African Resilience! Private equity in Africa proves its mettle

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Despite numerous economic, political and regulatory challenges faced by investors, private equity in South Africa appears to continue to deliver long-term sustainable returns for its stakeholders as it outperformed ALSI TRI, SWIX TRI and FINDI TRI over the past decade. Private equity continues to attract significant funding from local and foreign investors. These achievements should be celebrated considering that the industry has had to navigate through the global financial crisis and the recent commodities slump.

The findings of the September 2016 RisCura – SAVCA South African Private Equity Performance Report, underscores that the private equity industry in Southern Africa, is continuing exceed expectations. Over the last ten years the internal rate of return (IRR) of private equity in South Africa was 17.7%.

From an African perspective it is estimated that close to US$6 billion in funds were raised by private equity managers over the last five years. The African private equity success story has benefited all stakeholders. Recent reports by the African Private Equity and Venture Capital Association (AVCA) indicate that with the continued support of development finance institutions (DFIs), investment in private equity have led to significant job creation and improved corporate governance on the continent.

African private equity is, however, still very much underrepresented as an asset class in institutional portfolios and traditional institutional investors such as pension funds and insurers should be encouraged to explore and invest in this industry.

Despite all the successes to date, private equity in Africa still experiences many unique challenges:

- Investments remain relatively illiquid. Compared to developed markets, investors are required to adopt a long-term view on their investment rather than a short-term solution for increased returns. The hold period was 6.1 years on average in 2015, up from five years compared to the previous year. This indicates that investors are conscious of the fact that they need to wait a bit longer before the investment will yield higher return.

- Exit options remain restricted with trade deals still representing the most accessible option. Exits through the capital markets (IPOs) have dropped off in recent years.
- DFIs also have a development agenda in mind when investing in private equity and bring a basket of key features such as improved sustainability, governance and social economic obligation to the table.

According to the International Monetary Fund (IMF) Africa is due to reap reward from a "demographic dividend" in the coming years. As the economies in Africa modernise, the growing middle class is also expected to stimulate demand for new products and services. Private equity in Africa is therefore perfectly placed to capitalise on these growth opportunities.

Moving to the international front, recent developments in the American political landscape as well as the Brexit phenomena pose challenges to the global economy. Political uncertainty places a major impediment on economic growth and stability. Given global political and economic uncertainties, investors are more risk adverse. Private equity in Africa can, however, give investors some comfort when one has regard to the upwards curve on returns. Investors should be encouraged to make use of this opportunity.

The general sentiment among investors seem to be that private equity in Africa continues to mature with regard to investments in portfolio companies, funding and exit strategies. Despite the challenges highlighted above private equity in Africa has proven to be resilient in challenging economic times. The proliferation and diversification of funds and deals over the last decade prove that there is healthy appetite for the asset class from both local and foreign investors.

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