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Venture Capital and Private Equity Industry Performance Survey of South Africa covering the 2008 calendar year

May 2009

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- A strategic overview of the Private Equity and Venture Capital industry and processes
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Speakers include Warren van der Merwe, Partner: Vantage Risk Capital; Greg Voigt, Director: Adlevo Capital; Craig Dreyer, Chief Financial Officer: Ethos Private Equity; J-P Fourie, Executive Office: SAVCA; Noah Greenhill, Senior General Manager: Marketing & Business Development, JSE Limited; and Ela Ramonowska, Seed Fund Manager: Innovation Fund.

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Foreword

SAVCA

In finalising the data for this survey, I was pleasantly surprised at the outcome of the research. While 2008 is defined by the fact that many of the world's largest economies have entered into a financial tailspin, it appears that the South African private equity and venture capital industry remained in a relatively healthy position. Certainly, our local market witnessed lower deal values and flow during the period under review than that of previous years. However, the industry still reported over R20 billion of investment activity and over R7 billion in additional fund raising during 2008, which is encouraging to see.

This demonstrates that private equity has finally taken its rightful place as a significant asset class after a number of years in which there have been various multi-billion Rand deals and large amounts of funds raised from various geographies.

As a result the KPMG/SAVCA survey has shown that:

- BEE remains a major source of activity in the industry. Investments in entities that are black owned, empowered or influenced is up 38.1% from R11.8 billion during 2007 to R16.3 billion during 2008;
- Given the significant amounts of funds raised from 2005 to 2008, some R29.2 billion is available for further investment by the industry. Just on 80% of these available funds are managed by fund managers that are at least black influenced or managed by Governmental funds. This represents a significant pool of capital for funding businesses and continuing the vital socio-economic BEE process;
- Investors want continued exposure to the positive absolute returns and significant portfolio diversification benefits that investments into private equity funds in South Africa offer; and
- The scale of activity in our industry continues to outperform most of the major international economies, which bodes well for South Africa's Government stated growth targets, as local and international research confirms that private equity investment is a key driver of entrepreneurial activity and growth in any economy.

Looking ahead, prospects for our industry are difficult to determine but it appears that:

- Valuations will remain a complex issue, as global asset volatility and the unpredictability of earnings persist. Views around future trends of entry multiples are clear, as most expect these to continue to decrease. This, coupled with expectation of lower competition for assets, must represent buying opportunities. However, the big questions are when the bottom will be reached and when sellers' price expectations will converge with buyers';
- Private equity fund managers will become more internally focused, spending the majority of their time on portfolio company management, focusing on what they have invested into and driving value from better operational performance in their portfolio companies; and
- The time of mega-deals has past, for now. The current higher degree of risk means investors are unwilling to commit a significant proportion of their capital to fewer businesses. This may indicate that the greatest opportunity for our industry in the year ahead could lie in the mid-market and particularly the infrastructure sector.

Regardless of South Africa's economic 'good fortune', the rules of our game have changed. The global financial meltdown has cast a dark cloud over the investment community. In these turbulent times our industry needs, now more than ever, to demonstrate relevance and value. With this in mind SAVCA, in conjunction with the DBSA, is conducting an economic impact assessment of the industry. The survey due for release in August, along with this KPMG survey, will go a long way in assisting SAVCA members to define the value they add to the South African economy.

I would therefore like to thank the association's members for participating in this survey, with particular thanks to Warren Watkins, Chris Biggs and Bridget Blackburn of KPMG in South Africa for their very considerable efforts in producing this outstanding body of work. Your efforts are much appreciated.

J-P Fourie
SAVCA: Executive Officer

KPMG in South Africa

KPMG is proud to have collaborated with SAVCA for the 10th consecutive year to produce the 2008 KPMG and SAVCA Venture Capital and Private Equity Industry Performance Survey for South Africa.

Having reached such a milestone, it would be remiss not to pause and look back at the humble beginnings of the South African private equity industry which had R30.7 billion of funds under management in 1999. In this year's survey the industry reaches in excess of R100 billion, a milestone in itself.

The prior years have seen significant development in the quantity and size of deals being done. 2007 was described by many industry commentators as the year in which private equity in South Africa 'came of age'. The large 'take private' deals grabbed the headlines (Edcon, Alexander Forbes, Primedia, Consol and Steinfurn).

2007 was also the year some of the detractors of private equity gained press coverage, especially overseas. Much work has been done by SAVCA, and many of the overseas private equity associations, to try to dispel these claims. What has come to the fore is private equity's significant role in the GDP of most countries and the stimulus and growth it brings in addition to its venture capital activity. In South Africa, private equity's contribution to Foreign Direct Investment has been significant which is reflected in the R23 billion being raised internationally over the last three years.

This investment is not a short term Stock Exchange / Bond Exchange type investment, but medium term investment with the primary goal of stimulating growth. In South Africa, the private equity industry has also entrenched and facilitated the BEE component in its portfolio companies. BEE private equity funds over the past 10 years have risen to take their rightful position on the private equity stage. Non-white investment professionals in the industry now total 139 or 36% of the industry's total.

The rise of the independent and captives-financial services funds over the past 10 years have been significant and the primary driver to the growth in the industry. In 1999 these funds totalled R16.8 billion, today they total R79.4 billion. It is the private sector and its entrepreneurial spirit that has helped drive the industry to its current heights.

