

Building an Optimal Private Equity Program



19th October 2010

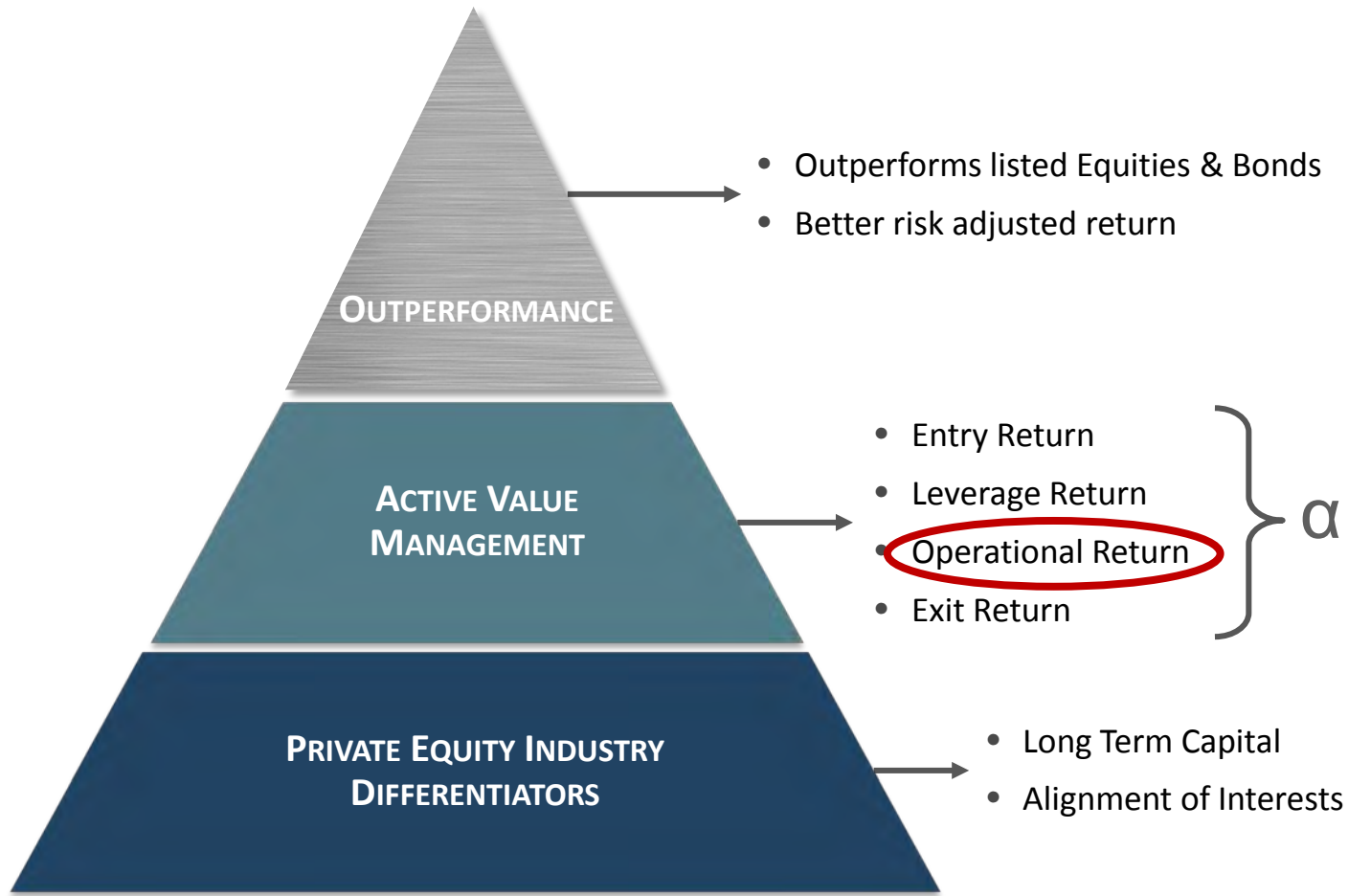
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African Private Equity Specialists

Private Equity Workshop Agenda

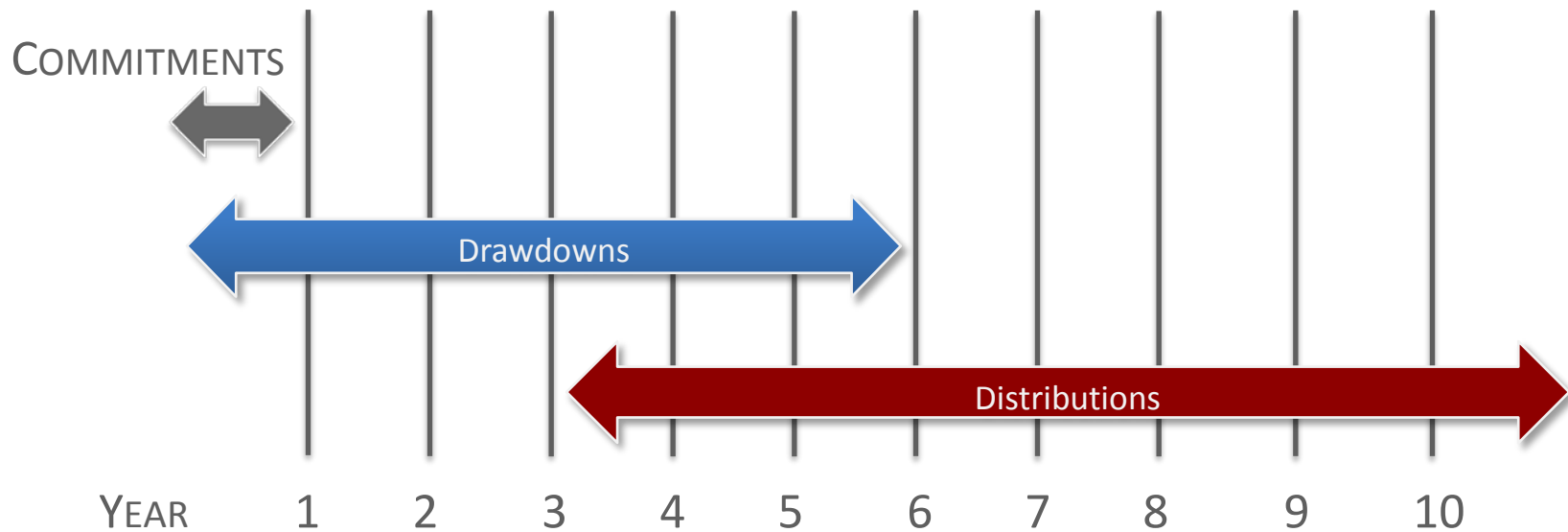
- » **Principles of Private Equity - Summary**
- » **Building an Institutional Private Equity Program**
 - Ways to access Private Equity investment.
 - A single strategy fund.
 - A portfolio of funds.
 - The due diligence process.
 - Requirements of institutional investors.

