a hedge fund administrator.

Miller is a passionate business starter. He says: "The passion is shared by all of the Grovest directors."

Grovest thus presents a well-organised, experienced and squeaky-clean image to the first investors in a s12J VCC in South Africa.

The potential penalty for non-compliance is 125% of the amount that each qualifying investor has invested in the VCC in exchange for a VCC investor certificate. The rule stipulates that no more than 20% of expenditure can be invested in non-qualifying companies. Grovest has Werksmans as its legal adviser, to ensure that it remains compliant; Moonstone is its external compliance officer.

In South Africa, there has also been slow take-up of VCC investments (and private equity investments generally) by pension and other funds. In terms of regulation 28 of the Pensions Funds Act, pension funds may now invest up to 10% of their assets in private equity funds, though they don't get the benefits of s12J because they receive alternative tax benefits.

There is also strong growth in the number of non-section 12J venture capital companies (VCCs) in South Africa – Miller estimates that there are now eight other VCCs (besides Grovest) in South Africa.

Miller is philosophical: "In time it will happen," he says. "Equity markets have done well in the past few years. In future these investors will need further diversification. The growth of the venture capital eco-system in South Africa and the need to invest in innovation will spur investment. Overseas, sophisticated investors look to having 5-7% of their portfolios in venture capital. The same is likely to happen here in the near future."

But the venture capital market on the Johannesburg Stock Exchange has been singularly unsuccessful and currently only has three counters. Miller says that s12J VCCs have better prospects because they will have a spread of investments, focusing on "new world" investments, and have tax advantages. "The s12J VCC opportunity adjusts the risk to 60% of the downside with 100% potential upside."

What kind of operational investments will benefit? Grovest believes that technology investments are the low-hanging fruit which will attract pioneering investors. Accordingly, Grovest will consider a blend of investments across various sectors with a weighting towards technology. Miller names distribution and small manufacturing as possibilities for the more traditional investments. Miller says a blend is necessary because investors are cautious. However, he says, as the taste for VCCs increases, and more funds are formed, the funds will become more focused, as has happened in Britain.

The Grovest board requires that investments be spread across businesses in different stages of their life cycle – that is, no more than 20% in early stage businesses, a maximum of 40% in Series A and B, and unlimited in Growth Capital.

At the primary level, Grovest won't invest in any business that doesn't have at least an imminent income stream.

Its first investment has been in an early stage company – a small Cape Town-based software firm, Fraudcheck (www.fraudcheck.co.za).

Fraudcheck is able to provide real-time assessment of creditworthiness and pre-employment vetting. It provides an objective interpretation of the underlying data sourced from numerous databases based on a considered set of business rules. The results are presented in a user-friendly scorecard eliminating subjectivity and human intervention. This process is far more efficient and economical than any existing market solutions, says Miller.

Miller is obviously a fast-revving serial entrepreneur. He speaks rapidly –- probably because, as that well-known venture capitalist Cecil John Rhodes said, "so much to do, so little done". Still, he has a sense of humour and you don't get the impression he would hang you, or an entrepreneur, out to dry.

In fact, Grovest's model of venture capital is relatively warm and fuzzy. For instance, Miller says that Fraudcheck hasn't only benefited from funding from Grovest, but perhaps even more from its directors' contacts and networks.

Though Fraudcheck had some sales before Grovest's advent, Grovest has introduced it to its wide network. The result has been many more sales and a growing sales pipeline.

Many of Grovest's early stage investments could literally come from its own doorstep as it shares offices in Sandton with Seed Engine, a private-sector technology accelerator which offers entrepreneurs/innovators a 12-week boot camp to develop their businesses. Miller is the non-executive chairman of Seed Capital.

Grovest's overall criteria for investment and businesses are: disruptive business models; potential for rapid growth; defensible market positions; motivated management; an attractive entry value; potential for Grovest added value; and high saleability. An international aspect to f the business will also help.

S12J allows investments of up to 70% of the equity in a qualifying company. Grovest will consider each investment on its merit and will consider taking minority stakes in qualifying companies if deemed appropriate by the investment committee.

