Catalyst

SA's quarterly Private Equity & Venture Capital magazine

Vol 14 No 3
SEPTEMBER QUARTER 2017

Ethos bulks up BEE muscle

Auctions grow in popularity

VC green shoots

Financing infrastructure in Africa

FROM THE EDITOR'S DESK

The unseasonal late October cold front on the highveld of Johannesburg brings a wind every bit as cold and foreboding as the Finance Minister's recently delivered medium-term budget speech. The numbers have screamed from newspaper headlines, been barked over the wireless by an army of talking heads and lamented by men and women once incurably patriotic and optimistic about South Africa's future.

The speech offered no solutions, but it can hardly be accused of ignoring or concealing the problem. On the contrary, Gigaba made a great deal of his refusal to "sugar coat" the problem.

What really stood out for me from the medium-term budget was that over the last seven years the combined profitability of state owned enterprises (SOEs) "measured by return-on-equity, declined from 7.5% to an estimated 0.2%". It's been painfully apparent that SOE's are at the epicentre of the economic earthquake, threatening fiscal damage that some fear could take an entire generation to repair if we wait until 2019.

Under the guise of the "developmental state" (and under the watch of Gigaba as then Minster of Public Enterprises, lest we forget) the likes of SAA, Eskom, Denel, the SABC, SAFCOL *et al*, have been poisoned; a slow death by a thousand ill-gotten tenders, eroded of capacity and balance sheet strength and managed as if their primary function is to provide employment at a massively uncompetitive cost.

There are some who hope Gigaba's speech was an attempt to set the stage for some unpopular decisions and for engaging with key economic actors on what trade-offs should be made. For there is now no hiding or denying the fact that the country is standing on the edge of the so-called fiscal cliff.

Treasury admitted that although aggressive fiscal consolidation to stabilise debt ratios and narrow the budget deficit could reduce financial risks, this approach could also weaken demand, curb investment and dissuade employment creation. Likewise, any commensurate hike in taxes to fund the revenue shortfall of over R50bn will pose similar risk to growth.

And that is where all roads should lead and what all trade-offs should focus on: GDP growth. For without increasing the denominator in the equation the downward spiral inevitably sees us crashing at the doors of the IMF.

Can we turn growth around as swiftly as is needed to avoid this nightmare scenario? There are some who believe we can and that based on the synchronised global economic recovery we have some decent tailwinds in rising commodity prices and demand for our exports. But perhaps the biggest area of policy paralysis that requires resolution is in the mining sector, undoubtedly still the flywheel of the SA economy despite its declining contribution to GDP. Upstream the sector's still the largest client for construction companies and downstream transport's biggest customer.

Veteran mining rainmaker Brian Gilbertson, now Chairman of private equity firm Pallinghurst resources, was quoted in the Sunday Times (Oct 29th, 2017) saying that the Mining Charter 3 was the final nail in the coffin of the local industry. The regulations are universally and widely condemned by organised labour, junior miners, the majors; it has made mining uninvestable.

There are a few weeks to go ahead of the crucial ANC elective conference that could see the political sponsors of this calamitous mining charter out in the cold and that would go some way to restoring confidence and adding impetus to upside risks for economic growth forecasts over the next few years. The alternative is obvious and frightening in equal measure and the tentacles of the gangster faction run deep, as per Jacques Pouw's excellent new book, The President's Keepers (not the best holiday destress read, mind you), so that alternative is a distinct possibility.

Private Equity GPs that I've been speaking to have found this backdrop full of opportunity, but closing deals has become much more fraught. As business responds to this slow growth strategically, either looking for inorganic growth, opportunistic distressed sellers with good assets or consolidation, the time taken to consummate with all this uncertainty is placing strain on the sector.

Despite this auctions are proving popular (see page 3). One of the most interesting points to emerge from this year's 2017 Private Equity Academy, jointly hosted by Bowmans and global law firm, Freshfields Bruckhaus Deringer LLP (Freshfields), in Johannesburg in September, is that the auction process can get things moving in a way that more conventional transactions can seldom do. Ex chaos facultas[1]. ◆

Michael Avery

[1] Out of chaos opportunity.

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Design & Layout: Janine Harms, Gleason Design Studio

Catalyst is published by the proprietor Gleason Publications (Pty) Ltd, reg no: 1996/010505/07 from its offices at 30 Tudor Park, 61 Hillcrest Avenue Blairgowrie, Randburg 2194.

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Gleason Publications

Ethos continues to do innovative and potentially transformative deals at the general partner level, setting the pace in the local private equity market.

Ethos beefs up BEE Muscle

Following on from the listing of Ethos Capital last year, in a move that continues the evolution of alternative fundraising models for Africa, Ethos announced in September that is has brought in a pair of strategic investors with considerable deal flow and balance sheet clout, to back Ethos' expansion strategy.

"In order for us to accelerate the Firm's growth in a sustainable way, we recognised the significant benefit of attracting strategic investors that would share our vision" Stuart MacKenzie

Stuart MacKenzie

RMI Investment Managers and Royal Investment Managers – together the 'RMI & RIM Consortium' – will invest behind Ethos' growth strategy in a series of transactions that will result in them acquiring a combined stake of up to 30% in Ethos.

The deal includes a vendor-facilitated BEE component ensuring that 25% of the company continues to be owned by a broad base of historically disadvantaged shareholders (including Black Ethos executives, staff and the Ethos Educational Foundation Trust).

Ethos CEO, Stuart MacKenzie, says the partnership holds deep strategic potential to unlock value for Ethos and the RMI Consortium, on the back of an institutional platform that has been three decades in the making over six private equity funds, 104 transactions and 95 realisations.