Principles of Private Equity - What is Private Equity?



Principles of Private Equity – How a Fund Works

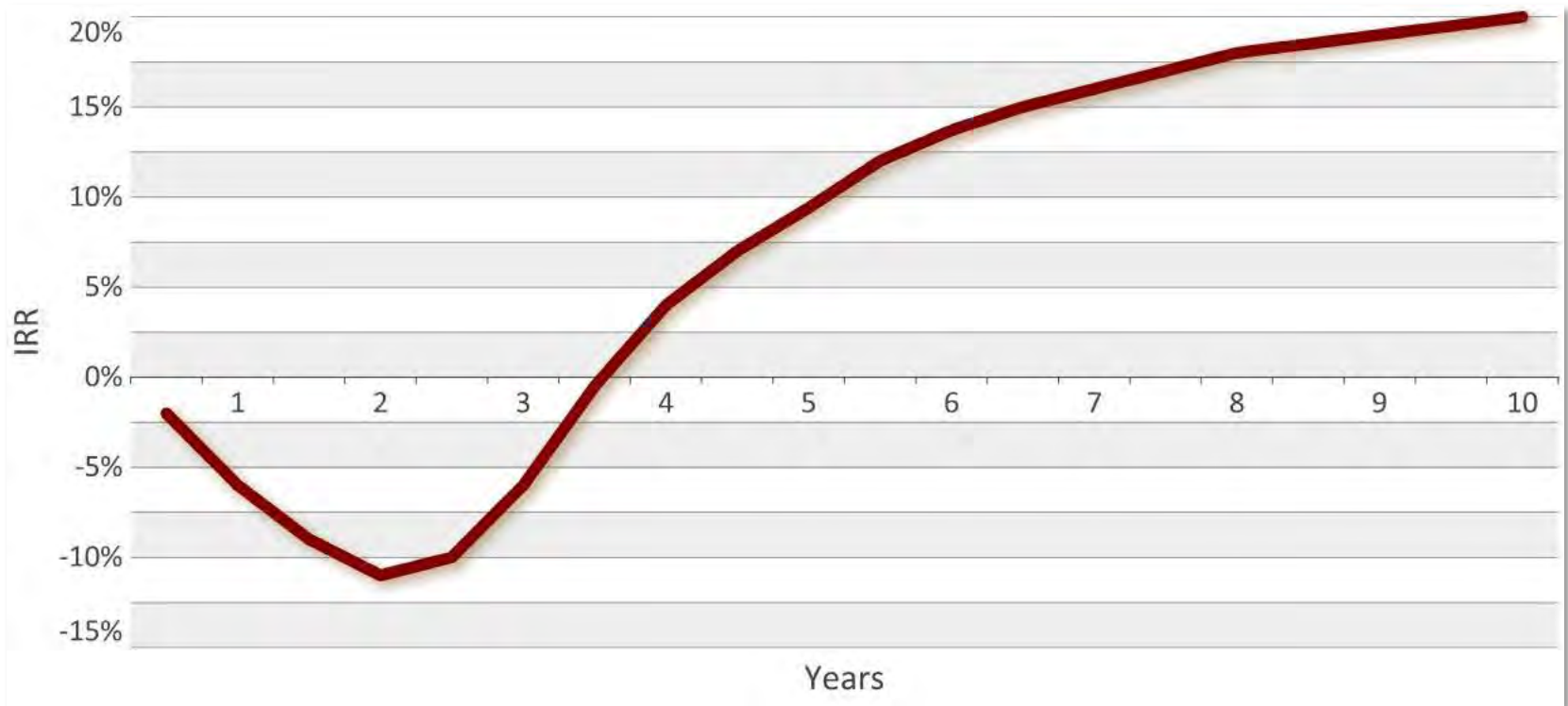
A Single Private Equity Fund



- A stream of cashflows
- Performance fees only charged on realisations

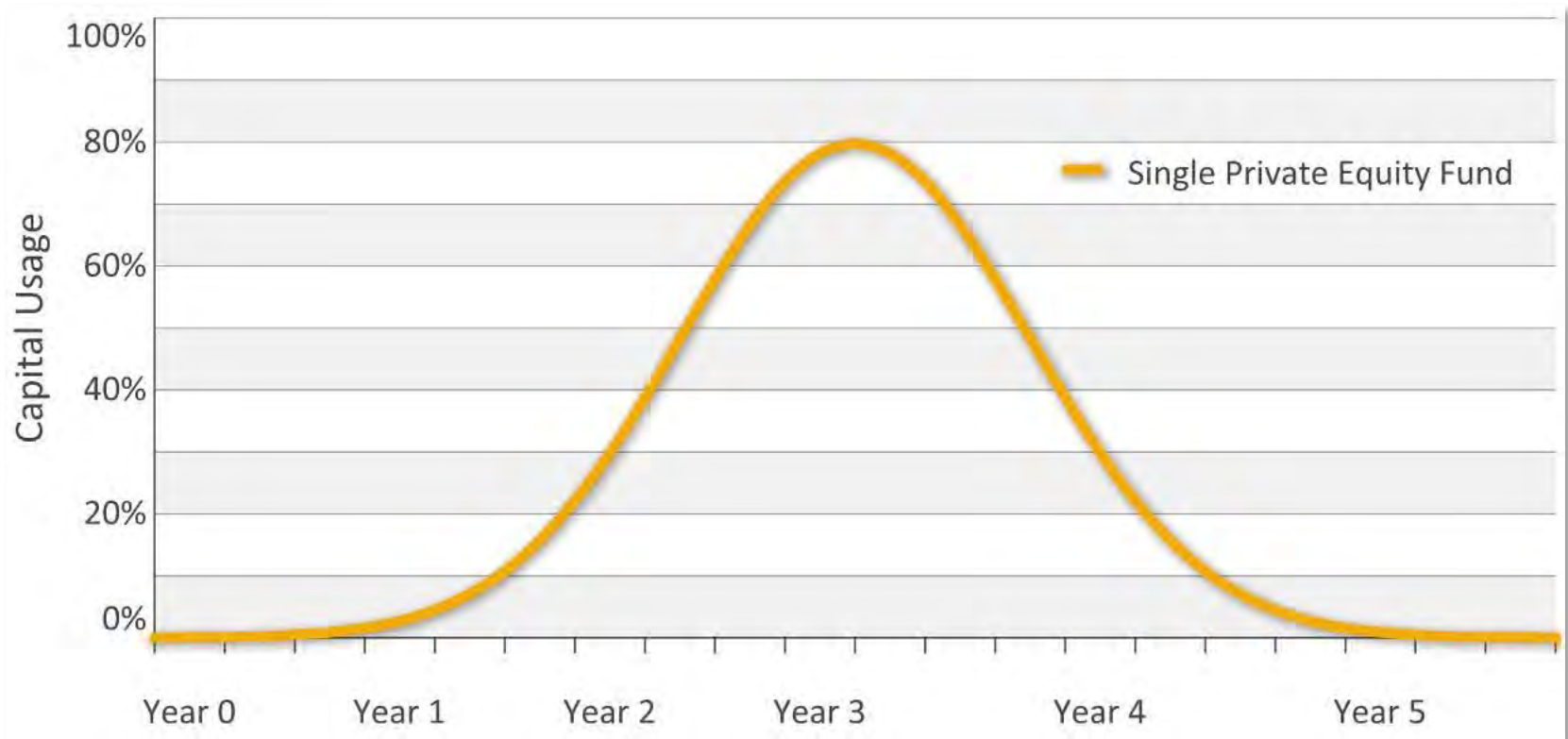
Principles of Private Equity – The J Curve