Miller envisages that the skill and experience of the directors should give Grovest an advantage in picking winners, though of course some will fail and some will be pedestrian.

Grovest aims to return 3-5 times an investor's initial investment within 5-7 years. Grovest's management company, VCMS, has a 10-year management agreement. VCMS is owned by three of the directors of Grovest. Jeff Miller is also the chief executive of VCMS and does not sit on the investment committee of Grovest, in order to mitigate potential conflict.

VCMS will charge an annual management fee of 2.5% ex VAT on the capital raised by Grovest and a performance fee of 20% of realised investment surpluses, after initial investments have been returned to investors

Grovest directors have undertaken to subscribe to R3 million in shares; they have already done this and are likely to double that amount by February, says Miller. ◆

Aquaculture has been a sector of interest to some South African private equity talent scouts. But the waters are unfamiliar, and there is every reason to proceed with extreme caution in local (South African) aquaculture developments.

Unfamiliar waters

The popularity of aquaculture is because of the apparently slamdunk logic behind the development of the industry.

According to the United Nations Food & Agriculture Organisation's (FAO's) *Status of World Fisheries and Aquaculture Report 2012*, the global demand for fish is increasing rapidly and the supply from fisheries is unable to keep up. The report says 7% of the world's fisheries are now classified as depleted and 52% as fished to their maximum biological productivity.

The situation is more or less mirrored in South Africa and the rest of Africa. Natural stocks are not increasing and a burgeoning middle class is eating more fish and consuming more protein generally. The recent rapid expansion of fish and chips franchises in South Africa merely emphasizes this.

In agriculture, the best land-based animal feed-to-flesh conversion rate is achieved by chicken farming, where 1.8kg of feed can convert to 1kg of flesh.

But conversion rates in aquaculture are generally much higher because of the presence of water – for instance a 1:1 conversion rate can be achieved for shrimp and prawns, and a good trout farmer can achieve a ratio of about 1.2:1.

Theoretically, the case for aquaculture systems rather than traditional commercial "wild" fishing is even better – aquaculture systems are fundamentally economically viable as they produce higher volumes than marine fisheries, and don't require much fresh water or land. Because aquaculture systems are enclosed, they are protected and fish neither escape nor are they stolen.

The system ensures a year-round supply of fish and can include renewable energy sources.

On the other hand, the infrastructure required for aquaculture (for instance, water purification systems), means that it is generally more expensive per unit of production to set up and run than traditional commercial fishing.

The Oceanwise facility in East London.

For South Africa, a fly in the ointment is international competition. Fish products are generally imported tariff-free.

So, if other countries are more suited to aquaculture production than South Africa, the failure rate of a project might be higher than indicated by the apparently-excellent "fundamentals".

And that is more or less what has happened in the past in South Africa.

Tilapia projects in northern KwaZulu-Natal, for instance, have now all collapsed (by contrast, in Lake Kariba there is a large and thriving tilapia industry). All prawn farms in northern KwaZulu-Natal have also stopped operating.

For marine fish aquaculture, there is a scarcity of protected coastline – South Africa does not have the lochs and fjords of northern Europe. This means that to create the calm conditions required for successful finfish aquaculture, seawater must often be pumped ashore, resulting in high energy costs.

Abalone production has been a notable exception to a very variable track record of aquaculture generally in South Africa and this country is now one of the world's biggest producers of abalone outside of Asia.

Started in the 1990s, the abalone industry has been a huge success, and production is set to increase from around 1,200t/year currently to about 5,000t/year within the next decade. Cultivated abalone take 3-4 years to grow, which means that operators must have considerable capital resources.

Sindisile Tomsana, harvest supervisor at Oceanwise's facility in East London, with a farmed kabeljou.

Rudi van Niekerk, an investment adviser at Agri-Vie, Sanlam's sub-Saharan private equity fund which invests in food and agribusiness, and is a principal shareholder in HIK Abalone Farms, says abalone farming in SA has also played an important role in protecting the species by alleviating the pressure on global natural fish resources.