Turning to 2008, the year started well and enjoyed the run-off relating to the exuberance of 2007. During the second half, prices and confidence fell, together with the tightening of the credit markets. The news from overseas was disappointing. Despite this, the overall statistics for the 2008 year are pleasing which is reflected in the R103.1 billion under management and the R21.3 billion having been spent on investments. Undrawn commitments remain at a healthy R29.2 billion and bode well for the future.

South Africa, by comparison to some of the more mature markets, has some optimistic news in the form of infrastructure spend, limited credit crunch exposure, interest rate head room and the FIFA 2010 Soccer World Cup to look forward to. I remain positive with regards to the private equity industry in the medium to long term.

KPMG in South Africa would like to thank all the participants who took part in the survey.

A special word of thanks to SAVCA, specifically Executive Officer J-P Fourie, and the survey sub-committee who played a critical role in compiling this survey. I would also like to thank the Private Equity Markets team at KPMG for their tireless efforts in producing this survey.

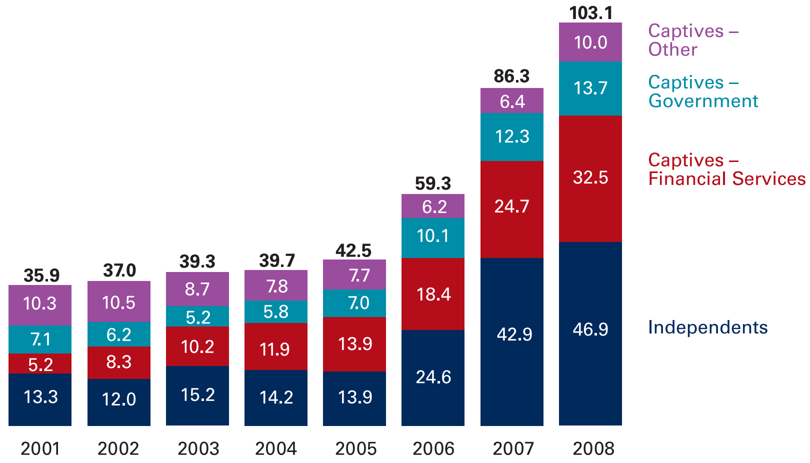
Warren Watkins
Director – KPMG Services (Pty) Ltd

Head of Private Equity Markets – Africa Region

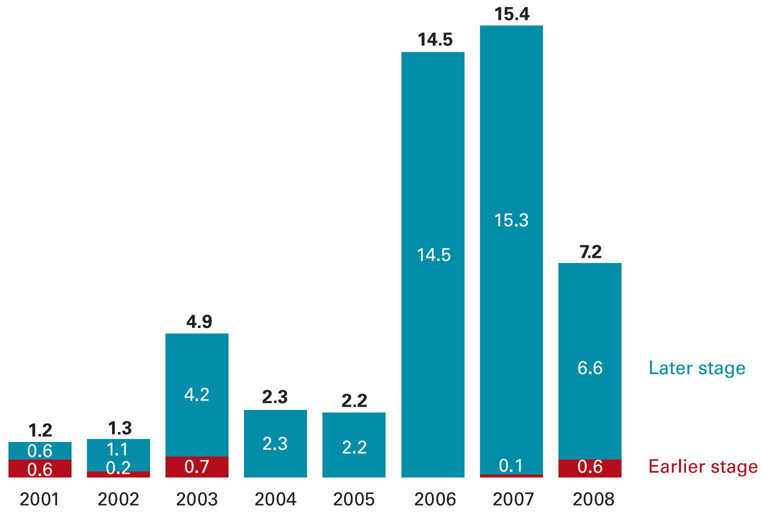
Highlights

- South Africa's private equity industry boasts R103.1 billion in funds under management at 31 December 2008, an increase of 19.5% from R86.3 billion at 31 December 2007, breaching R100 billion for the first time.
- At 31 December 2008, total funds under management, excluding undrawn commitments, were 3.2% of GDP, up from 2.7% in 2007 (independents 1.2% of GDP (2007: 1.1%) and captives 2% of GDP (2007: 1.6%)). Funds under management have had a compound annual growth rate of 14.4% since 1999, when this survey began.
- Independents have increased their total funds under management by 9.3% from R42.9 billion at the end of 2007 to R46.9 billion at the end of 2008.
- Captives-government and fund managers that are black owned, empowered or influenced had R68.6 billion of funds under management at 31 December 2008, an increase of 16.3% from the R59.0 billion at the end of 2007. Thus 66.5% of funds under management are at least black influenced or are classified as captives-government (2007: 68.4%).
- R7.2 billion was raised during 2008, which is down from the record breaking R15.4 billion of funds that were raised during 2007. This is a decrease of 53.2%.
- 39.0% of all funds raised during 2008 were from South African sources (2007: 33.0%). The UK contributed 27.0% and the US 13.0%. The US is still the highest contributor of all funds raised to date and not yet returned to investors (US: 35.0%, South Africa: 31.0%, UK: 24.0%).
- R29.2 billion in undrawn commitments at the end of 2008 is available for future investments. This represents a decrease of 7.6% from the R31.6 billion of undrawn commitments at the end of 2007.
- Investment activity is down 18.4% from R26.1 billion during 2007 to R21.3 billion during 2008. The 2007 amount includes the Bain Capital buy-out of Edcon for an equity value of around R8.7 billion.
- Investments in entities that are black owned, empowered or influenced are up 38.1% from R11.8 billion during 2007 to R16.3 billion during 2008. This excludes the investment activities of captives-government.

