

# Southern Africa Private Equity Roundtable

## Private Equity In Africa – A Local Investor's Perspective

October 18 – 20, 2010  
Gaborone, Botswana

# Introduction/Objectives

## Objectives:

- Local Investor's Perspective of Private Equity
  - Background on some current global occurrences
  - Ghanaian Landscape
  - Challenges, Issues

# Background

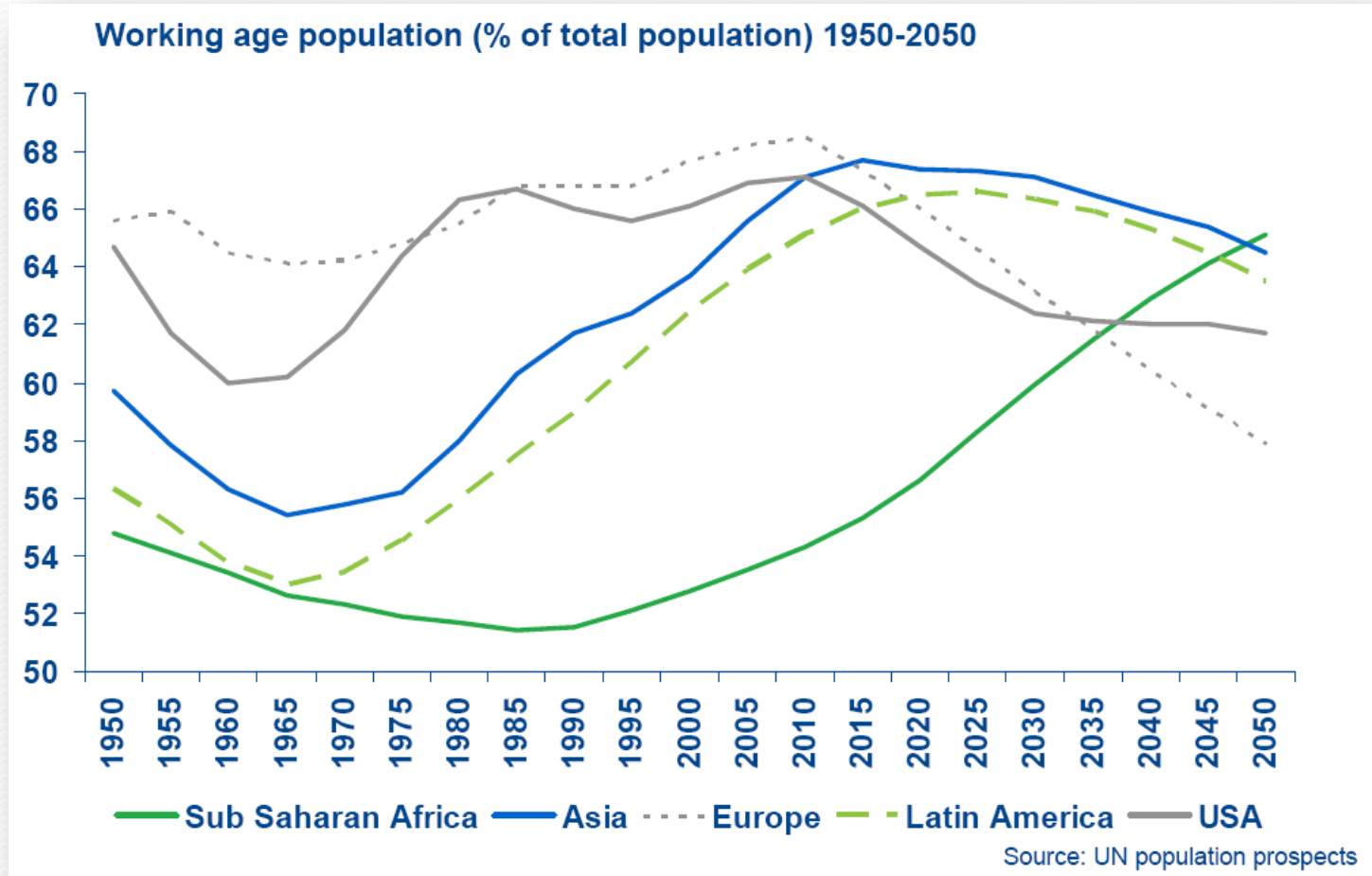
- Post Global Financial Contagion era (decade) will be one of austerity, de-leveraging, economic restructuring and reconfiguration.
- Fund raising now a tough, dry and dusty road for PEs.
- Paradoxically, PEs importance more significant than ever. (sector development and employment ).
  - Development Grants and some Aids from developed / wealthy nations will undergo intense scrutiny and re-alignment due to pressing post-GFC financial, economic and social challenges at home fronts.