But beyond abalone, South Africa has so far played an insignificant role in the burgeoning global aquaculture story over the past two decades.

In 2010 South African marine fish farm production was just over 2,000t, of which abalone accounted for 50% and molluscs 48%, according to statistics from the Department of Agriculture, Forestry & Fisheries (DAFF). Freshwater fish production was about 1,100t, of which trout accounted for more than 80%.

Greg Stubbs of the family-owned, Franschhoek-based Three Streams fish production and sales company, is one of SA's most experienced aquaculturalists, with three decades of experience in the industry.

In Three Streams' largest business activity (though it is involved in a number of aquaculture developments), it imports and hatches trout eggs which are on-grown at the Franschhoek farm to fry and fingerling sizes (between 2g and 20g).

The company processes approximately 1,000t of trout per year, or about 60% of South Africa's total trout production. It supplies to Woolworths, other retailers, and to the food service industry.

Stubbs says the aquaculture industry has been known for its many projects – and almost as many failures.

He believes that South Africa must pursue only the most advantageous possible aquaculture projects. That is why he is personally heavily invested in increasing production of trout in Lesotho – if successful, that project should result in SA/Lesotho becoming self-sufficient in trout production.

Stubbs says there is a prevailing myth that aquaculture in SA can be a "panacea" — a major industry which would employ many people.

"In my view it will never be a large industry in SA, but it can be much larger than it is," he says.

He says the reason that SA has low aquaculture output is primarily because it is resource-poor but also because research has been lacking.

It is resource-poor particularly because South Africa's climate falls between hot and cold. Trout, for instance, cannot be produced all year in its colder waters; and its warmer waters aren't warm enough for species like tilapia.

Fish generally do not have a thermo-regulation capacity and their growth is strictly dependent on pond water temperature.

For tilapia production, for instance, the average monthly ambient temperature in South Africa is well below that for optimal growth. This results in a lower yield per hectare, longer production cycles, as well as higher capital and operational costs.

Woolworths' seafood technologist, Michael Basson, says aquaculture must be done in a sustainable fashion. "You must farm the right species in the right place, using feed from a sustainable source. Other challenges facing SA's aquaculture industry are inadequate legislation and water scarcity which is limiting freshwater fish farming. Marine aquaculture's biggest drawback is SA's high-energy coastline, which limits suitable sites."

A relatively recent development in marine finfish aquaculture in South Africa has been the setting up of a large facility to produce dusky kob (kabeljou, Argyrosomus japonicas) by Oceanwise in East London's industrial development zone (IDZ) - one of the largest land-based marine finfish pump-ashore recirculating aquaculture systems (RAS) in the world.

The facility produces 55t of marketable dusky kob a month, and aims to double this in the next five years.

The investment occurred between 2007 and 2012. The Industrial Development Corporation and the Eastern Cape Development Corporation were loan funders of Oceanwise to the extent of about R30m, and private shareholder funds exceed R110m

The majority shareholder is Parkdev (Pty) Ltd, a Pretoria-based asset management company, formerly focused on shopping centres through the Atterbury Group.

Investec is also partnering with Oceanwise in a pilot kabeljou facility in Mtunzini in KwaZulu-Natal.

The Oceanwise dusky kob development has survived and expanded so far, but the labour-intensive nature of RAS aquaculture, expensive imported feed, distances to markets in Gauteng, Durban and Cape Town, and the steeply rising cost of power all contribute to production costs and explain why Oceanwise dusky kob is on average 20% more expensive than wild-caught kob.

Recently, the Department of Trade & Industry (DTI), which isn't shy to pick the winners among industry subsectors, has signalled that it wants to hasten the growth of the aquaculture sector via the launch of the Aquaculture Development and Enhancement Programme (ADEP). The DTI's plans include creating aquaculture development zones and shielding the young industry from undue foreign competition, in order to assist it to catch up globally.

The programme offers a reimbursable cost-sharing grant of up to R40m directly to approved applicants for new projects and for upgrading and expanding existing projects.

It is too soon to assess the results of this new incentive from the DTI.