Standard J Curve



Principles of Private Equity - Drawdowns & Realisations

Drawdown and Realisation Profile



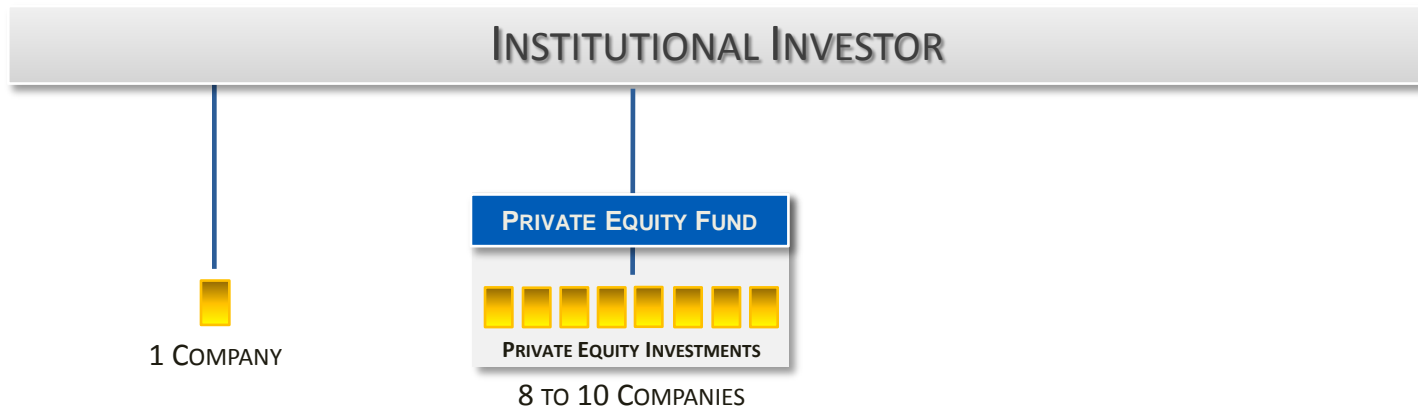
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Ways to Access Private Equity Investment