Ethos is currently investing Ethos Fund VI. At R8.6bn (US$800m) in commitments, Fund VI is one of the largest pools of third-party capital in Africa.

"Three years ago, we commenced a diversification strategy that aimed to leverage this platform by launching a range of alternative asset funds," explains MacKenzie. "To date, we have successfully closed a mid-market fund, launched a mezzanine fund and are preparing to go to market with our seventh large buyout fund. In addition, we have supported this diversification strategy through listing Ethos Capital, a permanent capital vehicle focussed on investing in our funds, on the Johannesburg Stock Exchange. Up to this point the strategic expansion of the Firm has been funded by its Partners. In order for us to accelerate the Firm's growth in a sustainable way, we recognised the significant benefit of attracting strategic investors that would share our vision. The cultural affinity between the Ethos, RMI and RIM teams has been nurtured over many years of business collaboration. The RMI & RIM Consortium's endorsement of our strategy will enable us to accelerate the realisation of our vision by opening new investor networks, providing asset management expertise and a focus on the accelerated transformation of our Firm. Together, we share a vision of matching the best capital solutions with the best business ideas."

The capital raised will enable Ethos to accelerate the execution of its strategy, while the RMI & RIM Consortium will play an important role in enhancing Ethos' distribution networks with the aim of reaching a broader constituency of potential investors.

The transaction will also help facilitate intergenerational succession in Ethos, through a transfer of ownership between the Partners of Ethos; while ensuring that a majority of the firm will continue to be owned by the partners and executives that work in it.

As a consequence of the transaction, Ethos' board of directors will be reconfigured to include representatives from the RMI & RIM Consortium and Ethos executives, and will continue to be independently chaired by Peter Mageza. Kelly Moylan, a US-based private equity veteran and co-founder of global alternative investment firm Hamilton Lane, has transitioned from the Board following seven years of dedicated service.

Kelly has been associated with Ethos for more than twenty years and has played an invaluable role in assisting it in building and sustaining relationships with international investors and providing strategic insights. She will continue to be associated with Ethos in a Senior Advisor role.

Kabelo Rikhotso, CEO of Royal Investment Managers, believes the transaction fulfils the typical characteristics RIM looks for in acquiring minority equity stakes in asset management business, most notably the genuine embracing of diversity – which to RIM means black participation not only at the ownership, management and employee level but, more importantly, at the investment team level.

"The launch of the Ethos mid-market team (majority black-owned, run and managed by a black team with its own independent investment committee) is a great initiative and the second layer of investment professionals being predominantly black bodes well for future succession and diversity," notes Rikhotso.

The introduction of the final regulations to the Broad-Based Black Economic Empowerment (B-BBEE) Act in June 2016 signalled a shift in economic empowerment to encourage the creation of black entrepreneurs, as well as ownership and participation. This, coupled with the dti's black industrialist programme, has created fertile ground for empowerment dealmaking. Ethos has positioned itself earlier than most of its competitors to be at the vanguard of this new wave of empowerment deals that is likely to drive M&A activity over the next few years in South Africa. ◆

Kabelo Rikhotso

For mid-cap companies and above, auction sales have become a settled part of the international mergers and acquisitions (M&A) landscape.

Auction sales grow in popularity as an M&A tool in PE

When it comes to Africa, South Africa has shown brisk auction activity (although not yet at the levels seen in the US and Europe) and the trend in other countries is on the up.

On the sell-side, recent auctions have shown that it has become more difficult for South African companies to access international buyers through auctions, given the nervousness of overseas investors about the country as an investment destination. As a result, most current auction bidders in South Africa are locally-based.

On the buy-side, bidders are mainly interested in high-quality assets, of which there are comparatively few in South Africa, often fueling significant competitive tension among bidders.

James Westgate

These are some of the insights gleaned at the 2017 Private Equity Academy jointly hosted by Bowmans and global law firm, Freshfields Bruckhaus Deringer LLP (Freshfields), in Johannesburg in September.

> "In fact, even the idea – some would say "threat" - of an auction can inject new life into bilateral M&A negotiations that have been dragging on or running out of steam."

Auctions can get things moving

One of the most interesting points to emerge from this year's academy is that the auction process can get things moving in a way that more conventional transactions can seldom do.

In fact, even the idea – some would say "threat" - of an auction can inject new life into bilateral M&A negotiations that have been dragging on or running out of steam. As Bowmans' James Westgate noted during the academy, the mere possibility of an auction at the back-end of a bilateral can be enough to galvanise a buyer into action.

Dubai-based Rob Cant of Freshfields has seen a similar trend in Europe and the US. When sizeable assets are at stake, some sellers will run two parallel sets of preparations: one for an initial public offering (IPO) and one for an auction sale, choosing the option that offers better value late in the day.

Auctions have become commonplace overseas because, in the right circumstances, they can be highly advantageous. For the seller, an auction can be an effective vehicle for making a good seller-buyer match at a good price, in a reasonably short space of time. For buyers, an auction can provide an opportunity to acquire an attractive asset that might not otherwise have been available to the buyer.

The proviso, of course, is that the parties should have a healthy understanding of the do's and don'ts of how auctions work. Auctions can be expensive to run or participate in, and a failed bid or an auction that flops can be costly in terms of time and money.

While many technical aspects of auctions were discussed during the academy, from warranty and indemnity insurance, to the ins and outs of vendor due diligence, some important non-technical points were made as the panellists shared their hands-on experience.

Here are some sell-side and buy-side do's and don'ts that emerged.