Good quality fish feed production has always been a major constraint in the development of the industry in South Africa. Feed costs are more than 50% of operating expenditure in aquaculture systems, and indications are that ingredient and feed processing costs are rising. Currently, high-nutrition, specialised feed for the initial fast-growth phase of fingerlings has to be imported, which poses an additional currency risk.

One well-publicised innovation in the South African fish feed and animal feed universe is the AgriProtein Technologies development in the Western Cape, in conjunction with scientists at the University of Stellenbosch. They have developed a natural, renewable and sustainable substitute for existing fishmeal and soy-based protein sources made from dried and milled fly larvae produced from the company's buzzing "aviaries" of black soldier flies.

AgriProtein Technologies is currently in the process of building an industrial-scale plant capable of manufacturing the quantities required by the local chicken and fish-farming industries - 100t/day of wet larvae and 25t of pure dried protein. That factory should be in full production by early 2014.

The company also envisages a rapid technology roll-out to Germany, Saudi Arabia and Britain, which it says are all displaying material interest in the product.

In May 2013 the company was awarded the United Nations-sponsored Innovation Prize for Africa, for which there were about a thousand contenders.

The company's Magmeal product registration application was recently approved by South Africa's Department of Agriculture, making it the first licensed company in the world able to sell insect protein meal into the animal feed market. Jason Drew, a spokesperson for the company, told *Catalyst* that approval from the state of Ohio followed shortly after.

> Rudi van Niekerk, an investment adviser at Agri-Vie, Sanlam's sub-Saharan private equity fund which invests in food and agribusiness, and is a principal shareholder in HIK Abalone Farms, says abalone farming in SA has also played an important role in protecting the species by alleviating the pressure on global natural fish resources.

"We are already selling feed to organic farmers in the Western Cape and we are in negotiation with major industrial users to purchase the output of our first factory. It likely that the demand will exceed our output by a number of fold."

Drew says that AgriProtein Technologies will undercut the current price of fishmeal by 15% because its cost of production is far lower, and it will generate very healthy IRRs for its shareholders.

The next round of funding – about $8 million, to finance its next three factories - is likely to be derived largely from large family offices, he says. Thereafter, says Drew, "we will be looking at a series of financial structures to roll out the next and far larger round of factory roll-outs".

On feed for the flies themselves, Drew says, "we use various types of organic waste from slaughterhouse waste to food waste. We have secured long term waste agreements to ensure a steady and diverse streams of waste for nutrient recycling in our factories."

The vision is to "locally manufacture natural protein from local waste sources - minimising the environmental footprint from a transport perspective, and maximising profit".

The company is also developing by-products in insect fertiliser and organic residue compost and pioneering waste (including faecal waste) to insect protein conversion. ◆

Actis is to buy the payments and ATM business of South Africa's Transaction Capital for $95m, targeting the growth of debit cards and electronic payments among millions of low-income shoppers.

Actis anticipates the future

Actis, a London-based firm focused on emerging markets, will pay R937m ($95 million) for the JSE-listed Transaction Capital's Paycorp unit, the companies said.

Paycorp's founder and chief executive and his team will be co-investors in the deal. Paycorp operates more than 4,000 ATMs across South Africa and provides card payment terminals to shops and restaurants.

While South Africa has the continent's most sophisticated banking network, many millions still rely solely on cash. Actis, which has executed a series of deals in the payments industry, is betting those shoppers will begin to use cards.

The R937m price values Paycorp at 7.3 times its latest full-year EBITDA (earnings before interest, tax, depreciation and amortisation).

It also represents more than double the R431m Transaction Capital paid to acquire the business in 2007.

Paycorp's main competitors are largely unlisted firms, including South Africa's Spark ATM Systems and payment company SureSwipe.

Transaction Capital, which listed in Johannesburg in 2012, is a financial services firm focused on asset-backed lending and credit services.

Actis is one of several large private equity firms which has concentrated on securing deals in Africa.

US firm Carlyle Group in 2011 launched a $500m Africa fund and is focused on South Africa, Nigeria, East Africa and Ghana for potential deals. ◆

Africa's rapid economic growth has lured top US private equity firms to invest in recent years, including the Carlyle Group, Blackstone, KKR and PineBridge Investments.