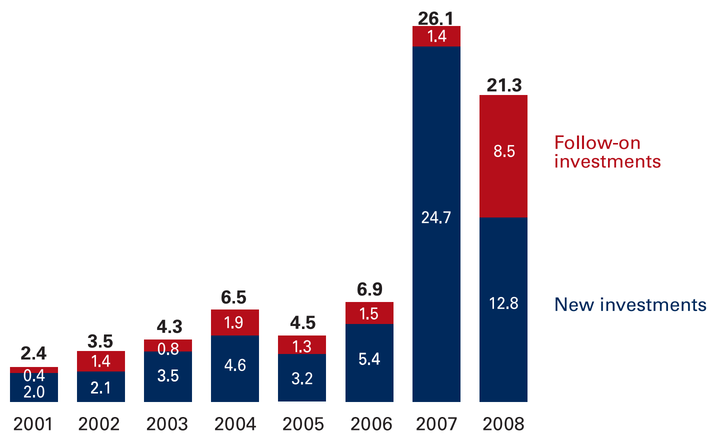
Composition of total funds under management at year end (Rbn)



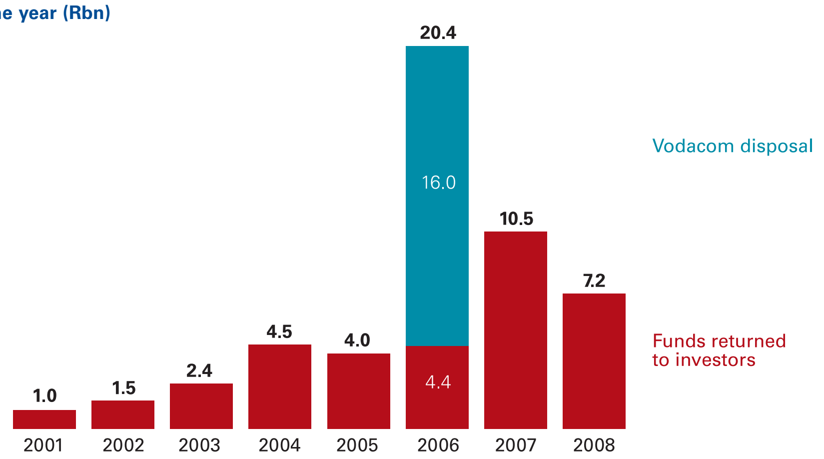
Funds raised during the year, analysed by fund stage (Rbn)



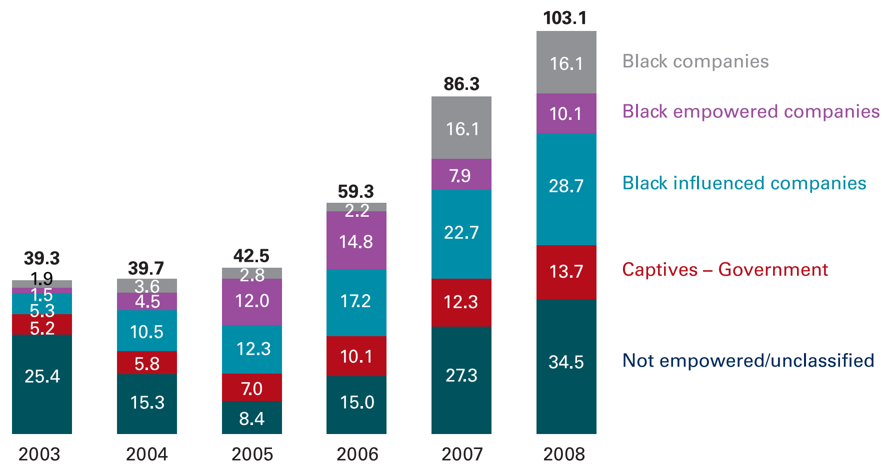
Cost of investments made during the year, analysed by new and follow-on investments (Rbn)



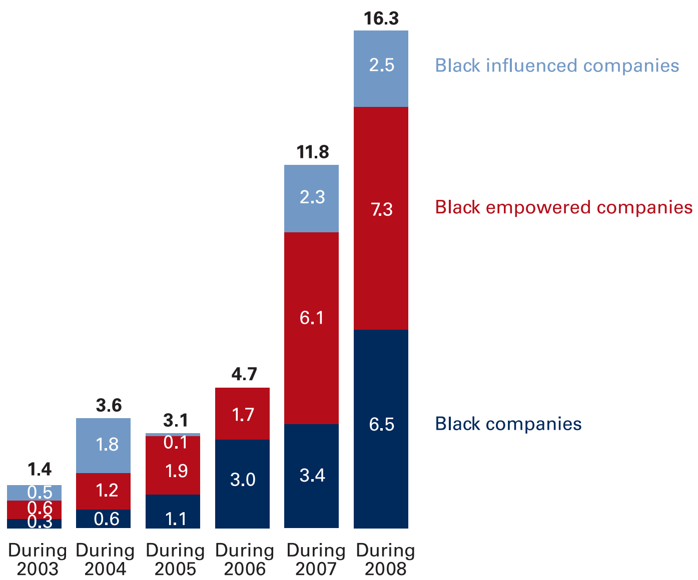
Funds returned to investors during the year (Rbn)



Funds under management by BEE fund managers at year end (Rbn)



Cost of BEE investments made during the year (excluding Captives – Government) (Rbn)



Sources of information

The principal source of information for this survey was the survey questionnaire. In addition we have used a draft version of SAVCA's 2009 Handbook, held discussions with certain private equity industry participants, as well as sourced public information on private equity funds, including international surveys.