Advice for sellers: be reasonable and realistic

The consensus among panel members was that sellers considering an auction need to be realistic about the value of their asset, reasonable about its pricing and have a keen understanding of the buyer universe before embarking on the auction process.

Potential buyers tend to be either private equity houses, which are usually nimble and so likely to stick to an auction timetable, or strategic or trade buyers.

The two types are different and have different priorities. Shawn der Kinderen, co-head of the Freshfields Africa Group, pointed out that trade buyers are usually more focused on integration, meaning they want the target business to be a good fit for their own business. Private equity buyers, on the other hand, will probably continue to run the business as a standalone entity.

Shawn der Kinderen

Although all buyers must be treated equally in terms of the process, sellers should understand that different buyers may have different process needs and internal governance processes to manage. Buyers must be alive to these different needs and strategise and plan accordingly.

Panellists recommended that sellers do some pre-auction "hygiene" analysis and clean-up of the asset as a first step to preparing for an auction and ensuring that sellers are aware of the strengths and weaknesses of the business they are taking to market.

Issues to address include cleaning up the group structure. This is especially important in Africa, where it is helpful to be able to trade through a jurisdiction that is perceived as reputable and investor-friendly. Also important is ensuring key contracts are all signed and documented, and where applicable renewed, and ensuring that all regulatory approvals are in place and that the books and records of the company are complete and up-to-date.

A list of key consents required to implement the transaction should be prepared and where there are third-party shareholders who hold pre-emptive or similar rights, the proposed transaction should be shared with them to obtain the required waivers.

Duncan Randall

Warts and all

At the same time, sellers should never try to cover up any shortcomings. Duncan Randall, Managing Director of Tana Africa Capital, advises: "Be honest and upfront. Don't try to hide the warts. You might as well tell the bidders about them upfront."

The value of having a clear understanding of the asset you are selling – both its strengths but particularly its weaknesses – cannot be overstated.

Simon Denny, Managing Director, Head of South Africa Investment Banking at Deutsche Bank South Africa, advised sellers to spend the time ahead of a sale process on making sure their financials are watertight with clear, accurate assumptions linked to their forward-looking strategy and upside.

Denny also raised an important point about the role of management in auctions. While management's buy-in to the process is essential, he cautioned against letting them become the kingmaker, especially at a time when the preferred bidders are being identified. Ideally, sellers should be allowed to engage early on with the senior management team to build rapport and understand their desired short, medium and long-term outcomes. At the outset though it is important to agree and put in place clear protocols about the auction process and decision-making procedure.

Confidentiality is key, Denny added, especially when the auction process kicks off. Details of auction progress should be confined to a very small group and it is critical to keep the identities of participating bidders confidential until the very end. Denny commented: "While some speculation around the process and the bidders can be useful, it can also play against you."

How to be a successful bidder

One of the most useful pieces of advice for bidders in an auction is to show the seller how serious they are by having the right level of people attending presentations and visiting the data room. More often than not, data room managers have the ability to monitor how much time visitors spend and what they do there, and a serious bidder would make a serious effort to familiarise themselves with the seller's business.

Another solid tip is for bidders to fight only for the things that are really important to them. As Shawn der Kinderen put it: "Don't let your lawyers run amok with the marking up of documents." This just shows an inability to see the wood for the trees.

Likewise, make a point of asking the pertinent questions; the ones where the answers truly count. Bear in mind that the seller is fielding questions from all sides, and management is still trying to run the business while the auction is under way. So it can be helpful for the bidder to filter the questions going through to the seller, ensuring that the frivolous or unnecessary ones stay behind.

It is almost always risky for a bidder not to comply with the auction rules, so bidders are well advised to do their level best to meet any deadlines or other key criteria set.

While the seller's final decision will invariably be about price, never underestimate the value of thoughtfulness, common sense and creativity in an auction. If there is a close call to make, those qualities could be what pushes the winner over the finishing line. ◆

SAVCA's annual private equity industry conference is a high-level networking and information sharing event that has been held since 2008.

"20/20: Hindsight. Insight. Foresight"

As far as industry conferences go, the annual private equity and VC industry event at Spier Wine Estate (the conference home for the last few years) is etching a niche for events that offer that rare combination of high-level networking and thought leadership, whisked together with informal opportunities to build lasting relationships and, of course, dealmaking. And then there's Spier, with its art-laden vinicultural treasures.

SAVCA's annual private equity industry conference is a high-level networking and information sharing event that has been held since 2008. The conference setting is according to its organisers, "collegial, informative and inclusive; with delegate passes limited strictly to 400 so attendees are ensured of meaningful networking opportunities with other delegates."

It's all about showcasing the Southern African private equity and venture capital industry while creating a compelling context for industry players to connect with investors, regulators and the media. Did we mention Spier?

The theme of the SAVCA 2018 Conference is "20/20: Hindsight. Insight. Foresight".

This statement is intended to celebrate the past two decades of SAVCA's existence, while interrogating the current state of the private equity industry - and looking forward to what sector players should consider when structuring for success over the next 20 years.

POWER FM's inimitable MD and Anchor of POWER Business, Andile Khumalo, will once again egg the event together with a speaker line-up that offers the best of scenario planning, with the Institute of Race Relations head, Frans Cronje; the boldest of outspoken business leaders in Magda Wierzycka, CEO of Sygnia Group; and the breaststroke queen of yore, Penny Heyns, who has after breaking 14 individual world records, established herself, after her retirement in 2001, as a businesswoman, swimming clinician and a sought after Inspirational speaker.