# Background – contd.

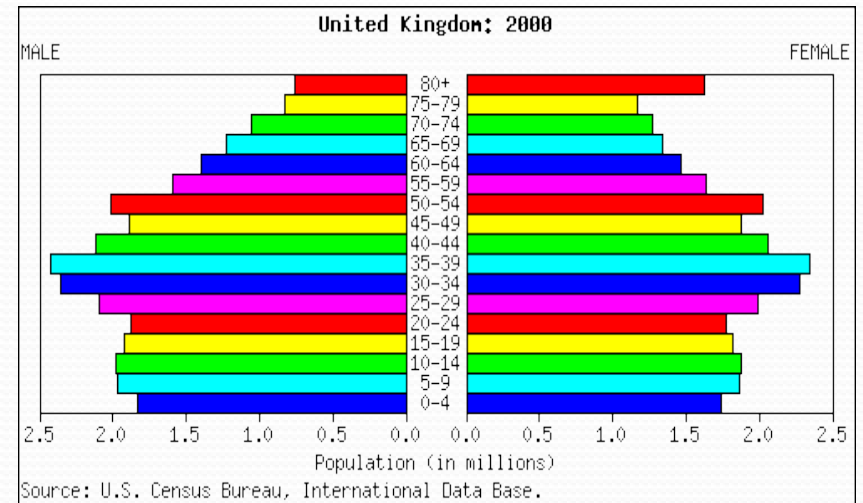
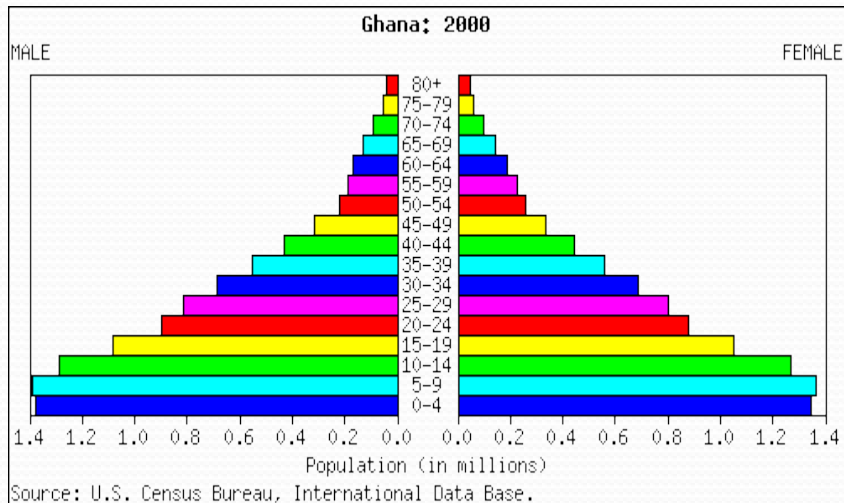
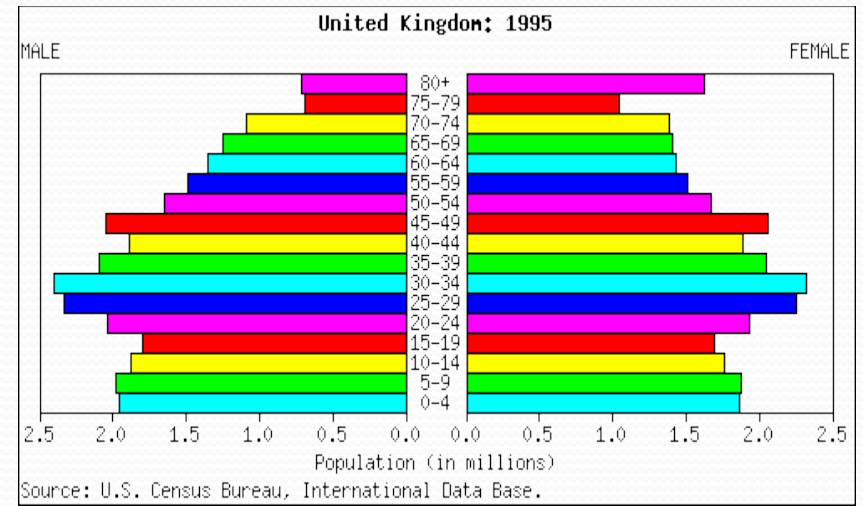
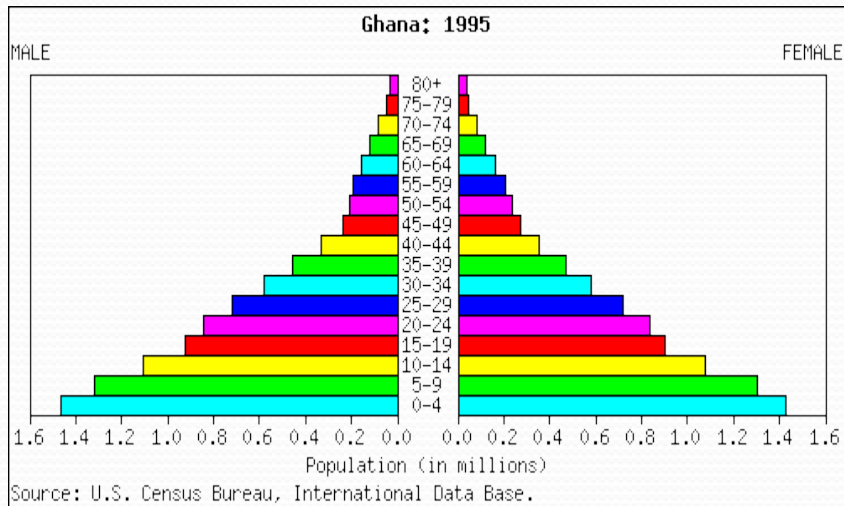
- Frontier economies fast becoming investment destination of choice – political stability gaining foothold, democratic dispensation developing tap root.
- Advantage of a rising population that is moving into the consumption mainstream – not middle income as known in the West, but rather home-grown “affordable consumption” class.
- Small but rising middle income class comprises of home-grown and returnees.