The survey questionnaire was developed jointly by KPMG's South African firm and a specially constituted SAVCA sub-committee.

For clarity, the guidelines for participation in this survey are as follows:

Participants must:

- Have as their principal business the management of capital (third party and / or proprietary capital) for the provision of capital (equity or quasi equity) primarily to unlisted companies; and
- Employ professionals – dedicated to the management of the capital and the investments made using the capital (and capital from other providers); and
- Generate returns – mainly through medium to long-term returns on investment and / or social development returns.

Investments should be included if:

- They are managed from South Africa, irrespective of the country in which the investment's revenue is generated; or
- They are managed outside of South Africa, where the majority (>50%) of that investment's revenue is generated in South Africa.

We note that determining the level of private equity industry activity is not an easy task. Whilst certain parties lobby for a more inclusive approach to measurement, others believe that overstating the level of local activity is a disservice to the industry as this could possibly reduce the appetite of Development Financing Institutions (DFIs) and foreign investors to commit funds to South Africa in favour of other under-funded emerging markets. The 'purists' also argue that this survey should only measure the activity of the independent funds, as these form the core of the professionally managed private equity industry both locally and globally. This, however, would negate the significant role played by corporates, banks and DFIs in private equity in South Africa. For the purposes of presentation, and elimination if deemed necessary by specific users, we have presented data split, wherever possible, between the various types of fund managers.

Questionnaires were e-mailed to 70 entities that indicated that they would consider participating in the survey. 35 of them (representing 59 funds) at least partially completed the questionnaire. In addition, alternative sources were used to obtain information on a further 13 private equity firms, representing 13 funds, that did not complete the questionnaire. Although these alternative sources did not provide us with as much information as our questionnaire, we believe that the information is complete and understated, if anything.

With the possible exception of the PIC's Isibaya Fund and the MIC, we are confident that non-participants do not materially affect the results of this survey and this survey presents a fair reflection of the state of South Africa's private equity industry.

Other data has been sourced from various sources, including:

- 2008 European Private Equity Market, EVCA the voice of European Private Equity Industry since 1983 (preliminary 2008 figures).
- Ernst & Young Mergers and Acquisitions – A review of activity for the year 2008 (18th Edition)
- EVCA 2008 European Private Equity Market (Preliminary figures)
- EVCA Press release, 12 March 2009 (Private Equity activity slows during 2008)
- EVCA/PEREP Analytics Central and Eastern Europe Statistics 2007 (An EVCA Special Paper September 2008)
- EVCA/Thomson Reuters Performance Benchmarks 2008 European Private Equity
- Pan-European Private Equity & Venture Capital Activity Report, EVCA year book 2008, based on PEREP Analytics.
- PricewaterhouseCoopers Global Private Equity Report 2008
- PWC Kesselman and Kesselman, The Kesselman and Kesselman PWC Israel MoneyTree Report
- Statistics South Africa
- The 2009 Preqin Global Private Equity Review
- Thomson Reuters/National Venture Capital Association – press release of 27 April 2009
- Other sources specifically included in the footnotes.

In compiling the information for this survey, KPMG has worked closely with a SAVCA sub-committee, to try to ensure meaningful interpretation and comment has been included in this report. The sub-committee reviews the document prior to its public release, but does not have access to any of the individually completed questionnaires submitted to KPMG or any other information not presented in this publication.

Although care has been taken in the compilation of the survey results, KPMG and SAVCA do not guarantee the reliability of its sources or of the results presented. Any liability is disclaimed, including incidental or consequential damage arising from errors or omissions in this report.

Introduction to private equity

The term 'private equity' refers to shareholder capital invested in private companies, as distinguished from publicly listed companies. Private equity funds are generally investment vehicles that invest primarily in enterprises which are not listed on a public stock exchange.

An enterprise may seek private equity financing for a variety of applications, from increasing its working capital base in times of business expansion, developing new technologies and products to grow and remain competitive, making acquisitions of other businesses, to buying out certain shareholders to restructure the ownership and management of the business. Another vital application of private equity in South Africa is facilitating the introduction of BEE investment.

The role of private equity

Investments by private equity funds into companies hold great benefits besides the mere cash effect to develop businesses. Private equity investments have considerable impacts in terms of productivity, skills development and job creation, as it includes the transfer and exchange of know-how and not only the flow of capital. Private equity fund managers play an active role in managing their investments in companies as they derive a return from the increased valuation of their investments (not just debt repayment and an associated interest rate) and hence focus on business development for the companies they invest in.