Complimentary places are available to CIOs, CEOs, CFOs, fund managers and other senior investment professionals from organisations with a demonstrable track record in allocating capital to private equity fund managers, and who do not manage third-party capital or collect fees for advisory/consulting services. Fund of funds are excluded. ◆

Africa has the potential to become the next Private Equity hotspot. Merely looking at the energy infrastructure sector, "600 million Africans are not connected to the electricity and public investment will not be sufficient," says Graham Sheward, Managing Director of SGG Mauritius.

SGG's acquisition of Cim Global Business opens Africa to global private equity firms

In addition, Africa has only just begun exploring and developing its vast oil and gas potential. The investment that the extraction, refining, distribution - through pipeline and ports - and regional and global sale of these resources will require is vast. "Even before the supplier and secondary industries required to support this build are considered," adds Sheward.

Graham Sheward

Then there is the telecommunications, consumer, services and urban infrastructure build attendant on the continent's rapid urbanisation as millions of Africans move to town. Underpinning all this potential is Africa's traditional mainstay – agriculture. Already employing 80% of the continent's population, properly capitalised, Africa's agricultural sector holds the potential to feed the world as global population figures test eight billion in coming decades.

Looking at Africa from the inside, or from the individual perspectives of separate countries, the scale of the opportunity is often clouded by shorter term – and much more immediate – challenges. At minimum, for example, investors considering Africa have to take underdeveloped or constraining legislation, political uncertainty, liquidity and exchange control challenges, or skills and infrastructure deficits into account.

However, these do not negate the bigger picture of opportunity and growth that the continent presents.

This view was the rationale behind Luxembourg headquartered SGG's recent acquisition of Cim Global business, headquartered in Mauritius.

The combination brings together Cim's presence in Africa and South East Asia's most dynamic economies with a world-leading Luxembourg-based provider of administrative and accounting solutions for investment funds and multinational corporations. The transaction links Europe, the United Kingdom, the USA, Caribbean, Mauritius, South Africa, Singapore and Hong Kong in a powerful combination set to transform the world's access to African investment and growth.

Specifically, the acquisition "provides global corporates the ideal support vehicle through which to roll-out international strategies – especially in Africa's rapidly developing private equity environment," explains Sheward.

From an African perspective, SGG's acquisition of Cim Global Business means that world-leading business support services are now available locally in Africa, "providing African corporates, for the first time, a distinct competitive advantage – especially when it comes accessing global investment, capital, markets and opportunity," adds Sheward. Cim Global Business already manages many of the largest United Kingdom private equity firms' engagement with Africa - from Mauritius. Cim's acquisition by SGG, now, exponentially broadens the private equity landscape able to consider Africa. "Adding 22 countries from the United States, the Caribbean and Europe, including Luxembourg, France and the Netherlands, to Cim's well-established African, Middle Eastern, Indian and Asian stable of private equity clients, significantly widens the pool of established global clients seeking African opportunities,'' says Sheward.

This acquisition is particularly significant for Africa from a United States' private equity perspective.

While the United States has invested heavily in Asia over the last decades, the United States–Africa investment corridor, especially private equity investment, is extremely underdeveloped. SGG's acquisition of Cim Global Business now provides the United States' largest private equity firms with risk-managed, globally compliant access to African equity through

Mauritius. "This is set to transform the United States' access to African paper – and Africa's access to global capital for growth," predicts Sheward.

Currently, Africa offers exciting private equity opportunities, especially in renewable energy. To date, South Africa, through its renewable energy programme based on public private partnership models, has attracted the bulk of this investment. Going forward, however, as more countries - like Morocco and Uganda, for example - use or adapt this model, the scope for global private equity activity supporting public-private partnerships in the renewable energy sector in Africa is set to increase exponentially.

Established long-term private equity investment is a particularly well-suited funding method for these types of energy investment opportunities, given that "the size and long tenor of the deals, the highly capital-intensive nature of the infrastructure builds, and the fact that properly structured off-take agreements guarantee investor returns," says Sheward.

Channelling SGG's vast global client network through the system of bi-lateral investment protection agreements that Mauritius has with most of Africa's high growth markets provides the surety required by global private equity investor mandates. Despite South Africa being a much more developed investment management hub than Mauritius, "Mauritius' bi-lateral investment protection framework was one of the key reasons for SGG choosing to acquire a Mauritian domiciled asset and investment management business," adds Sheward.

Sheward mentions that he is often approached by South African asset and private equity managers about accessing African equity or other investment opportunities for their clients via Mauritius. This was, in fact, part of the motivation for Cim Global Business opening an office in Johannesburg in 2016 as he explains, "increasingly South African investment mandates consider African pension funds, local African treasury instruments and also, of course, African private equity." Sheward adds, "As such, being present in Africa's largest domestic investment hub, is a critical part of our strategy and - now that we have been acquired by a global investment services major like SGG - only enhances our relevance as a serious asset and investment management partner within South Africa's highly developed and innovative investment sector."

This is especially so since beyond private equity, SGG's mandates covers all types of illiquid asset strategies including infrastructure, real estate, including commercial, residential, office, student accommodation and social housing, debt, venture capital, early stage, mezzanine, buy-out (equity and debt instruments) as well as fund of funds. "South African investors and investment managers will now have the opportunity to safely access these investment classes across the continent via the institutional safety of Mauritius - without the burden of exchange control," says Sheward.

Despite the many challenges that define doing business in Africa, SGG's acquisition of Cim Global Business points to a new pragmatism in the world's most developed markets as they begin to recognise Africa's undoubted long term potential.

Central to this "is an appreciation of the role that private capital will need to play in realising this potential – and the growth that this will generate," says Sheward. If one considers the huge influence of international private capital flows in Asia over the last six decades, channelling these flows to Africa presents a huge development opportunity for the continent. At the same time Africa also presents, "the next big growth opportunity for the world," concludes Sheward. ◆

Infrastructure as an asset class can provide a distinct addition to African pension and investment portfolios and is increasingly being considered.