# Background – contd.

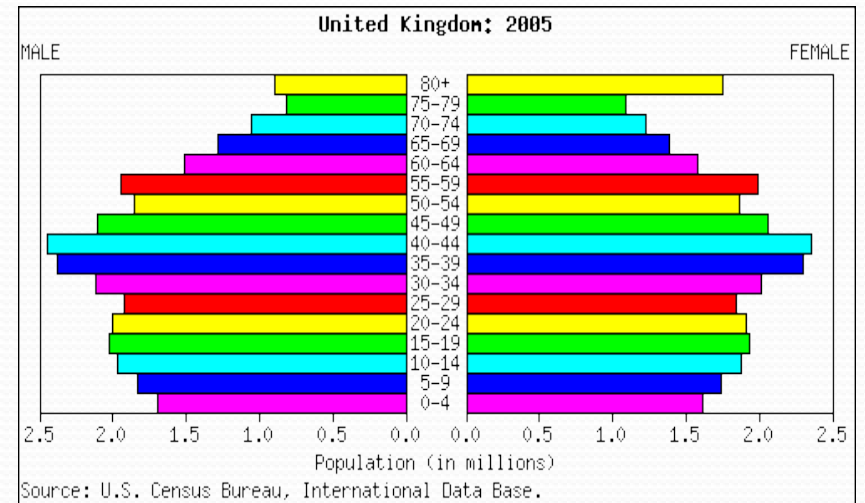
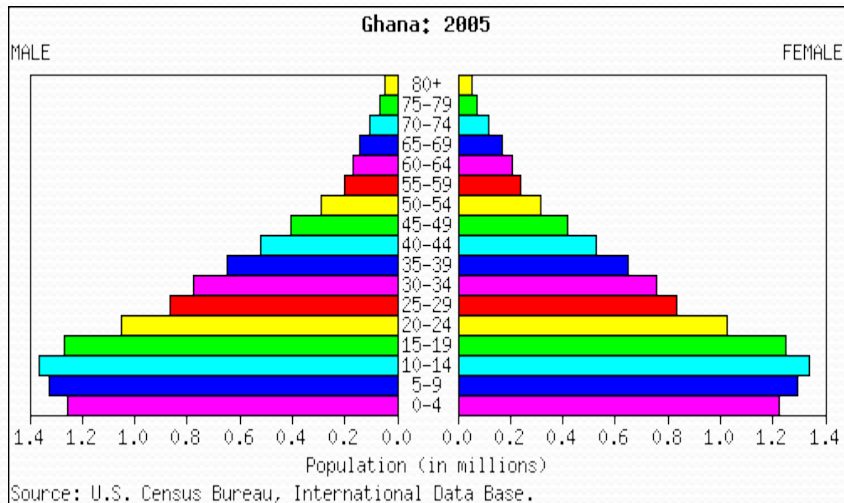
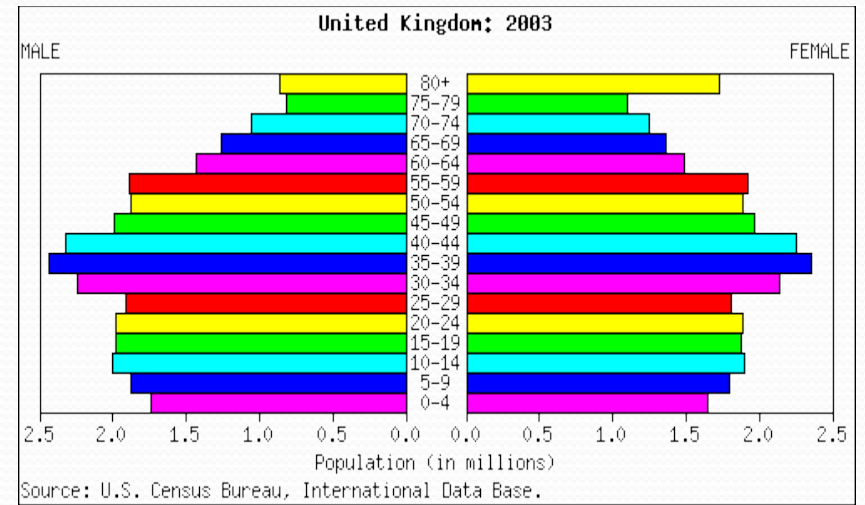
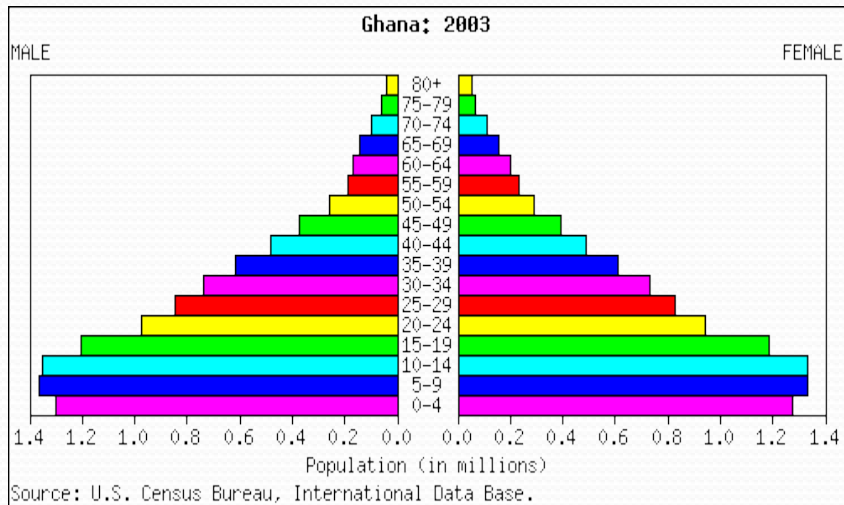
## Africa's Demographic Dividend