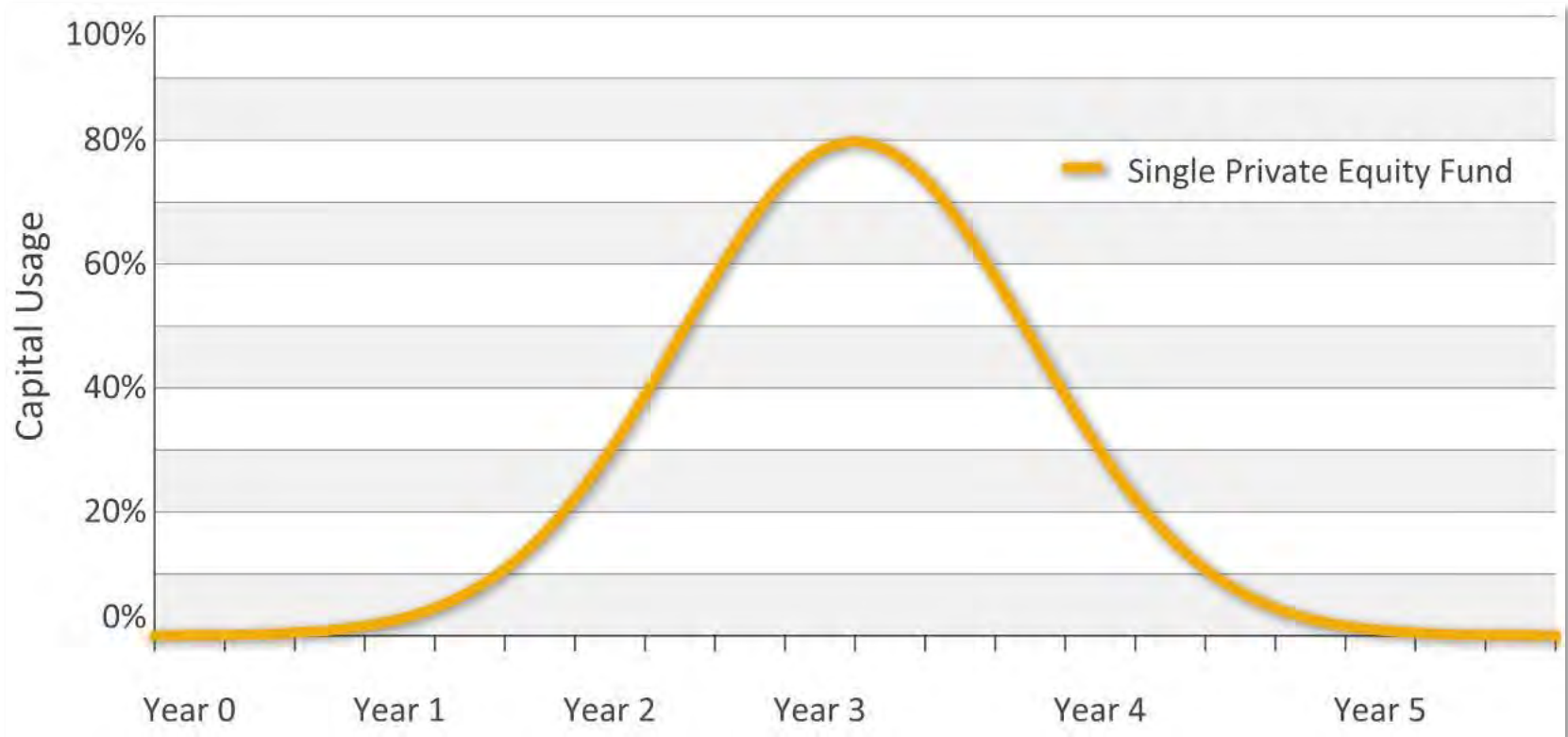


Ways to Access Private Equity Investment



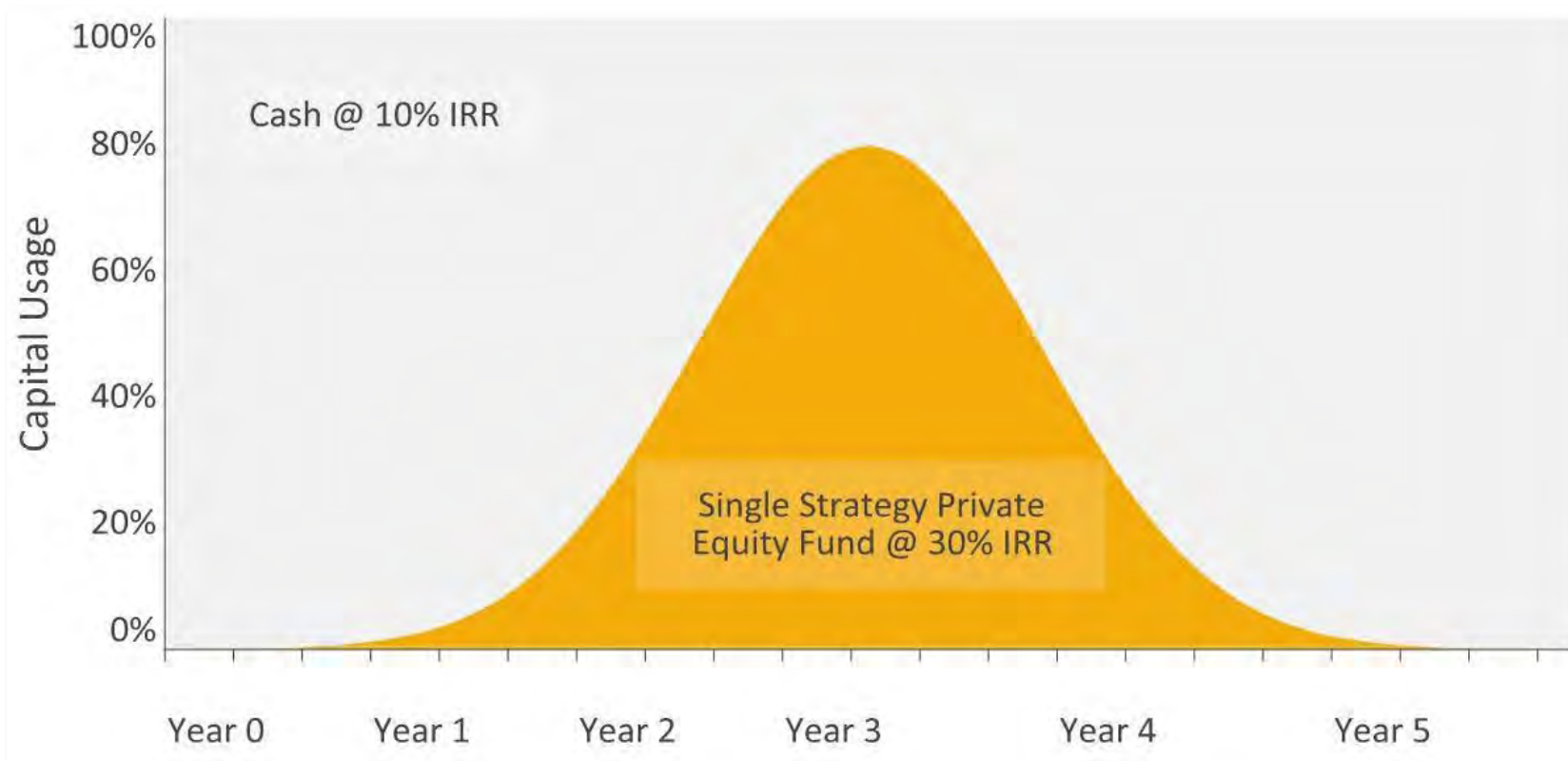
A Single Private Equity Fund

Drawdown and Realisation Profile