American PE firms targeting Africa

But this is only a small beginning, according to observers quoted in a report by CNBC.

Carlyle launched a sub-Saharan Africa fund in 2012 based in Johannesburg and Lagos. The fund focuses on buyouts and minority investments; it partnered with Pembani Remgro Infrastructure Fund and Standard Chartered Private Equity in November 2012 to invest $210 million in Export Trading Group, a Benin-based agricultural supply chain business.

Blackstone has been in Africa for nine years, focusing on large energy project development; it is planning more investments.

Africa's electricity grid is the size of Spain's, but it serves 20 times more people according to Blackstone, and debt to gross domestic product ratios are low compared with the US and others. So there is tremendous demand and the money to pay for it.

Blackstone was the lead investor in the Bujagali Hydroelectric Power Station in Uganda, which was completed in 2012. Through its Sithe Global unit, it invested $116m to build the $900m dam, which dramatically increased electricity supply.

Blackstone also invested in Kosmos Energy to fund oil and gas exploration off the coast of Ghana. Kosmos went public in 2011. It also plans to invest in hydroelectric plants in Tanzania and Rwanda. Private equity firms invested $850m through 36 deals in sub-Saharan Africa in the first half of 2013, according to a review by the US's Emerging Markets Private Equity Association. That amounts to growth of 6% in the number of deals and 45% in capital over the same period in 2012. The largest was by London based PE firm Warburg Pincus, which invested $600 million in Kenyan oil and gas firm Delonex Energy.

In 2011, only about 1% of all US foreign direct investment went to sub-Saharan Africa. Most of that was in mining and extractive industries – about $33 billion of the $57 billion total, according to a November 2012 US government report. ◆

Private equity has come a long way since *Barbarians at the Gate* and the image of being rapacious, short-term (more accurately, medium term) capitalists. But news items recently have emphasized that private equity operators are neither always saints nor always sinners.

PE operators – neither saints nor sinners

First, the bad news

In Britain, following a series of child abuse scandals, including the Rochdale child-grooming scandal, a major review of the industry has revealed that 63 privately owned children's care homes across the country did not meet the government's minimum standards. The review was commissioned by the Education Secretary.

The review revealed that one in three homes run by Advanced Childcare, Britain's largest private provider, failed to be classified as "good" or "outstanding" by the education watchdog. Officials now class any institution that fails to meet this benchmark as "unacceptable".

Advanced Childcare, which charges councils up to £208,000 a year to care for a single child, is owned by GI Partners, a US private equity firm which has around £4bn of assets under management. GI Partners is owned by a US fund set up by Rick Magnuson, a former banker at Nomura and Merrill Lynch.

According to Advanced Childcare's latest accounts, turnover was up 50% year-on-year and post-tax profits rose around 25% to £2.6m due to "continuing reviews of staffing costs, effective rotas in the homes and robust overhead management".

The 52-page review of the industry found that councils in England spend more than £1bn a year on caring for fewer than 4,900 children. It calculates that councils spend an average of £4,000 a week to place one child in a home, several times what it could cost to educate them at some of Britain's leading public schools.

Then the good news – or at least, news that puts the industry in a positive light.

In China, during September, police detained venture capitalist Wang Gongquan on suspicion of "gathering a crowd to disturb order in public places". Wang's detention came after he signed an open letter calling for the release of Xu Zhiyong, a prominent lawyer and rights activist who was detained in July.

Before being detained, Xu had helped start a group called the New Citizens' Movement that met across the country. In a May 2012 article he called it a social movement to fight corruption and the abuse of power and to construct a new order of fairness and justice.

Wang founded CDH Venture in 2005, the venture capital unit of CDH Investments, according to the parent company's website. Before that he was a general partner at IDG Technology Venture Investment, and before that, one of the founders of Vantone Industry Group.

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But even Wang is not a saint – his notoriety surged in May 2011 when he used the Twitter-like Sina Weibo service to announce he was leaving his wife for his mistress.