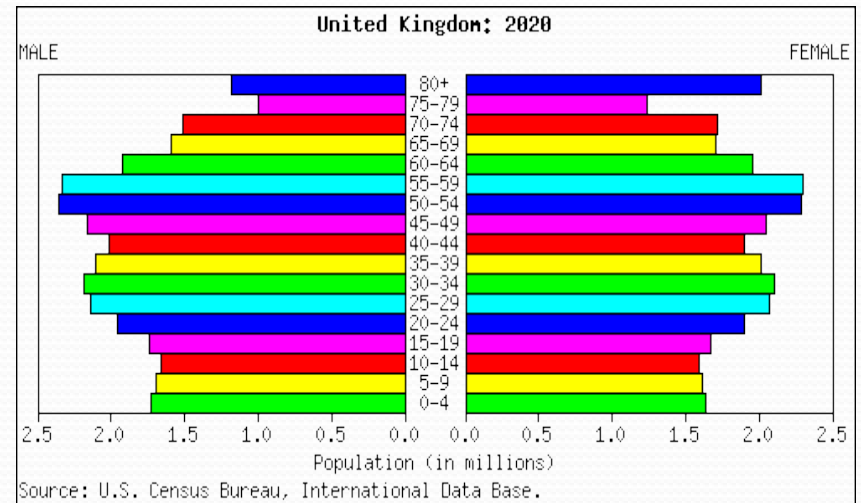
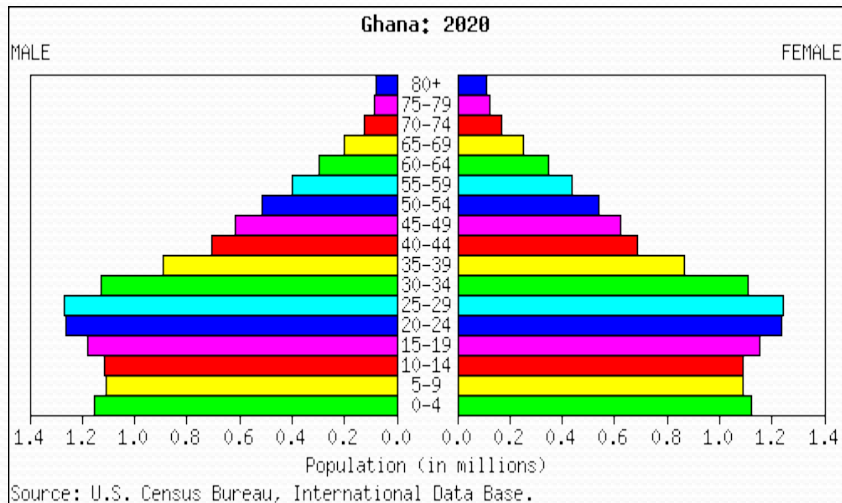
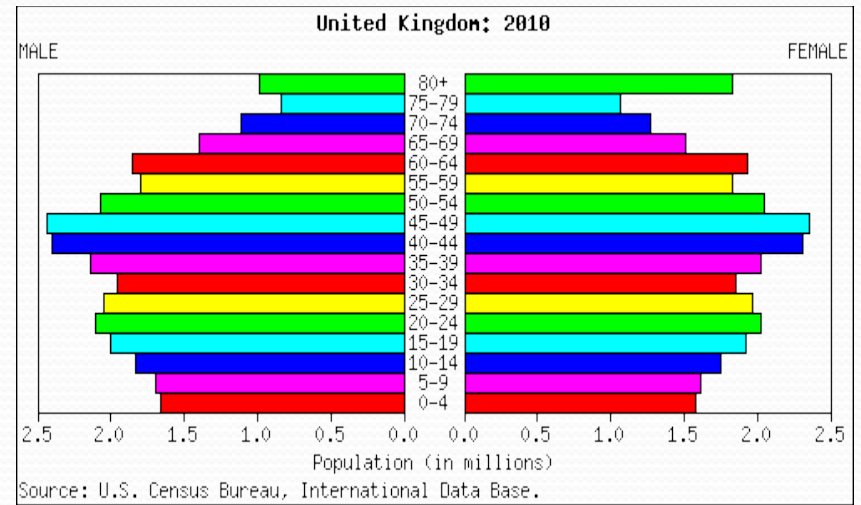
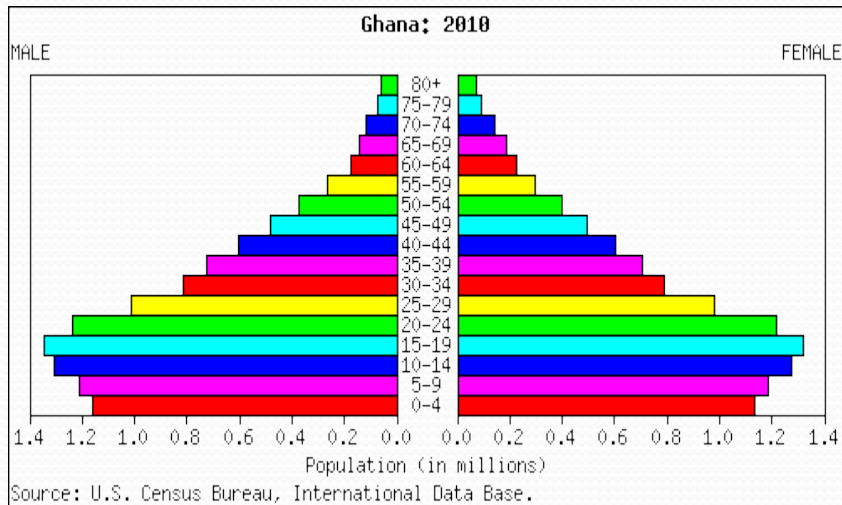