Pension funds: should they be financing infrastructure in Africa?

Gerald Gondo

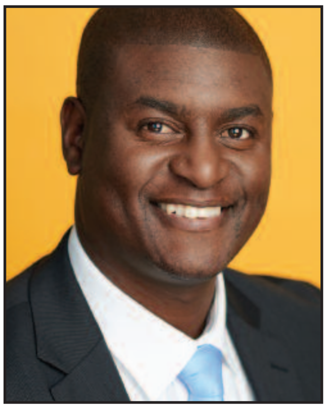
In principle, the asset class presents a compelling natural "fit" to the longer-term liability profile of most pension funds given the investment horizon of most infrastructure investments, with the primary appeal of this asset class being the potential to deliver a predictable cashflow stream over time.

The World Bank places an approximate US$93bn a year into infrastructure on the continent, a third of which is for maintenance of existing infrastructure. Its Infrastructure Action Plan FY 2012-2015 proffers important guidance as to what African institutional investors can factor into their considerations in terms of defining infrastructure and in-turn, identifying strategic benefits in allocating to this asset class. It further identifies three important themes to which African institutional investors can draw upon:

1. Ripple Effects, such as an ICT-application that generates data on sector performance with spill over effects in sector accountability and governance, a regional power project that has ripple effects beyond the host country, or a rural infrastructure package that boosts agricultural productivity with ripple effects on rural income and development;
2. Bottlenecks, which are investments that unlock the volume, cost, and quality of economic activity such as a law on competition that opens up the potential of private sector investments, or a source of clean water, for example, that provides for women to participate in economic activity, and;
3. Missing Links, which are infrastructure investments that interconnect two markets/areas such as a bridge within a region or a cross-border power interconnector, international road corridors, or fibre-optic links in a region, to name a few examples.

Noticeable features of this asset class would be investments that have attributes of inelastic demand, economy of scale and a long useful life. A typical example of an infrastructure investment with such attributes is a toll-road concession. Once constructed, the toll road should feature lowering marginal costs for additional use of the asset, for as it is used, the average cost declines. This attribute when modelled by way of cashflows, typically presents the oft-cited "J-Curve" or "Hockey Stick" cashflow profile.

The economic rationale for a toll-road concession is to target a section of the road that is likely to feature increasing flow of traffic over time, where users have no alternative option other than to utilise that specific section of the road. This dynamic therefore presents the inelastic demand attribute of the asset class, where usage of the toll road will be relatively unaffected by variations in income or price. If constructed to a high quality, a toll road should allow for many years, or even decades of use without prompting major repairs or refurbishments to render it out of use.



Gondo

The New Partnership for Africa's Development (NEPAD), which was established in 2001 under the African Union (AU), supported the Programme for Infrastructure Development in Africa (PIDA) in 2011 as one of its primary initiatives to identify and assess key cross-border infrastructure investments over the period 2012-2040. In 2012, in order to give further political impetus to PIDA and its implementation, African leaders committed to prioritise eight regional infrastructure projects under the Presidential Infrastructure Champions Initiative (PICI) 2012.

More recently, NEPAD has also established the Continental Business Network (CBN), which is an African Union Heads of State and Government response to facilitate private sector engagement and leadership in important continent-wide infrastructure projects, particularly the regional infrastructure projects under PIDA. The CBN aims to crowd in financing and support for infrastructure projects by creating a platform for collaboration between the public and private sectors.

The specialised nature of the asset class has also seen the emergence of specialist private equity funds and fund-of-funds offering investors exposure to this asset class. African institutional investors may be lured by the high, stable and long-term cashflow and inflation protection potential of infrastructure investment, coupled with its low correlation to traditional asset classes, but smaller African pension funds must be mindful that generally infrastructure requires substantial financing and governance to be a successful investment, suitable to its members. ◆

Gondo is Business Development Executive at RisCura.

Africa's infrastructure projects continue to attract the attention of global private equity investors and specialised infrastructure funds.

If you build it they will come

The latest is a collaboration between A.P. Moller Holding, PKA, PensionDanmark and Lægernes Pension. The new infrastructure fund with a focus on Africa has already received commitments of US$550m from anchor investors.

The new fund will focus on investments in infrastructure in Africa to support sustainable economic growth in the region while delivering an attractive return to its investors.

The fund will be managed by A.P. Moller Capital, which is an affiliate of A.P. Moller Holding, and consists of a team lead by four partners, Kim Fejfer, Lars Reno Jakobsen, Jens Thomassen and Joe Nicklaus Nielsen. The partners all have extensive industrial and investment experience combined with a substantial network in Africa.

A.P. Moller Holding is a privately held investments company with roughly $20bn under management. The purpose of A.P. Moller Holding is to exercise the A.P. Moller Foundation's role as an engaged owner in A.P. Moller – Mærsk A/S and Danske Bank A/S, and to ensure that the Foundation can continue to contribute to society, in the form of donations, for generations to come.

PKA Ltd. is one of the largest pension service providers for labour market pension funds in Denmark. Their 300 000 members work primarily in the public sector. PKA invests approximately €35bn on behalf of their members. PKA has a special focus on investing in projects that help to mitigate the effects of climate change and has invested in Africa's largest wind farm in Kenya, Lake Turkana.

PensionDanmark is a labour market pension fund and among the 50 largest pension funds in Europe. PensionDanmark manages pension and insurance schemes, health care and educational funds on behalf of 700 000 members employed at 23 500 businesses within the Danish private and public sector.