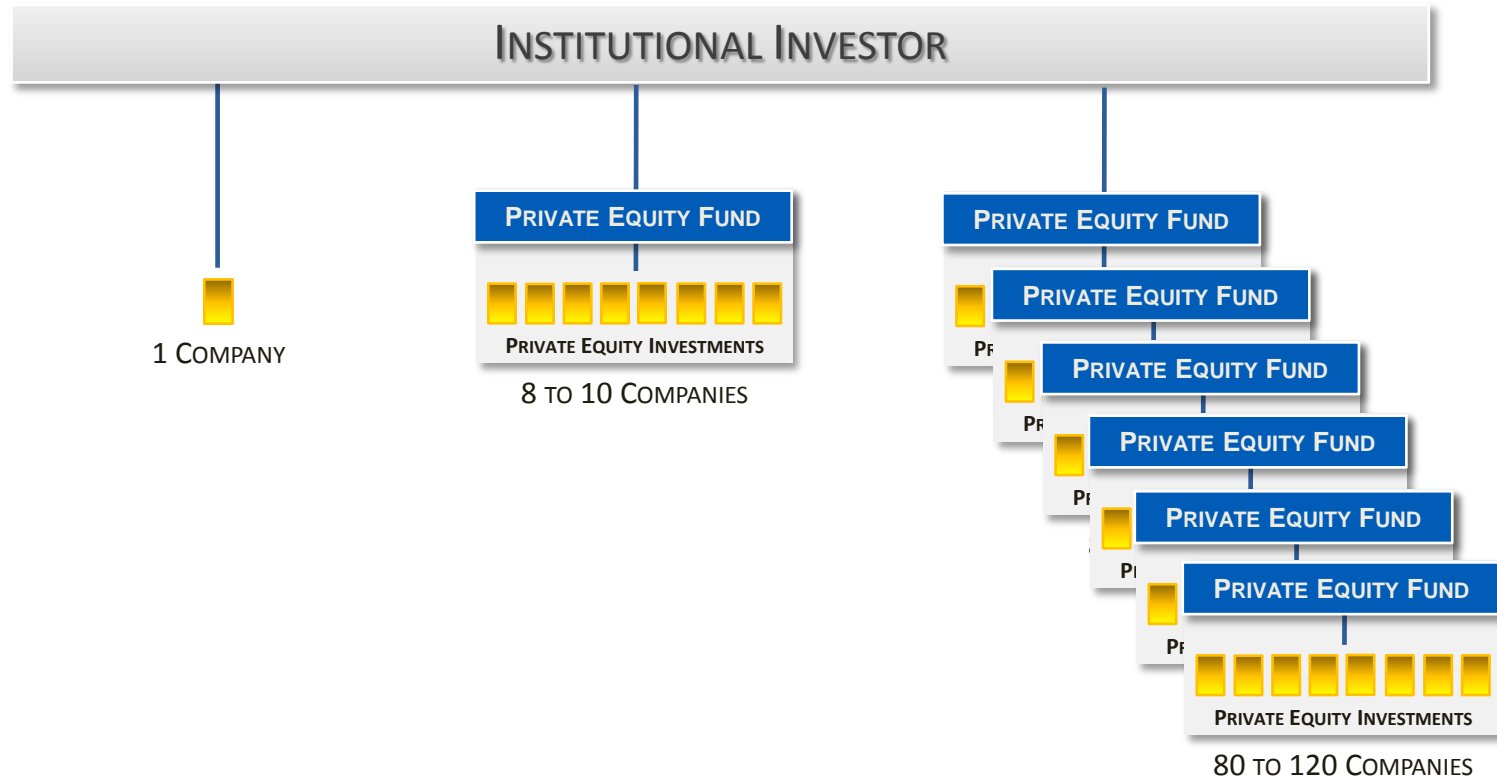


A Single Private Equity Fund

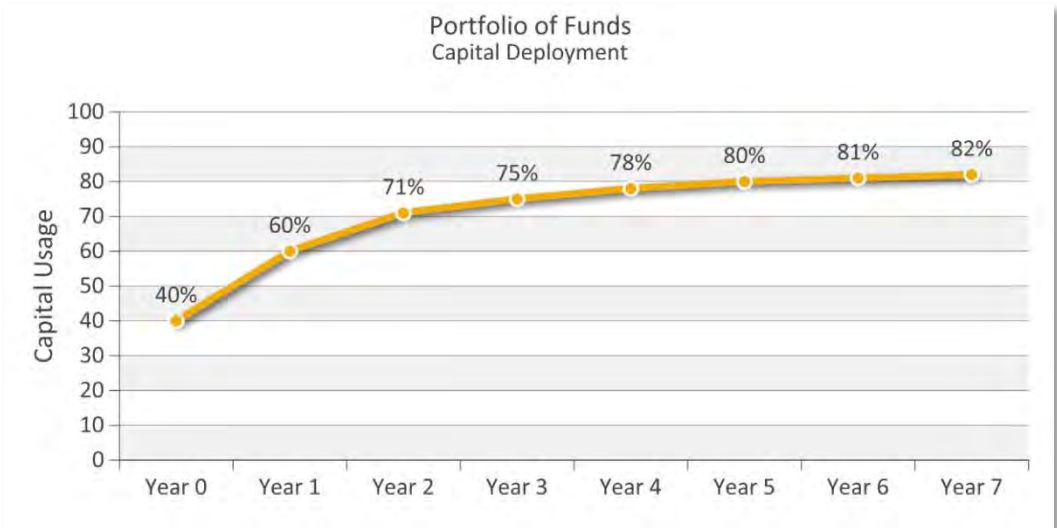
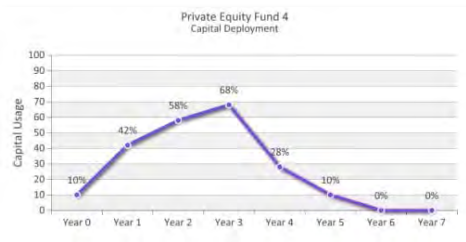
Drawdown and Realisation Profile