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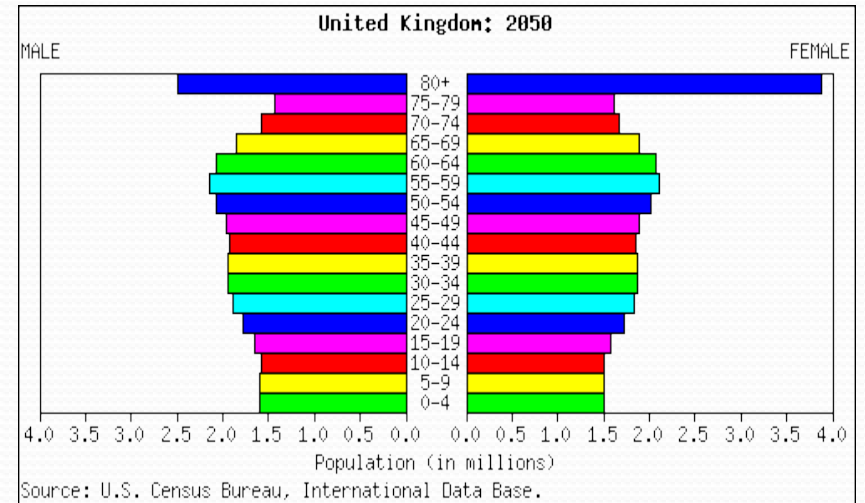
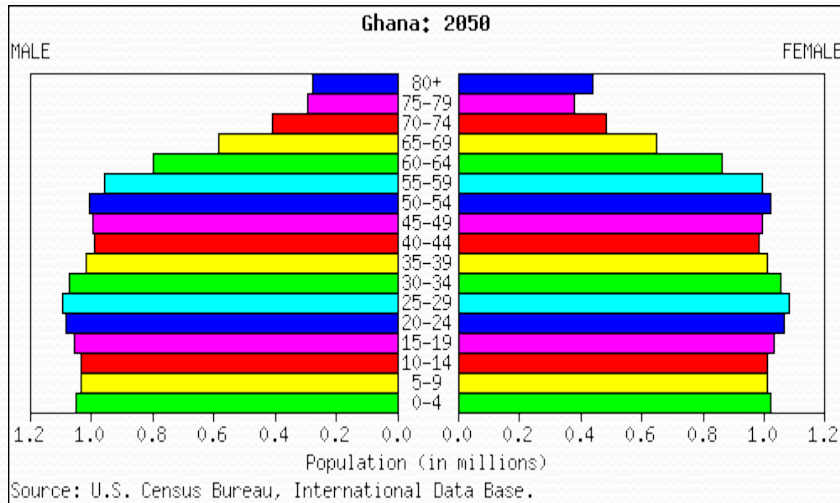
# Background – contd.