And Lægernes Pension (The Medical Doctors' Pension Fund) ensures pension for nine out of ten medical doctors in Denmark. The Pension Fund also operates a bank, Lægernes Bank, and a unit trust, Lægernes Invest, and manages a total of DKK 115bn in assets.

"We are very pleased with the significant support from the Danish pension funds and A.P. Moller Holding. Together, we will build and operate infrastructure business in Africa to support sustainable development and improvements in living standards across the continent. We will combine the best from industry in terms of project management and operational capabilities with the best from private equity in terms of agility and focus," says Kim Fejfer, Managing Partner and CEO of A.P. Moller Capital.

"A.P. Moller Holding was established to build value creating businesses that have a positive impact on society. Africa, with a working-age population likely to reach more than one billion people in the next decades, has a pressing requirement for more investments in infrastructure. In this respect, we are delighted to have established a new promising company in our portfolio with a strong team, who hold the right capabilities and experience to manage infrastructure investments in emerging markets," says Robert Mærsk Uggla, CEO of A.P. Moller Holding.

The fund has a duration of 10 years and has an initial target of 10 to 15 investments in total. It is a good example of how private capital can be mobilized on large scale to implement the UN's Sustainable Development Goals.

Following first commitments, the fund will be open for additional institutional investors for the next 12 months. The ambition is to raise $1bn in commitments. ◆

The U.S. venture-capital industry is envied throughout the world as an engine of economic growth. Although the collective imagination of most observers romanticizes the industry, that market and Israel are the best examples of connecting invention and innovation with the financial muscle to take ideas to market in a manner that invariably ensures commercial success.

Venture Capital Cowboys Size Up Fourth Industrial Revolution

The entrepreneur is the modern-day cowboy, roaming new industrial frontiers much the same way that earlier Americans explored the West. At his side stands the venture capitalist, a trail-wise sidekick ready to help the hero through all the tight spots – in exchange, of course, for a piece of the action.

If we're serious about growing the South African economy through supporting new businesses, and not just mom-and-pop-type small and micro businesses, we have to start seeing growth in start-ups. We need to start seeing more venture capital money backing more investable ideas the same way it is done in the US.

That's why the release of the recent SAVCA 2017 Venture Capital Survey is worth reading. It indicates that we're starting to see a rise in VC investments but, admittedly, off a very low base.

The standout theme of the SAVCA VC Survey is the significant increase in capital employed in the VC asset class, especially during 2016. The reported value of VC investments made during last year was R872m (2015: R372m), an increase of 134%. And in terms of the number of investments, there was an increase from 93 in 2015 to 114 in 2016, an increase of 23%.

SAVCA, along with research partner Venture Solutions (a sub-Saharan innovation management and commercialisation consultancy), surveyed 56 fund managers, basing results on concluded deals and transactions.

Tanya van Lill

"The survey points towards a substantial strengthening in the position and impact of investors in VC deals," says SAVCA CEO, Tanya van Lill. "This is based on the growth in both the number of VC investors and the number of reported deals concluded over the period 2014 to 2016 in comparison to the prior three-year period."

In terms of investment activity, the report showed that:

- ICT comprised 27% of deals concluded in 2016, while Manufacturing and Business Products & Services comprised 13% and 12% respectively;
- Manufacturing was the largest sector by number of deals in 2016;
- There were a total of 8 Fintech specific deals by the end of 2016 compared to 4 in 2015. Most of these took place in the Western Cape;
- Energy investment decreased (in terms of value of all deals recorded) from a high of 6% in 2012 to 1% in 2016.

Van Lill adds, "Angel investment in Southern Africa is an important source of capital for early stage businesses. The survey shows that angel activity is emerging from its fringe status to present attractive investment opportunities for high-net worth individuals. Approximately R44m was invested in 2016, with the top sectors attracting angel investment comprising Business Products & Services (12%); Software (11%); Consumer Products & Services (9%); and eCommerce (8%). Going forward, this type of investment could be strengthened through enhanced networking and entrepreneurial business opportunities."

"Despite harsh trading and volatile market conditions, overall the venture capital sector has shown resilience and exceptional growth," comments Stephan Lamprecht, Founder of Venture Solutions. "The magnitude of the SA VC asset class (R3,5bn across 461 deals) is an indicator that it has huge potential to be a driver of significant economic growth and should attract the attention of policy makers. The introduction of the Section 12J tax incentive has already had a tangible impact in increasing the availability of risk capital for investment in smaller entrepreneur-driven businesses."

Overall, at the end of 2016 just over R3,5bn was invested in 461 deals. These investments were managed by 53 different fund managers, up from 36 in 2015 and 14 exits took place, compared with 8 in 2015.

The growth is welcome, but what is really needed is for the momentum to be sustained for South Africa's VC sector to kick on from here. ◆

Some exciting news for South African start-ups is that venture capital firm Knife Capital has expanded into London after introducing UK-based Draper-Gain Investments as a strategic investor.

Carving a back door into The City

Catalyst caught up with Keet van Zyl, Co-founder & Partner at Knife Capital, to find out what this international growth move offers for its portfolio companies and what this signals for the local VC sector.

"There's a good conduit now and big plan behind it," says Van Zyl, leaping out the blocks eager to share the vision. But I stop him short to just recap where he's come from, from the days of Mark Shuttleworth and Here be Dragons, to his deserved reputation as one of South Africa's most astute early stage venture capital investors.

Van Zyl met fellow Knife Capital directors, Eben van Heerden and Andrea Bohmert, at Here be Dragon's, Mark Shuttleworth's VC fund in the early 2000's. HBD (an acronym for "Here Be Dragons" - a term used in ancient times to mark uncharted territories on maps) offered growth capital to a range of early stage businesses.