Ways to Access Private Equity Investment

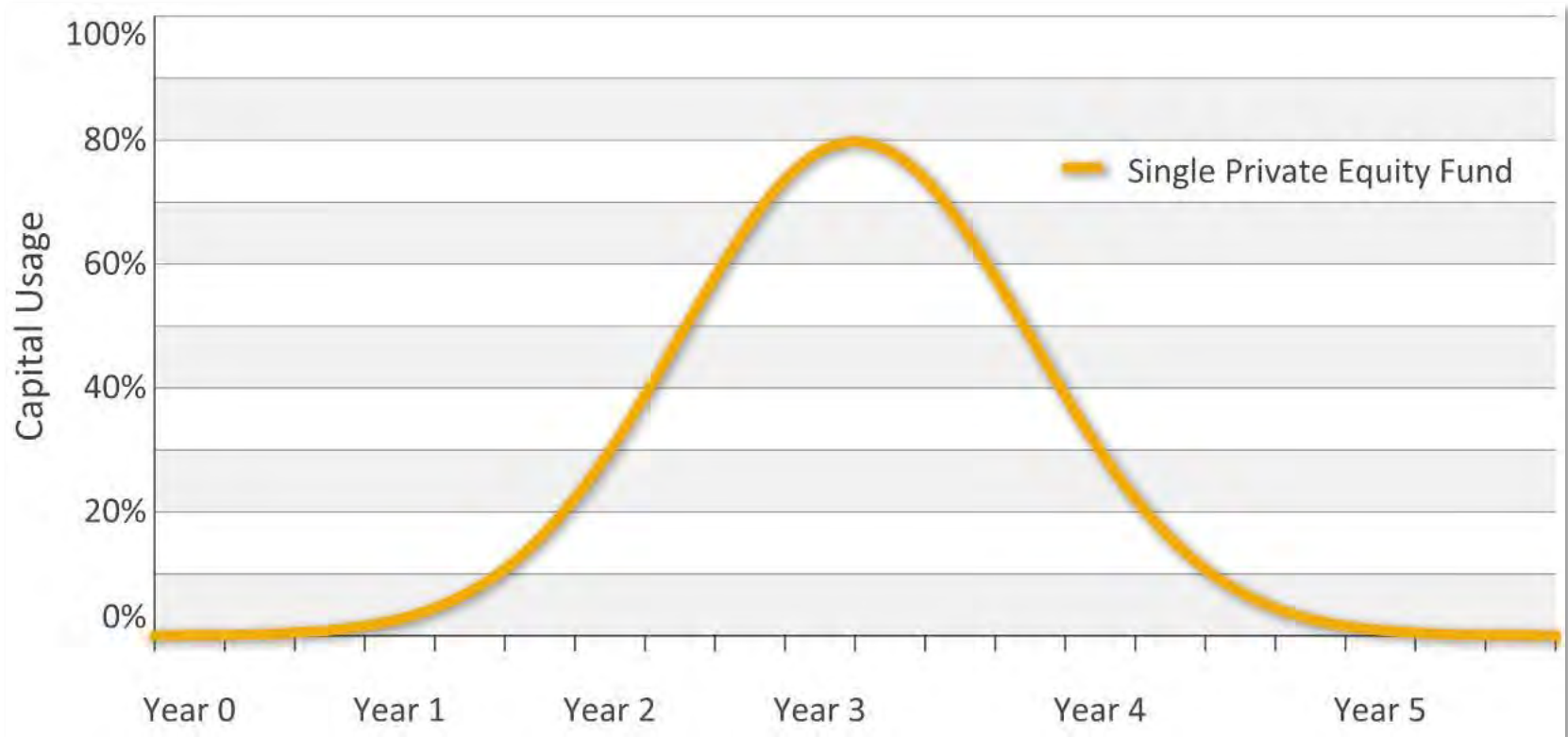


A Portfolio of Funds



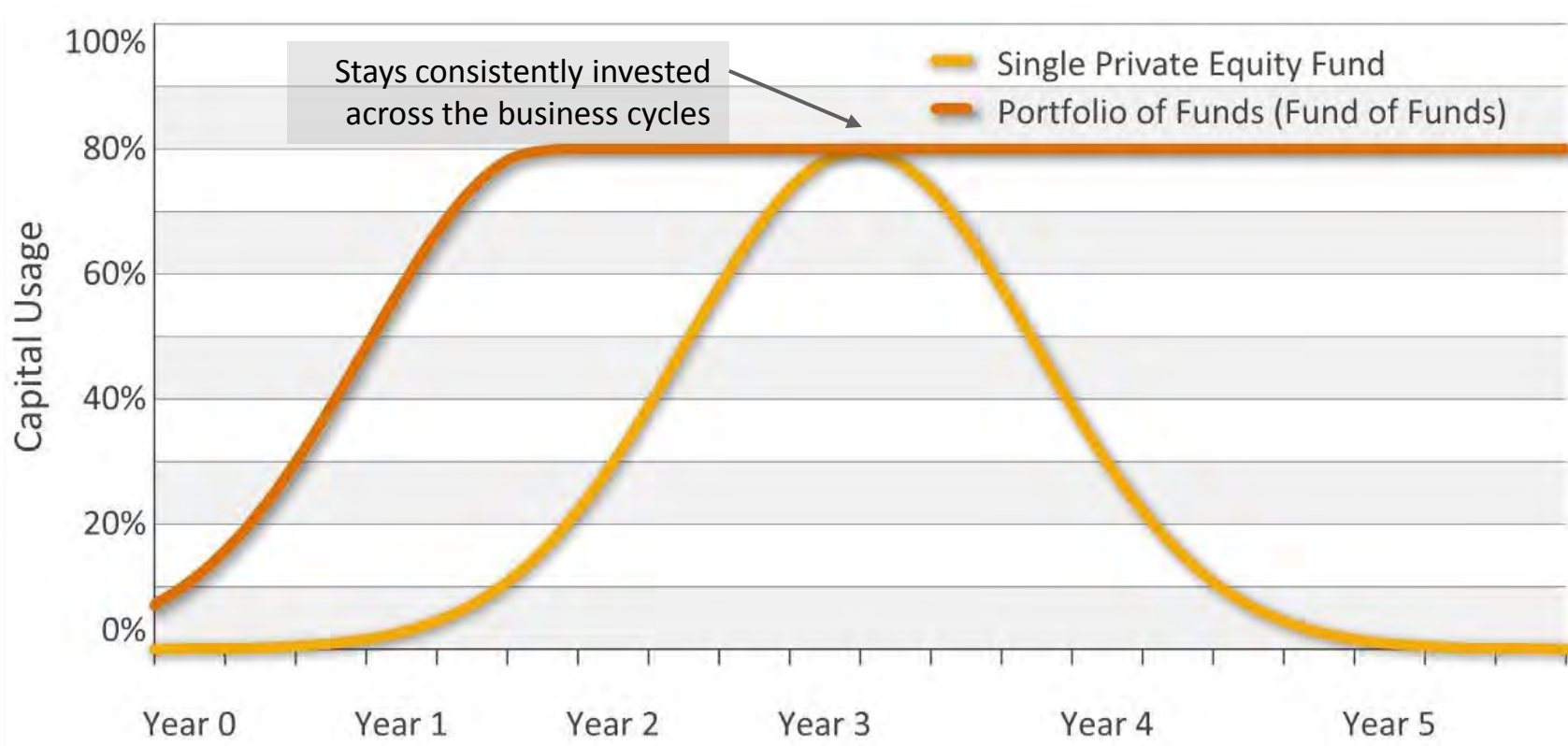
A Single Private Equity Fund

Drawdown and Realisation Profile



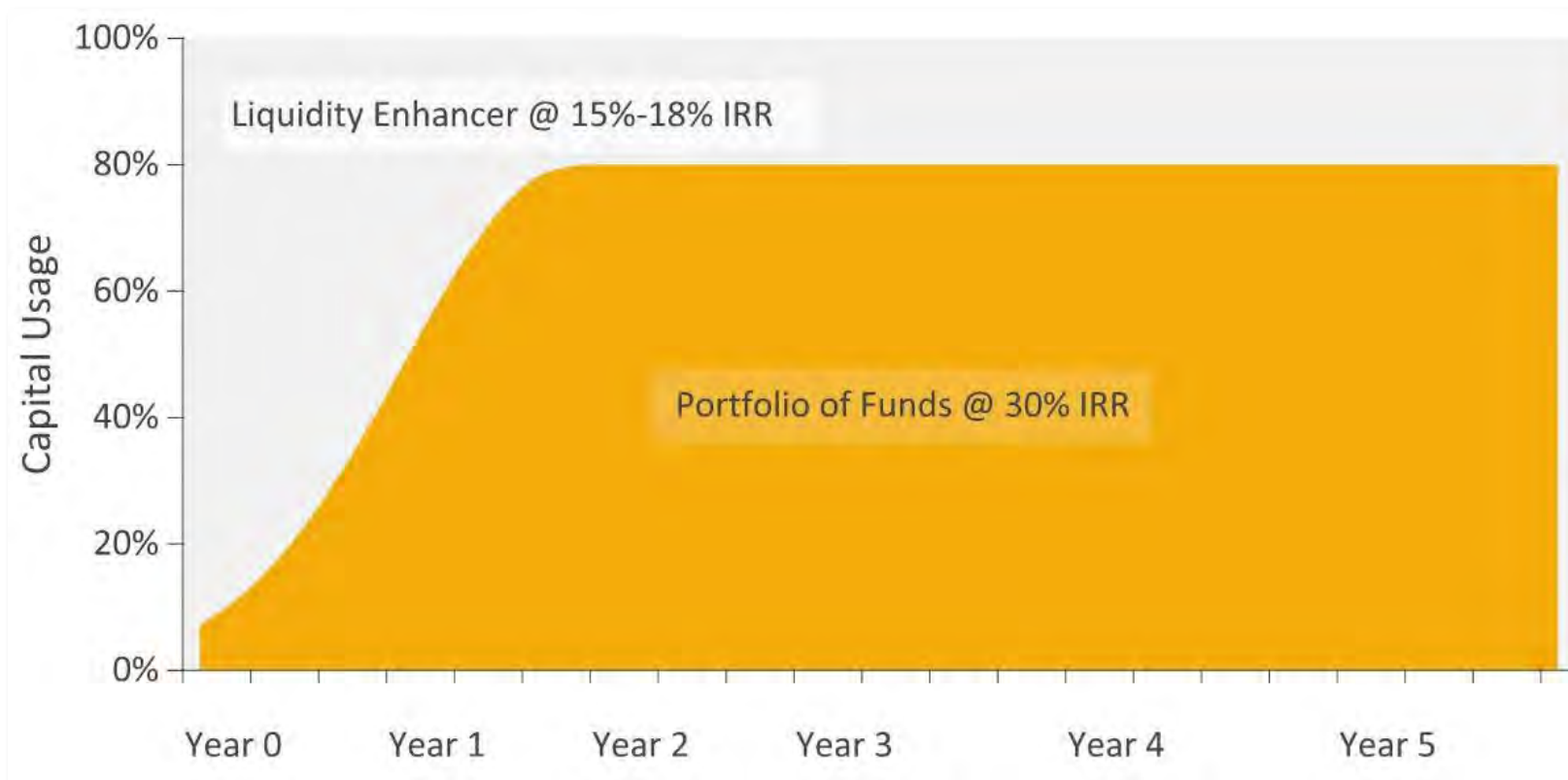
A Portfolio of Funds