In South Africa the private equity industry represents a significant sector within the overall financial services industry, and an attractive asset class within the broader capital markets. As seen across a range of indicators, the profile of the local private equity industry is that of a productive contributor to the development of the South African economy. In particular private equity facilitates BEE, addresses economic imbalances of the past, promotes entrepreneurial initiatives and positions South Africa to compete successfully on the global stage.

Through the use of leverage in certain transactions, private equity sponsors can assist in improving the capital efficiency of their investee companies.

As can be seen in this survey, private equity is an important source of Foreign Direct Investment (FDI), both indirectly via the raising of offshore money by local fund managers but also more recently by direct investment by foreign fund managers.

Investment stages

For the purposes of this survey we have broadly classified private equity into three sub-classes, namely:

- venture capital
- development capital
- buy-out funding.

Because the definitions of the terms 'venture capital' and 'private equity' vary from country to country, the figure below sets out the terminology used in this survey to avoid confusion.

Figure 1: Private equity investment stages

Private equity category	Stage of business development	Typical application
Venture capital	Seed capital	Funding for research, evaluation and development of a concept or business before the business starts trading.
	Start-up and early stage	Funding for new companies being set up or for the development of those which have been in business for a short time (one to three years).
Development capital	Expansion and development	Funding for growth and expansion of a company which is breaking even or trading profitably.
Buy-out	Leveraged buy-out or buy-in	Funding to enable a management team or empowerment partner, either existing or new, and their backers to acquire a business from the existing owners, whether a family, conglomerate or other. Unlike venture and development capital, the proceeds of a buy-out generally go to the previous owners of the entity. Buy-outs are often leveraged.
	Replacement capital	Funding for the purchase of existing shares in a company from other shareholders, whether individuals, other venture-backers or the public through the stock market. Unlike venture and development capital, the proceeds of replacement capital transactions are generally paid to the previous owners of the entity.

Development of private equity in South Africa

Beyond being defined as a range of investment categories applicable to non-listed companies, private equity is also a distinct asset class within the broader capital market, and is supported by a well-defined industry made up of various players and stakeholders.

The current profile of the private equity industry in South Africa is the result of various historical developments in the country and in global capital markets. In South Africa, the industry was boosted by the large number of leveraged buy-outs and management buy-outs (LBOs and MBOs), resulting from the widespread disinvestment of multinationals from South Africa in the 1980s. These transactions were structured, financed and managed by the major commercial, merchant and investment banks of the time.

As these local banks developed the in-house expertise to manage private equity investments on an internally funded basis, there was a global trend, especially in the US and Europe (more specifically the UK) towards the formation and management of private equity funds whose capital was sourced from third party investors such as pension funds, large corporations and other institutional entities.

In South Africa the private equity industry benefited from the global trend towards recognising the asset class as an attractive investment vehicle for investors, combined with its growing reputation as an effective means of economic development for governments and development agencies. It may be argued that South Africa has one of the most sophisticated private equity industries among emerging and developed markets, with different funds at all stages of business development, from start-up venture capital funds through to late-stage and buy-out funds.

Globally in 2000 the vast majority of funds, over 77%, were focused on North America, with Europe and Asia and Rest of the World accounting for 15% and 8% respectively. However, since 2000, private equity has steadily been becoming a more global industry, with more than one-quarter of funds now focused on Europe, and the market share of Asia and Rest of the World growing at an even more rapid rate over the period. Nevertheless, North America remains the main centre for private equity activity, with the majority of funds still focused on the region.[1]

2008 was a year of reduced investment, fund raising and exit activity in the South African industry. This has followed global trends.

The second half of 2008 saw an end to the record levels of fundraising that had been steadily increasing over the previous five years. Global fundraising for the industry was down dramatically in the second half of 2008 as the credit crunch began to affect investors' appetite and ability to invest in new fund opportunities:[1]

- Global fundraising increased slightly (7%) from US$518 billion during 2007 to US$554 billion during 2008[1].
- Global investment decreased (71%) from US$658 billion during 2007 to US$190 billion during 2008[1].

[1] Sourced from Preqin

Types of private equity firms

A distinction needs to be made between captive and independent fund managers. Fund managers include independents who manage funds on behalf of third parties as well as captives who manage on-balance sheet investments that were funded by a parent or group often from an indeterminate pool of money. Captive funds are for the purpose of this survey further classified into the captive funds of government, financial services (including banks and insurance companies) and other captive funds (including corporates).

Independent fund managers raise cash commitments from third party investors. Generally, in terms of the agreement between the third party investors and the private equity fund manager, the private equity firm draws down on the commitments as and when investments are to be made. Independents are the dominant type of firm in the UK, the rest of Europe and in the US, where these funds are structured as limited partnerships. Private equity firms typically act as the general partner of the limited partnership, whilst institutions and other investors become limited partners.

Unlike captive funds, independent funds are usually closed ended. This means that once a fund has been raised, it is closed out, following which no further commitments are accepted from third parties. Typically, third parties' commitments expire, often according to a time schedule based on a 'use it or lose it' principle, once a maximum drawdown time period expires. Professional private equity managers usually earn income from a combination of a management fee based on total commitments plus an enhanced carried interest, which is based on the performance of the fund relative to a benchmark. Captive fund managers usually do not charge any management fee.