"He is an extraordinary entrepreneur of this country and the consciousness of this society," said Wang Ying, chairwoman of the Beijing Zhongheng Juxin Investment Fund Management Co. ◆

Among the speakers at the Private Equity Mauritius 2013 Conference, held in September, was Dr Zweli Mkhize treasurer general of South Africa's ruling African National Congress party.

Mauritius is always up there

Mkhize was accompanied by a 12 person delegation from the Progressive Business Forum of South Africa.

The conference, organised by the Board of Investment (BOI) of Mauritius, promoted the entrepot island as a platform for investment into Africa. Mauritius has a population of about 1.3m while the GDP per capita is estimated to be around $9,541.

Indian business conglomerate Tata group's financial services arm Tata Capital said Mauritius is always "up there" whenever investors look at the future prospects of Africa. Tata is India's biggest business house.

Tata Capital's senior vice president (private equity), Ashutosh Tyagi, said at the conference: "For private equity funds, Mauritius makes sense."

Tata Capital is planning to launch a $300 million Africa-focused private equity fund; it will look at using Mauritius as a platform, he said.

This proposed Africa fund will mainly focus on segments such as consumer goods, agriculture, agri-processing, energy (including renewables), light manufacturing and financial services. Once capital raising has begun, it will take around two years for the fund to become operational, according to Tata Capital.

BOI managing director Ken Poonosamy said that the board is looking to make Mauritius a platform for African markets.

About 140 foreign delegates from 30 countries participated in the event. ◆

Opinion:

South Africa's small, open economy has attracted major inflows of foreign direct investment (FDI) over the past decade, which inflows have benefitted infrastructure development and employment. This has aided in the re-birth of venture capital (VC), which has become an addition for many private equity (PE) firms.

Venture capital conservatism is impairing job creation

Thabo Moloto

This shift has largely been driven by the mature financial services sector and massive growth in funds under management in the PE industry. The sustained growth has helped many medium-sized private firms which look to advance their bottom-line revenue as well as their operational insight (with the strategic value-add of fund managers who in most cases sit on the board of the firm).

But the South African VC model is relatively conservative compared to nations such as Israel, the USA and Japan. It has been pegged back to support typically later-stage VC investment in expansion capital – as indicated in mandates for minimum and maximum investing per deal.

Moloto

This has benefitted medium-sized firms looking to move into a new phase of investing, but early-stage venture/seed capital deals do not appear feasible to many PE investors.

This conclusion is supported by the Global Entrepreneur Monitor Report for 2012 which indicates that South African entrepreneurs report a lack of support for seed capital from PE fund managers and government investment funds (such as, the National Empowerment Fund, the Industrial Development Fund, the National Youth Development Agency and the Development Bank of Southern Africa).

PE firms do have an appetite for risk – but, typically for medium-sized firms which have high profit margins over a minimum period of five years, with a minimum forward-looking internal rate of return (IRR) of 20%. These are stringent requirements for many entrepreneurs, especially early-stage small firms looking to move into the next business stage.

The PE firms may argue that this pattern is merely a symptom of the number of economic and financial crises which have occurred over the past three decades. However, compare the South Africa VC industry with Israel's, for instance. Most of the 50 VC firms in Isarel are vibrant, growing and listed on NASDAQ, indicating a strong, energetic industry in a country with a population of only seven million people and an economy half the size of South Africa's. Most Israeli VC companies look to exhibit a global launch pad, being focused on investing in the international arena first before concentrating on the local market. This strategy supports their required minimum IRR of 15%.

The South African model's conservatism has a massive effect on job creation and advancing new industries in South Africa. Any firm in any industry has an opportunity to become a giant in its market as long as its business model and strategy adheres to the vision and mission of the board company.

As we move further into the 21st century, South Africans, and Africans generally, begin to embrace more of their own culture, products and businesses. Africans want to produce their own version of social media sites and eBay. This has created a space for African-themed products and e-commerce and creates the opportunity for more jobs and more African industries through VC.