Drawdown and Realisation Profile



A Portfolio of Funds

Portfolio of funds (fund-of-funds)



Comparing the Two...

Improvement in Blended Return



BLENDED RETURN = 18%



BLENDED RETURN = 25%

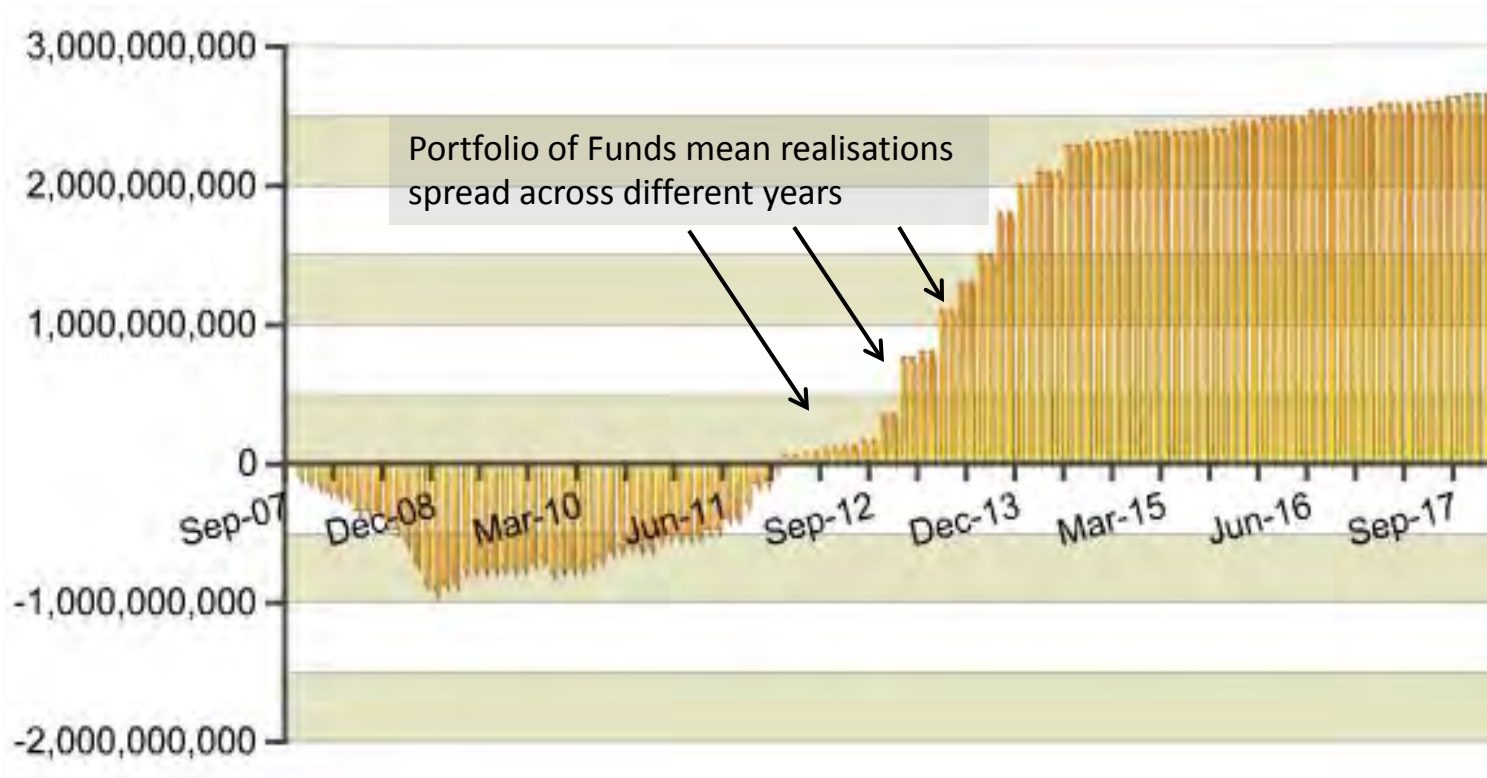
Further Considerations - Diversification