In line with recent trends in many developed private equity markets, we are likely to soon see the 'spin-out' of private equity teams of some of South Africa's financial institutions into semi-captive fund managers. Absa Capital Private Equity has moved into a semi-captive structure.

Black Economic Empowerment

One of the notable features of South Africa's private equity industry is the very significant role it plays in the development of BEE. The industry's impact on BEE is far reaching, as detailed in the various sections of this survey. It is specifically important to note that:

- Private equity transactions enable higher gearing, whereby a combination of private equity investment and bank loans allow the implementation of an appropriately geared financial structure, allowing management of the investee company to acquire a significant stake in the company. This leveraged model also creates opportunities for the involvement of black management and other BEE parties in the ownership and management of the investee company.
- The vast majority of transactions concluded by the industry have a significant BEE component and the majority of private equity fund managers have a BEE element to their own shareholding structure.
- The Codes of Good Practice for Broad-Based BEE (BEE Codes), issued by the Department of Trade and Industry (DTI), stipulate the conditions under which a company may treat its ownership arising from a private equity fund as if that ownership were held by black people. These requirements were finalised in June 2007 and provide the industry clarity on how to further increase its already significant contribution on this vital socio-economic process. The requirements can be summarised as follows:
  - More than 50% of any exercisable voting rights associated with the equity instruments through which the private equity fund manger holds rights of ownership must be held by black people.
  - More than 50% of the profits made by the private equity fund manger after realising any investment made by it, must by written agreement, accrue to black people.
  - The private equity fund manger must be a black-owned company, as defined in the BEE Codes.
  - Over a 10-year period, the private equity fund must have more than 50% of the value of funds invested, invested in black-owned enterprises that have at least 25% direct black ownership.

Funds under management

Our research shows that South Africa's private equity industry now boasts total funds under management of R103.1 billion (inclusive of undrawn commitments of R29.2 billion). This is a R16.8 billion (19.5%) increase from funds under management at 31 December 2007 of R86.3 billion[1] (inclusive of R31.6 billion undrawn commitments). The industry has achieved a compound annual growth rate of 14.4% of total funds under management since 1999 when the survey began.

Independents have increased total funds under management by R4 billion from R42.9 billion at 31 December 2007 to R46.9 billion at 31 December 2008 (9.3% increase).

Captives-financial services' total funds under management increased by R7.8 billion from R24.7 billion at 31 December 2007 to R32.5 billion at 31 December 2008 (31.6% increase).

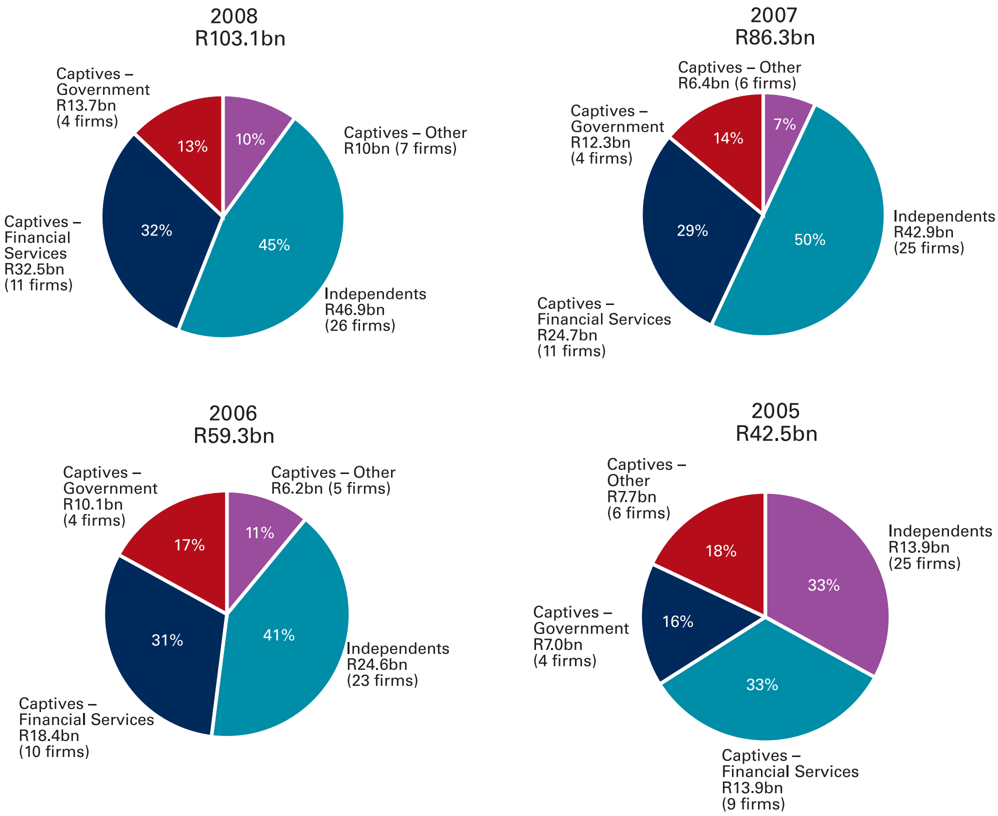
Funds under management by captives-government increased by R1.4 billion from R12.3 billion at 31 December 2007 to R13.7 billion at 31 December 2008 (11.4% increase).