Van Zyl recalls backing some exceptional entrepreneurs, and with a little bit of luck (as he rather self-deprecatingly puts it) and a lot of design, these jockeys eventually exited to the likes of Visa, General Electric, and the rest, as they say in the Classics, is history.

"We, in 2010, essentially spun Knife Capital out of HBD to introduce some other funders and we still to this day manage the investments and are close to the Shuttleworth investments," explains Van Zyl.

In effect, Van Zyl, Van Heerden and Bohmert walked out with a management contract and exchanged their salary slips for a management fee and ventured off on their own.

In 2015 Knife Capital launched YueDiligence, an interactive web-based tool that aims to increases due diligence efficiency for entrepreneurs, investors and service providers through process automation.

In early 2016 Knife Capital launched its latest fund, called KNF Ventures, to take advantage of the SARS s12j incentive. This fund aims to target earlier stage investments than previous funds. KNF stands for Knowledge, Networks and Funding.

So how did the firm come to partner with Draper-Gain Investments, a family office with significant global resources including existing investments in South Africa?

"It came about in a roundabout way," says Van Zyl, "when we launched our s12j vehicle last year, KNF Ventures, with [former Springbok captain] Bob Skinstad who has built up a good personal network and some wealth. Last year [Skinstad] went to London to head up the business development side of Draper Gain Investments and through that, looking at their opportunities, some bigger ventures with pound based cheques [Draper Gain] started using us to help with due diligence and that relationship naturally evolved."

Van Zyl explains that this evolved into Draper-Gain taking a strategic stake in Knife Capital and committing funding as its lead international investor.

"Our team come from a family-office-type background and was used to not having enough firepower behind us. We looked at the situation and saw we have two situations here. One, there's Draper Gain as the lead investor, but we've also got one or two parties in London looking to invest in South African and global entrepreneurs. And two, when we look at local entrepreneurs who want to expand internationally, it helps when we have both Cape Town and London offices. This also adds value for first world businesses who want to come and test in our market."

"The South African early stage investment ecosystem is built on the risk capital of local angels and international investors. Unfortunately, local institutional investors largely avoid this space. While we will continue to work at changing this mind-set, we are now creating a flexible structure for those international family offices which want to invest with us, alongside KNF's local 12J backers".

I probe Van Zyl to elaborate on the evolution and growth of the VC space in SA, considering his comments on the lack of support from institutional capital.

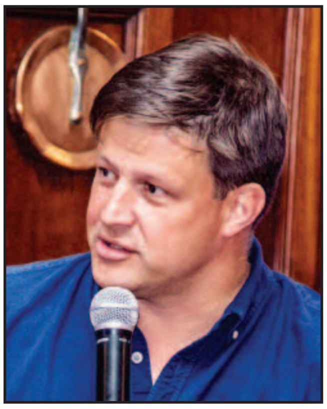
"It isn't reaching its full potential," Van Zyl says frankly, "and one of the main reasons for that is the lack of institutional capital backing this space. In other countries where one compares VC excitement and tech innovation, Israel, Silicon Valley, it's the life companies, the asset managers and the pension funds, that basically back VC. Over here if you peel back the veil, it's backed by [so-called] super angels, high net worth individuals that have a passion for this."

But there is hope according to the Knife Capital partner and co-founder.

"Recently a lot more of those angel investors are backing this space. The entrepreneurs that deserve funding are getting that funding and then SARS also came to the party with the s12j incentive."

> "Recently a lot more of those angel investors are backing this space. The entrepreneurs that deserve funding are getting that funding and then SARS also came to the party with the s12j incentive."

Keet van Zyl



Bob Skinstad

In 2014, Knife Capital was sold into financial services group African Dawn. After expected synergies did not materialise, the Knife Capital team recently took back ownership of the company in a structured management buy-out.

But that's a story for another day.

