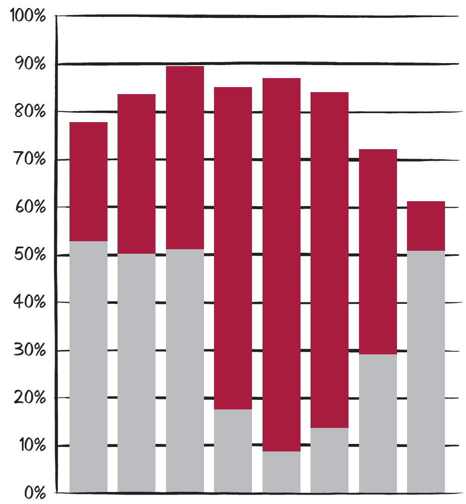

THE SEARCH FOR RETURNS

Investor views on private equity in Africa

RisCura, AVCA and SAVCA are pleased to present the first edition of ***The search for returns: Investor views on private equity in Africa*** report. The purpose of this report is to provide stakeholders with views on private equity in Africa from the Limited Partner's (LP's) perspective. This study examines future investment plans into African private equity, the region's relative attractiveness, expected return drivers, preferred investment vehicles, and the challenges to investing in the region.

The results of this survey are based on data collected from 48 LPs from Africa and around the world. These LPs range from endowments and family offices to pension funds and development finance institutions (DFIs). Collectively, the LPs have over US$ 150 billion in global private equity assets under management and undrawn commitments of US$ 50 billion.

Below are the key findings of the survey.

Africa is perceived to be more attractive than other emerging markets.

Africa's apparently unstoppable march to become one of the most popular destinations for investment is also reflected in the results of this survey. In line with the EMPEA Global Limited Partners Survey, released in May 2013, Africa is now perceived as a more attractive market than other emerging markets by almost 60% of respondents.

There is continued interest in emerging market private equity and growing interest in African private equity.

Most LPs, excluding DFIs and fund of funds whose mandate and focus is specifically African, have limited or no exposure to African private equity. However, in their search for returns in the current global investment landscape, they expect to extend their involvement with both emerging market private equity and African private equity - in a cautious fashion.

Earnings growth is expected to be the major driver of superior private equity returns for Africa in the long term.

In contrast to other more developed markets, the major driver of the expected performance is the underlying growth in earnings and the implicit underlying economic growth. In line with the current limited use of leverage in African private equity, LPs do not expect leverage to play a significant role in the return on capital achieved. This lack of leverage may contribute to lowering the perceived risk of private equity in Africa.

African Private Equity and Venture Capital Association

SAVCA South African Venture Capital and Private Equity Association

RisCura good thinking

A limited number of established general partners (GPs) and perceived weak exit environments are the most significant barriers to investing.

The relative youth of Africa's private equity industry has resulted in a large number of funds currently raising money, but only a very limited number having an established track record. It is clear that this lack of demonstrated expertise is proving a significant stumbling block for LPs.

As noted in the recent AVCA and EY report on exits in Africa, the small and illiquid public market for equities in Africa has long created the perception that there is a weak exit environment. Even with the increased activity in this area and a strong market in trade sales, this risk is still high on investors' agenda.

Despite the degree of unease and caution that political risk normally evokes from investors, it is interesting to note that in line with the reduction in political risk in Africa in the last decade, investors now cite political risk as only the third-biggest barrier to investment.

Regional funds are the preferred route to accessing African private equity in the near term.

With the smaller scale and limited number of investment opportunities available in each sector, regional funds currently seem to be a preferred investment vehicle. With many pension funds being first-time entrants into the African private equity market, a preference is also shown for fund of funds, which allows these LPs to rely on the expertise of experienced investment professionals at the fund of fund level.

A strong track record and operational expertise by GPs are key to attracting African PE commitments.

The complex, opaque and unique nature of the business environment in Africa appears to result in LPs valuing both proven investment and operational expertise. Flowing from the concerns regarding the lack of established GPs, LPs also appear to value long-established relationships within the investment team.

LP preference is for African fund managers to be based in Africa.

In the past a large number of African investment funds have been based in the major financial centres around the world. The LPs surveyed however expressed a marked preference for managers based in their primary target market. This preference also resonates with the high value placed on operational expertise of GPs within the African environment.

Environmental, Social and Governance (ESG) factors are at least equally important in Africa compared to other emerging markets.

The notable exception to this is the higher importance placed by almost half of the LPs on governance considerations. This trend is especially notable under African LPs.

African private equity returns are generally expected to compare favourably to listed equity.

This expectation is very much in line with the risk profile of private equity and the historic returns received by investors. The worldwide trend to include a larger proportion of alternative assets in investor portfolios seems to be in response to the attractive returns associated with private equity.

To view the interactive report online, visit **riscura.com/the-search-for-returns**

AVCA African Private Equity and Venture Capital Association

SAVCA SOUTH AFRICAN VENTURE CAPITAL AND PRIVATE EQUITY ASSOCIATION

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