# Background – contd.



# Background – contd.



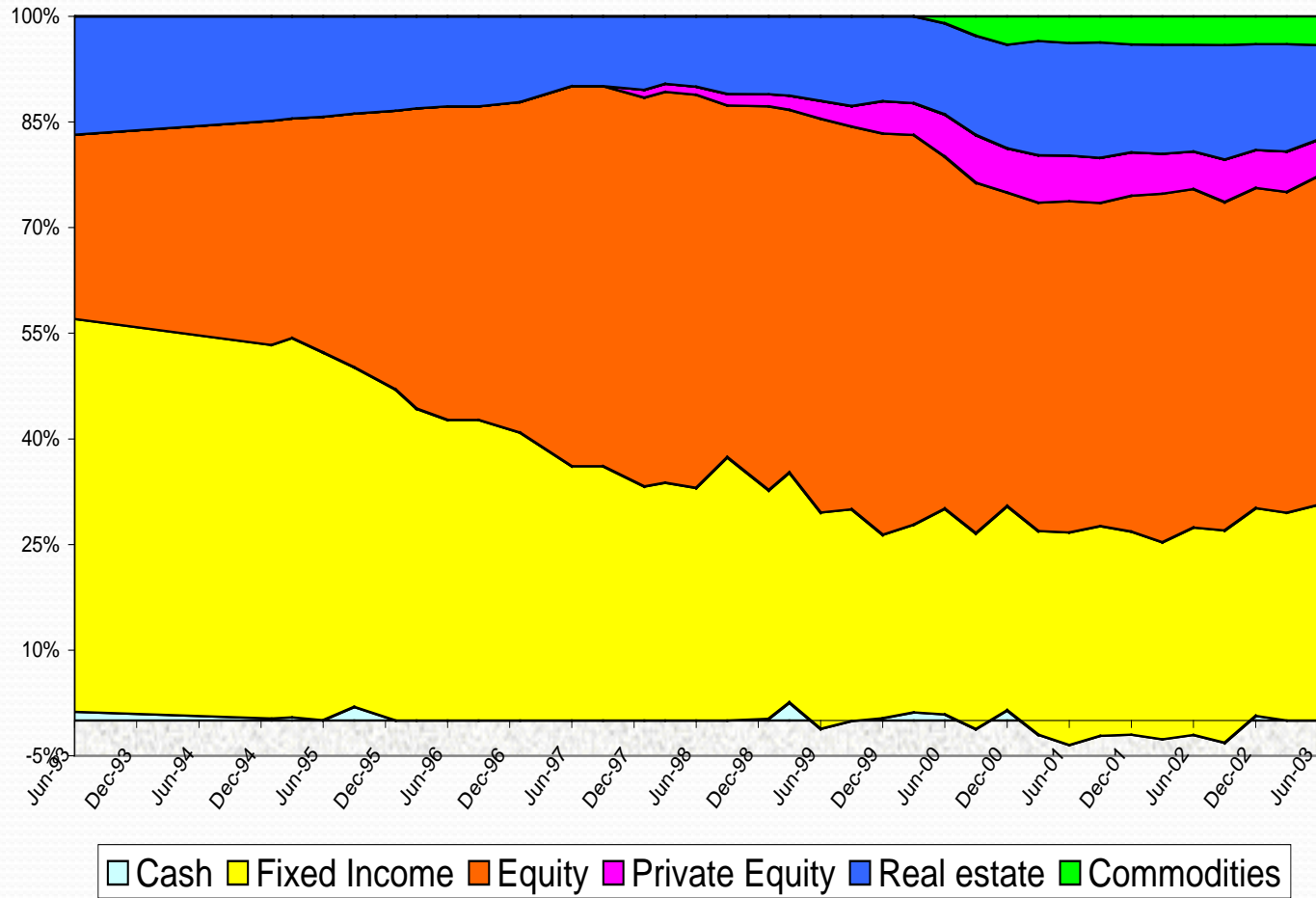
# Background – contd.