This trend can already be seen with the establishment of Stellenbosch's silicon valley and Savanna silicon valley in Kenya, encouraged by the few VC funds willing to invest in early-stage businesses.

A new approach to VC is critical if new industries are to be discovered. This will not only have a positive return for the investors, but also for the economy, and will support the National Development Plan on job creation. ◆

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Moloto is in private equity and writes in his personal capacity

André Roux, regarded as the pioneer of South African private equity, has held the post of CEO since Ethos's inception in 1984. Stuart MacKenzie (45) joined Ethos in 1998, became a partner in 2002, and has been a member of the firm's executive committee since 2009.

Ethos names Stuart MacKenzie as next CEO

Ethos's chairman, Peter Mageza, commented: "This succession has been planned for some time and represents a natural evolution of our management excellence."

Roux commented: "I am delighted to be passing the baton into Stuart's good hands. His appointment comes at an opportune time in Ethos's history as we strive to capture new opportunities in a challenging environment. Stuart will spearhead our strategic initiatives to seize this potential."

MacKenzie commented: "Private equity is a team sport. I will be working alongside Ethos's exceptional team, all of whom have contributed deeply to our success."

MacKenzie holds BComm and BAcc degrees and is a member of the South African Institute of Chartered Accountants.

Ethos makes long-term investments into medium-to-large businesses in South Africa and selectively in sub-Saharan Africa. Since 1992, Ethos has raised over R16bn ($1.9bn) from institutions comprising some of the largest and most sophisticated global and domestic private equity investors.

Since 1992, Ethos has raised six private equity funds from third-party investors. It most recently closed Ethos Fund VI at R7bn ($805m). Ethos is independently owned and managed by its investment professionals.

Ethos's investor base comprises global and domestic private equity investors, including pension and retirement funds, insurance companies, financial institutions, sovereign wealth funds, funds-of-funds, and development finance institutions (DFIs).

Ethos's current portfolio companies include Alexander Forbes, Brandcorp, Ecobank (ETI), House of Busby, Idwala, Kevro, Plumblink, Tiger Wheel and Tyre, Transaction Capital, Universal Industries, Waco International, Clickatell, and CQS. ◆

PRIVATE EQUITY DEALS Q3 2013 – SOUTH AFRICA

NATURE	PARTIES	ASSET	ADVISERS	ESTIMATED VALUE	DATE
Acquisition by	Ascendis Health (Coast2Coast)	majority stake in Marltons Pets and Products cc	Cliffe Dekker Hofmeyr	not disclosed	Jul 12
Acquisition by	Ascendis Health (Coast2Coast)	Solal Technologies	Java Capital	not disclosed	Jul 12
Disposal by	Transaction Capital to Actis	Paycorp	Grant Thornton; Deutsche Securities; ENSafrica; Werksmans; Webber Wentzel; Deloitte	R937m	Aug 7
Acquisition by	Investec Principle Investments and management	CJP Chemicals	Cliffe Dekker Hofmeyr	not disclosed	not announced

PRIVATE EQUITY DEALS Q3 2013 – REST OF AFRICA

COUNTRY	NATURE OF DEAL	DETAILS	ADVISERS	ESTIMATED VALUE	DATE
Ghana	Disposal by	Abraaj Group of it's stake in HFC Bank to Caribbean Bank Republic Bank		not disclosed	Jul 31
Kenya	Acquisition by	Al Futtaim Group of CMC Holdings		$86m	Sep 9
Kenya	Investment by	Fanisi Capital in retail pharmaceutical chain Haltons		Sh262m ($3m)	Sep 11
Madagascar	Investment by	Databank Agrifund Manager's AAF SME fund in Guanomad		not disclosed	Jul 26
Morrocco	Investment by	Abraaj Group in Steripharma		not disclosed	Sep 10
Nigeria	Disposal by	MPI to Mercuria Capital Partners (6%) and Blakeney Management (4%) of 10% of it's 45% interest in SEPLAT	Standard Bank Plc	$98m	Aug 22
Tanzania	Investment by	Jacana Partners and Soros Economic Development Fund in DSM Corridor Group		not disclosed	Sep 30