PRIVATE EQUITY DEALS Q3 2017 – SOUTH AFRICA

NATURE	PARTIES	ASSET	ADVISERS	ESTIMATED VALUE	DATE
Disposal by	Agri-Vie Fund I	its stake in Fairfield Dairy		undisclosed	Jul 3
Disposal by	Torre International (Torre Industries) to Phatisa and management	remaining stake in Kanu Equipment	Bowmans; Cliffe Dekker Hofmeyr	undisclosed	Jul 7
Acquisition by	Moshe Capital and Sanari Capital	majority stake in Jaycor International		undisclosed	Jul 7
Acquisition by	Sanari Capital	a 51% stake in Fernridge Solutions		undisclosed	Jul 9
Acquisition by	Actis	Management College of Southern Africa (MANCOSA) and Regent Business School	Webber Wentzel; Norton Rose Fulbright, Shepstone & Wylie; Clifford Chance	undisclosed	Jul 11
Acquisition by	LGC Capital and AfriAg	60% stake in House of Hemp		undisclosed	Jul 23
Disposal by	Convergence Partners Investments	its stake in Dimemnsion Data Middle East & Africa		undisclosed	Jul 27
Acquisition by	African Rainbow Capital	20% stake in Multisource Telecoms (Rain)	Webber Wentzel	R1,708bn	Jul 28
Acquisition by	Dundee Precious Metals from Corvest 7, HP Beteiligungs, Shalamuka Capital and Emerald Panther Investments 99	a majority stake in MineRP and combination of its propriety wireless underground communications technology with MineRP	Cliffe Dekker Hofmeyr	$20m	Jul 31
Acquisition by	4DI Exponential Tech Fund I	stake in Sensor Networks	Bowmans	undisclosed	Aug 1
Acquisition by	4DI Exponential Tech Fund I and Savannah Fund	stake in Aerobotics	Bowmans	R8m	Aug 1
Acquisition by	RMB Ventures (RMB Holdings) and Investec Asset Management (Investec) from Standard Chartered Private Equity and Development Capital Partners	72% stake in Kamoso Distribution	Bowmans; ENSafrica; Webber Wentzel	not publicly disclosed	Aug 6
Disposal by	Ethos Capital to Jesiflex (RMB Holdings)	Kevro Holdings	Barclays Africa; Rand Merchant Bank; Webber Wentzel	not publicly disclosed	Aug 7
Acquisition by	Capitalworks Private Equity from Sovereign Food Investments minorities	Sovereign Food Investments	One Capital; BDO Corporate Finance; Deloitte; Cliffe Dekker Hofmeyr; Webber Wentzel; Allen & Overy LLP	R907m	Aug 10
Acquisition by	Kalon Venture Partners and the Smollan Group SA	40% (20% each) stake in SnapnSave		R14m	Aug 10
Acquisition by	Enko Africa Private Equity Fund	stake in AMI Logistics		undisclosed	Aug 15
Acquisition by	Elma Investments	stake in Mwabu		undisclosed	Aug 21
Acquisition by	Secha Capital	stake in Stoffelberg Biltong		undisclosed	Aug 27
Acquisition by	Futuregrowth Asset Management	a stake in Retail Capital	Cliffe Dekker Hofmeyr	undisclosed	Sep 5
Acquisition by	Actis and Dacosbro	Impact (Improvon Group) - Sub-Saharan industrial property investments	Bravura Capital; Perigeum Capital; Webber Wentzel; BLC Robert; Werksmans; Bowmans	R1,2bn	Sep 5
Acquisition by	Arise	12% stake in Equity Group		undisclosed	Sep 12
Disposal by	Powertech (Allied Electronics) to Musa Capital Namibia (on behalf of the Namibian Government Institutions Pension Fund)	Swanib Cables		undisclosed	Sep 27
Acquisition by	Netcare from Apax Partners	remaining 48% stake in BMI Healthcare		$125m	Sep 28

PRIVATE EQUITY DEALS Q3 2017 – REST OF AFRICA

COUNTRY	NATURE OF DEAL	DETAILS	ADVISERS	ESTIMATED	DATE VALUE
Africa	Acquisition by	Helios Investment Partners of 100% of Fertilizers and Inputs from the Louis Dryfus Company	Credit Suisse; Standard Chartered; Société Générale; Norton Rose Fulbright; Vinson & Elkins	undisclosed	Jul 24
Burkina Faso	Acquisition by	Amethis of a minority stake in Sodigaz		undisclosed	Aug 31
Burkina Faso	Acquisition by	Novamed (Amethis) of Polyclinique Internationale de Ougadougou		undisclosed	Sep 28
DRC	Investment by	XSML in Monishop sarl		undisclosed	Jul 8
Ghana	Acquisition by	Milost Global of a stake in Eco Medical Village (plus $200m debt financing)		$100m	Jul 10
Kenya	Acquisition by	Abraaj of Java House from Emerging Capital Partners	PwC; Rothschild; KPMG; Freshfields Bruckhaus Deringer; Bowmans; Anjarwalla & Khanna Advocates	undisclosed	Jul 3
Kenya	Investment by	Kibo Capital Partners in Blowplast	Grant Thornton; Bowmans	undisclosed	Jul 3
Kenya	Investment by	Engineers Without Borders in M-Shule		$40 000	Jul 11
Kenya	Disposal by	Aureos East Africa Fund of a 5.53% stake in Deacons (East Africa) to Centrum Investment Company		undisclosed	Jul 28
Kenya	Acquisition by	Wamda Capital, Omidyar Network, DOB Equity, Uqalo, 1776, Blue Haven Initiative, Alpha Mundi and AHL Venture Partners of a stake in Twiga Foods plus $4m in debt		$6,3m	Jul 31
Kenya	Investment by	Safaricom Spark Venture Fund in iProcure		undisclosed	Sep 7
Kenya	Acquisition by	Abraaj of a 56.2% stake in Avenue Group		undisclosed	Sep 10
Lesotho	Acquisition by	One Thousand & One Voices of a stake in SanLei		undisclosed	Aug 29
Nigeria	Acquisition by	Verod Capital Management of a significant minority stake in Greensprings Educational Services		undisclosed	Jul 24
Nigeria	Acquisition by	Apis Growth Fund I of a stake in Bankers Warehouse	Stanbic IBTC Capital; Udo Udoma & Belo-Osagie; Olajide Oyewole	undisclosed	Sep 12
Nigeria	Investment by	Advanced Finance and Investment Group (AFIG Funds) in FSDH Merchant Bank	Aluko & Oyabode	undisclosed	Sep 22
Sierra Leone	Investment by	CDC Group in Solon Capital		$20m	Aug 30
Uganda	Investment by	XSML in Qualicoff		undisclosed	Jul 31
Uganda	Acquisition by	Agilis Partners of Joseph Initiative from minorities including DOB Equity		undisclosed	Aug 22
Zambia	Disposal by	African Rainbow Minerals and Vale International of their 80% indirect interest in Lubambe Mine to EMR Capital Bidco	Standard Bank; Deutsche Securities; Bowmans	$97,1m	Aug 15
Zimbabwe	Acquisition by	Arise of stakes in NMBZ from FMO and Norfund (total shareholding now 69,14m shares)		undisclosed	Aug 27