- Most African nations, Ghana included, relying on healthy International (and intra-African) Trade and a robust Capital market to support and hasten development goals in the areas of:
  - ✓ Infrastructure (and Telecommunication),
  - ✓ supportive financial services sector,
  - ✓ competitive manufacturing companies,
  - ✓ a pool of talented and skilled managers and workers, etc.
- Lack of adequate/dedicated funds, skills/talent and network have stifled these potential commercially driven, profit generating investment opportunities.

# Background – contd.

- PE Funds have a role to play at both fronts and offer the vehicles through which these goals can be attained.
- PE Funds offer diversification opportunities and options for Pension Funds, while pursuing the broader agenda or end goal of development.
- Unfortunately, most African Pension Fund Trustees and managers and even prospective investee companies know very little of PE OR are very wary of the asset class.

# Strategic Portfolio



# Do these look familiar?



# Ghana's landscape

## **New Pension Law**

3-Tier System – effective 2010

- ✓ Social Security – 13.5% (2.5% for NHIA)
- ✓ Employer-based Pension Scheme – 5%
- ✓ Individual Retirement Scheme

National Regulatory Body to oversee the Pension Industry

## **SSNIT**

New Asset Allocation – Approved March 2010

AUM GHS 2.2B ~ \$1.6B; Self-Managed (FID, ED, PMD, PDD)

PE = 3%

PEFs = ECPIII (\$10M), PAIDF (\$10M), FCP (\$5M), CIFA (\$5M)

# PE Asset Class At A Glance

## Challenges

- Lack of Understanding of PE class
- Perceived excess / unacceptable risk
- Undefined Asset Allocation / Investment Guidelines

## Pre-Investment Issues

1. Objectives (& coverage)
2. Fund size & ticket size
3. People behind the Fund
4. Pipeline
5. Returns, Fees, tax neutrality
6. Usual suspects
7. PowerPoint Presentation

## Post-Investment Challenges

1. Capital Calls
2. Valuation
3. Voice & Vote
4. Ongoing communication
5. Touring of investee companies
6. Link to Reports to PF Contributions\*

# Challenges

## Lack of understanding of the Asset Class

Lack/poor understanding of the

- ✓ risks,
- ✓ roles,
- ✓ expectations,
- ✓ modus operandi and
- ✓ the mutual benefits that amass to stakeholders

In the case of Pension Funds this knowledge shortfall extends to Board, Management, Investment Committee and Analysts

# Challenges – contd.

## Perceived excess or unacceptable risk class

Why should a Pension Fund invest in a vehicle that calls for

- US\$ millions in commitment,
- An average of 3 years of drawdown,
- another 4 years of no distribution,
- high management and administration fees,
- very little say in investment and governance decisions.

Prolong period (7-10 years) of non-discretionary investment, with no guaranteed returns or distributions, unnerves some Pension Fund Trustees in Ghana.

