

Southern African private equity resilient despite uncertain economic conditions

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Despite the challenges that currently face South Africa, the private equity and venture capital industry remains confident in the depth and breadth of skill in the local investment industry, particularly the Southern African private equity industry.

This is according to Erika van der Merwe, CEO of the Southern African Venture Capital and Private Equity Association (SAVCA), speaking in light of rating agencies Moody's, Standard & Poor's (S&P) and, most recently, Fitch making the decision to maintain South Africa's investment grade credit rating.

Van der Merwe says that, while the threat of a future downgrade has the potential to influence investment decisions and flow within the country, the continued steady pace of deal activity in the private equity market, driven by local transactors as well as regional and international investors, affirms the degree of confidence in the quality and integrity of South African business assets and management.

She explains that, by nature, the private equity industry is built on a process of careful deal selection, which is followed by thoughtful, focused and active management of selected assets. "The model of active ownership of assets in which private equity funds invest, includes the application of skills and networks to improve governance in invested businesses. There is also a commitment to incorporate empowerment at all levels within the businesses acquired, thereby ensuring a positive and lasting social and environmental impact.

"These processes ensure that, despite unpredictable macroeconomic growth, the private equity industry will continue to deliver fair returns to its investors -- and in a way that matches asset owners' broader mandates of ensuring positive social, environmental and governance impact," says Van der Merwe.

She adds that the solid performance of South African private equity continues to highlight the benefits of including this asset class into a diversified institutional portfolio.

"In addition to the diversification it introduces to the portfolio, private equity offers attractive returns compared to listed equity, and an overall constructive impact on the economy through the improvement of businesses and local empowerment," she says.

South African private equity outperformed the South African listed equity market over a ten, five-and three-year period to 31 December 2015. This is according to the latest RisCura-SAVCA South African Private Equity Performance Report which shows that private equity returned 18.5% after fees in the ten years from 1 January 2005 to 31 December 2015, compared with the return of 14.1% from the FTSE/JSE All Share Total Return Index (ALSI) over the same period.

The Southern African private equity industry has a thirty-year track record and, at the end of 2014, SAVCA's 150 members represented about R170 billion in assets under management.

Van der Merwe concludes: "SAVCA is optimistic about the private equity industry in the region and about its ongoing commitment to good governance. The capable management within the industry supports the growth and longevity of local businesses, and therefore contributes to improving the economy."

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