Funds under management by captives-other increased by R3.6 billion from R6.4 billion at 31 December 2007 to R10 billion at 31 December 2008 (56.3% increase).

Fund raising activity of R7.2 billion during 2008 was down on last year's record breaking R15.4 billion of funds that were raised.

[1] Although our 2007 survey reported total funds under management of R86.6 billion at 31 December 2007, the 2007 results now include certain private equity and mezzanine debt funds which were excluded last year. In addition the restatement of comparative data by certain participants has also been a contributor to the restatement, resulting in a net decrease of R0.3 billion.
In analysing the research it is important to note that, in most cases, only comparative 2007 information has been restated but not pre-2007 information.

Figure 2: Total funds under management



Investment activity of R21.3 billion during 2008 was down from R26.1 billion in 2007. These aspects are discussed in further detail in the fund raising activity and investment activity sections of this survey.

At 31 December 2008, the split between captive funds and independent funds is almost equal, with captive funds accounting for approximately 54.5% of the total funds under management (2007: 50.3%).

Figure 3: Composition of total funds under management at year end (Rbn)

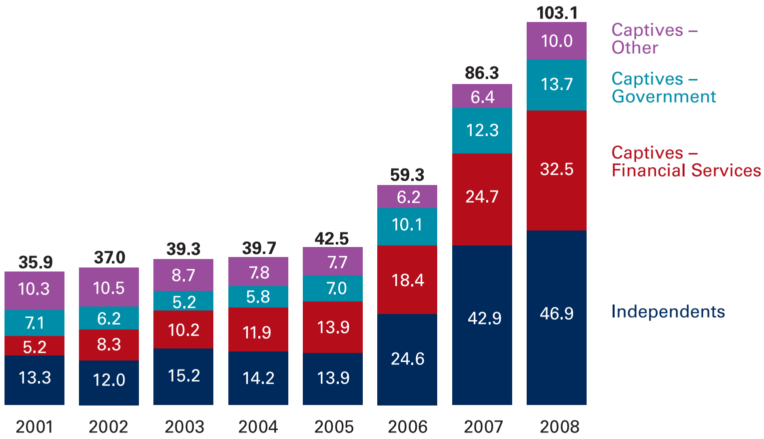


Figure 4: Composition of total funds under management at year end by the focus of the fund (Rbn)

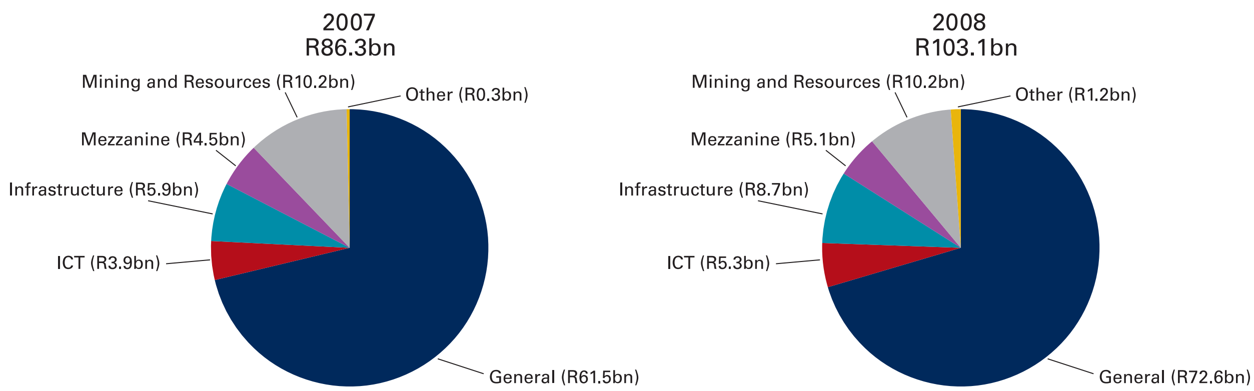


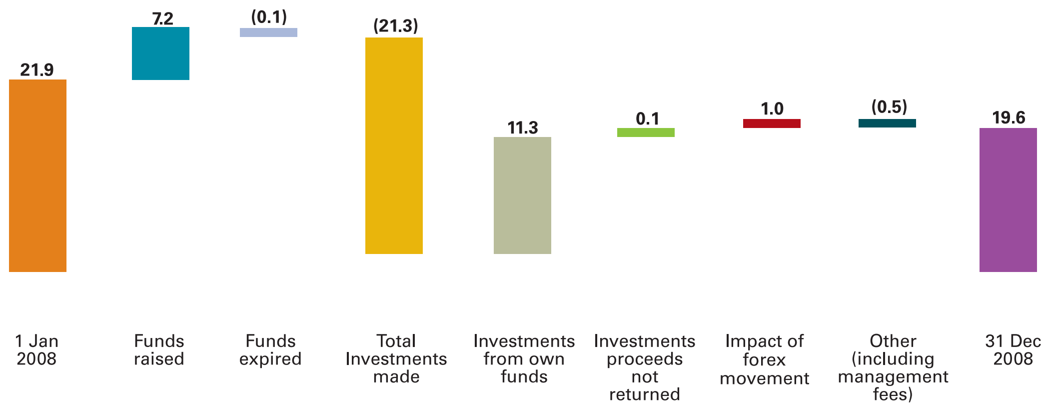
Figure 4 above shows that general funds account for 70.4% of the funds under management at 31 December 2008.