# Challenges – contd.

## Undefined Asset Allocation

- Clearly defined Asset Allocation can be extremely helpful. For this to be attained the asset class must be clearly understood.
- Investment guidelines for the Asset class are essential.
- A combination of the two documents offer Pension Funds or their Managers clear strategy, target mix, rebalancing ranges and return benchmarks for effective decision making and management.

# Pre-Investment Issues

## 1. Objective of the Fund

- ✓ This has to offer a diversification benefit to the portfolio
- ✓ Has to be within the risk/return comfort of the portfolio

## 2. Size of the Fund & Ticket size.

- ✓ A \$350M Fund elicits a nod quicker than a 10 million fund. Just as a \$2B Fund knits brows easier than a \$500M Fund.
- ✓ Mega Funds means fund raising could be long and closings could be extended, thus delaying commencement of investments
- ✓ Pension Funds will become an insignificant investor.
- ✓ {mid \$25M+ eliminates lots of opportunities, especially for regionally focused funds.

# Pre-Investment Issues – contd.

## **3. People Behind the Fund (Managers, Directors etc.)**

The people behind the Fund are very important to investment committee and Trustees.

Individual history may be stellar, but the keys to us are:

- Education
- Experience - background
- More Farmers and less Hunters
- Managers ability to work as a Team for the Fund
- Managers/Fund's understanding of the investment terrain in the African theater is crucial

# Pre-Investment Issues – contd.

## **4. Pipelines are important**

- ✓ Crucial; could be deal spoiler.
- ✓ The PE Fund must be willing to disclose sufficient information about pipeline for PF's comfort.
- ✓ Skepticism of purported pipeline content, and therefore need for deeper delving.
- ✓ Pipeline should (must) contain prospective deals in the soliciting country.

## **5. Hurdle Rates, Returns and Fees**

- ✓ HR =6-8%,
- ✓ Net IRR=20 - 25%,
- ✓ Fees=1.50% - 1.75%

# Pre-Investment Issues – contd.

## **6. Participation of “Usual Suspects”**

- ✓ Confirmed commitment of other LPs {DFIs} (CDC, Proparco, DEG, other DIFs) are A++.
- ✓ They serve as due diligence pre-cursors for cautious LPs like Pension Funds

## **7. Power Point Presentation**

- ✓ Presentation of objectives, rates, returns, fees, team, deal pipeline and past experience are crucial.
- ✓ Such presentation should be planned for at least 2 levels – Management & Analysts and (+/-) Investment Committee.

# Post Investment Challenges

## 1. Capital Calls

The standard 10-day pay up window becomes challenging in a bureaucratic institution like a PF

## 2. Valuation – 3<sup>rd</sup> party valuation preferred

- Valuation illustrates the pro/regress of investments.
- Basis of valuation of investee companies at entry and at various reporting stages being questioned.
- Independent 3<sup>rd</sup> party valuation may offer a comfort.

# Post Investment Challenges – contd.

## 3. Lack of “Voice and Vote”

- \$M in commitment + prolonged non-discretionary investment period = Expectation for some voice and vote in governance/advisory boards.
- Concern reverberates loudly among minority investors (e.g Pension Funds in the early years of venturing into this Asset class of investments.
- A seat or two for minority LPs on a rotating basis could alleviate this legitimate concern.

# Post Investment Challenges – contd.

## 4. **Don't confuse face-time with handholding**

- Maintain dialogue and communications with the PF Allies on a periodic basis.
- Backed up with timely quarterly and annual statements.
- Follow up call wouldn't hurt.
- Face time goes a long way in keeping PF adequately informed, focused and strengthens their capabilities.

# Post Investment Challenges – contd.

## 5. Periodic Touring of Investee companies

- Invite PFs to
  - ✓ tour some of their investee companies,
  - ✓ talk to their management
  - ✓ check underneath the hood and kick the tires
  
- Alleviates the “Black box” fear/perception,
  
- Adds credibility to PE’s verbal and documented assertions.

# Challenges – contd.

## **6. Its all about the Pension Fund Contributions**

- Notwithstanding the collective, individual and personal interests of BoT (government, employer and employees), PF's penultimate goal –
  - i. collect contributions,
  - ii. Invest for appreciable returns and
  - iii. Pay benefits.
- Tie presentations to
  - ✓ Company realignment and Sustaining Success
  - ✓ Job Creation/Stabilization
  - ✓ Social Security Contributions
  - ✓ Returns to the Pension Fund

# Conclusion...

## **Background; Ghana/SSNIT**

### **Challenges:**

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