	World	Emerging Markets	Morocco	Egypt	South Africa	Tunisia	Botswana	Namibia	Mauritius	Nigeria	Kenya	Ghana
World	1.00											
Emerging Markets	0.86	1.00										
Morocco	0.26	0.30	1.00									
Egypt	0.53	0.65	0.27	1.00								
South Africa	0.77	0.88	0.31	0.51	1.00							
Tunisia	0.31	0.08	0.16	0.17	0.15	1.00						
Botswana	0.28	0.23	-0.08	0.12	0.31	0.13	1.00					
Namibia	0.44	0.55	0.05	0.27	0.68	0.01	0.39	1.00				
Mauritius	0.41	0.49	0.10	0.48	0.37	0.21	0.23	0.20	1.00			
Nigeria	0.29	0.27	0.20	0.34	0.16	0.21	0.22	-0.10	0.48	1.00		
Kenya	0.55	0.51	-0.05	0.44	0.37	0.31	-0.01	0.04	0.37	0.25	1.00	
Ghana	0.03	-0.16	-0.04	-0.06	-0.24	0.13	-0.09	-0.26	0.01	-0.15	-0.02	1.00

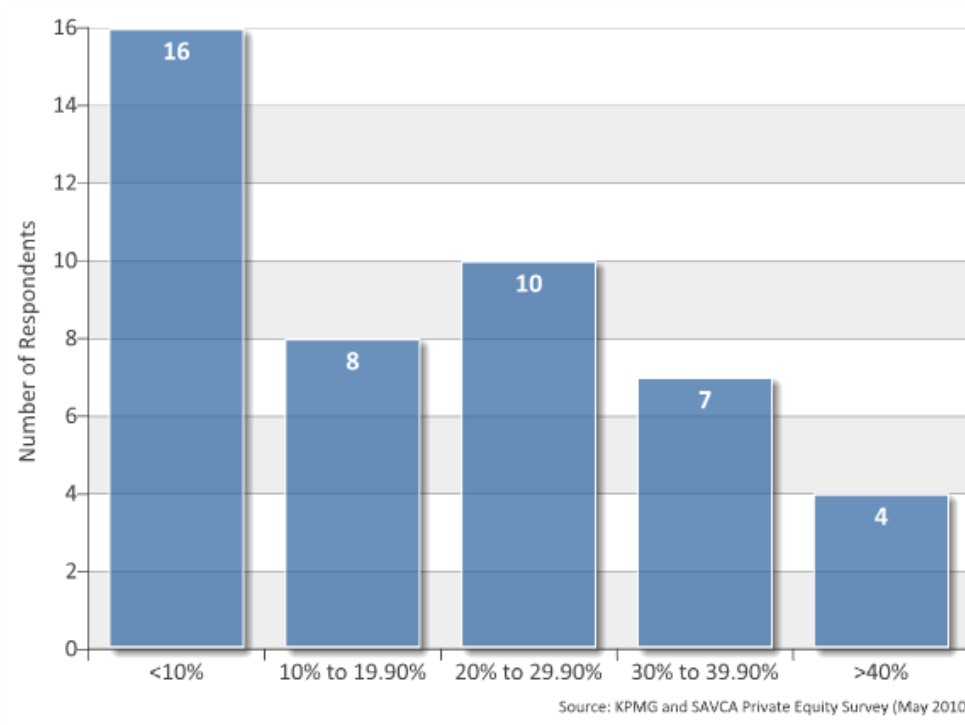
Further Considerations - Liquidity

Portfolio of funds
Cumulative Cashflows



Further Considerations – Top Quartile

Returns (%) – Total Gross IRR Since Fund Inception
Realised and Unrealised



The 2009 results in THIS figure include the IRR levels for 45 respondents managing R71.98 billion at 31 December 2009

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Evaluation Criteria

Components of the investment process:

- ➔ Sourcing
- ➔ Screening
- ➔ Due Diligence
- ➔ Structuring
- ➔ Execution
- ➔ Management
- ➔ Exit



Who Are We Looking For?



Due Diligence

FUND SCREENING

Evaluation Criteria:

- Team cohesion & dynamic
- Proof of Concept
- Track record
- Fund thesis
- Investment Strategy
- Proprietary dealflow
- Terms

Information:

- Info Memo/Offering Memo
- VPEF Questionnaire
- Quantitative Analysis

Reject

Proceed →

DUE-DILIGENCE

Team Meeting:

- One-on-one and together
- Individual capabilities
- Share of carry
- Succession
- Key-Man risk

Reference Calls:

- Other LPs
- CEOs – site visits
- Co-Investors
- Departed team members
- Personal checks

Reject

Proceed →

ON-GOING MONITORING

Fund monitoring:

- Advisory Board for conflicts
- Valuations Committee
- Deal flow monitoring
- Deal workout updates
- Independent risk evaluation

Investor report-back:

- Monthly NAVs & Factsheet
- Bi-annual updates
- Comprehensive reporting
- Underlying company accounts

Pro-active process

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Requirements of Institutional Investors



Socially Responsible Investing



- ✓ SRI = long term sustainable investing = economic prosperity.
- ✓ Adoption of ESG standards is essential in creating a sustainable world-class company.
- ✓ ESG is an integral part of the Africa “value-add” process (sustainable, efficient & productive).
- ✓ ESG policy must be fully transparent.

In Summary...

➤ **Single Private Equity Fund:**

- ⇒ Focussed exposure
- ⇒ Limited diversification
- ⇒ Risk of exposure to one team
- ⇒ Need for liquidity management

➤ **A Portfolio of Funds:**

- ⇒ J Curve effect minimised
- ⇒ Manager strategy diversification
- ⇒ Vintage diversification
- ⇒ Industry & company diversification

➤ **Requirements of Institutional Investors:**

- ⇒ Transparency, alignment, independent risk oversight, comprehensive DD