Mining and resources funds has remained steady.

The survey responses showed an encouraging development for South Africa with a R2.8 billion increase in the infrastructure-focused funds.

Total undrawn commitments at 31 December 2008 are R29.2 billion (2007: R31.6 billion), of which R18.6 billion (2007: R21.1 billion) reflects the undrawn commitments of independent fund managers.

Figure 5: Roll-forward of undrawn commitments from third parties (Rbn)[1]



From figure 5 above it can be seen that against the trend of the past few years, undrawn commitments raised from third parties decreased to R19.6 billion at the end of 2008 from R21.9 billion at the end of 2007. However, this still bodes well for seekers of capital. These funds often work on a 'use it or lose it' principle, meaning that there is an ongoing drive by fund managers to invest their funds in the short term. The timing, however, is also dependent on prevailing economic factors and conditions. During the second half of 2008, the credit crunch has significantly curtailed global private equity investing activity. South Africa has been somewhat insulated from its impact, but deal flow and debt capacity is muted.

[1] In prior years this roll forward was for 3rd party funds available to independents, however this year a number of captives have shown that they raised a portion of third party funding as well. Therefore, the closing balance of R19.6bn will not agree to the closing balance of independents of R18.6bn for 2008. The R19.6bn does not agree to the R29.2 billion total undrawn commitments at the end of 2008 as the difference is made up of captives who are showing undrawn commitments that they have available off their own balance sheet i.e. not raised from third parties.

Figure 6: Total funds under management at year end, split by undrawn commitments and investments (Rbn)

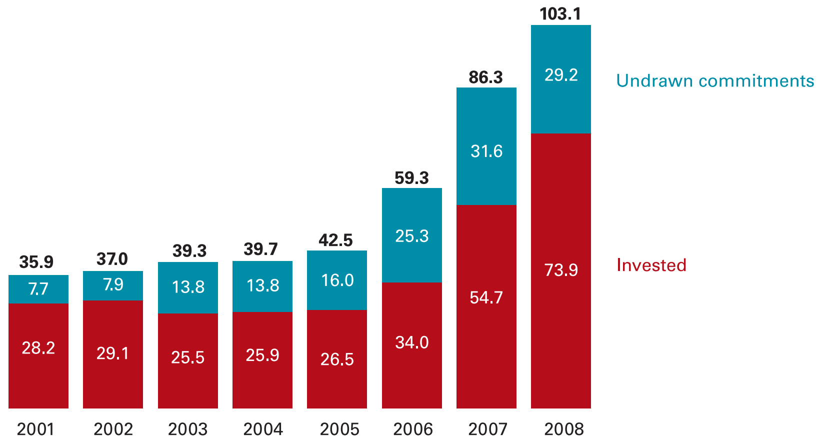
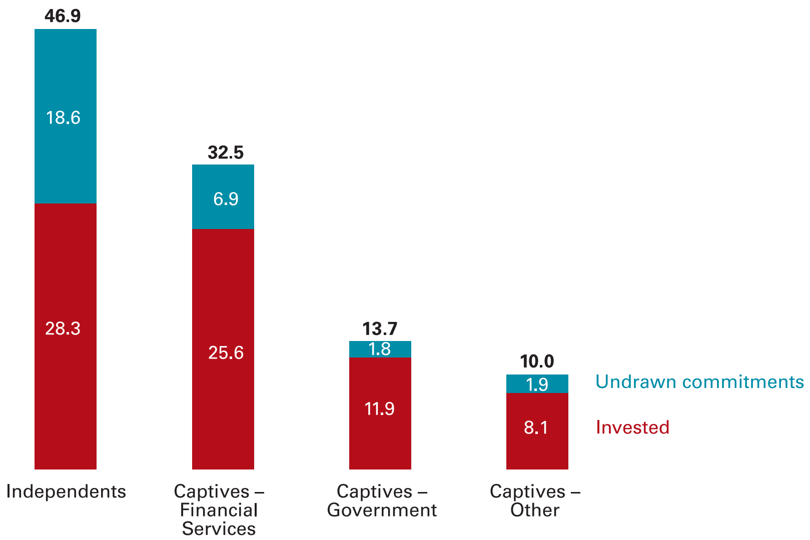


Figure 7: Total funds under management at 31 December 2008, split by undrawn commitments and investments (Rbn)



Participants in this survey have indicated that 62.8% of undrawn commitments at 31 December 2008 can be invested in new and/or follow-on investments (2007: 95.2%). The balance available only for new investments is 30.4% for 2008 (2007: 2.8%) and only for follow on investments 6.8% for 2008 (2007: 2%).

The undrawn commitments at 31 December 2008 of independents include R18.5 billion raised from third parties and R132.2 million of their own funds.

Captive funds, and specifically captives-financial services, generally have no fixed commitments, although this is not necessarily indicative of their capacity to make additional private equity investments. In certain instances, captive funds have reported the cash available for private equity investments as undrawn commitments while others have only reported unrealised investments without including the pool of available funds as undrawn commitments.

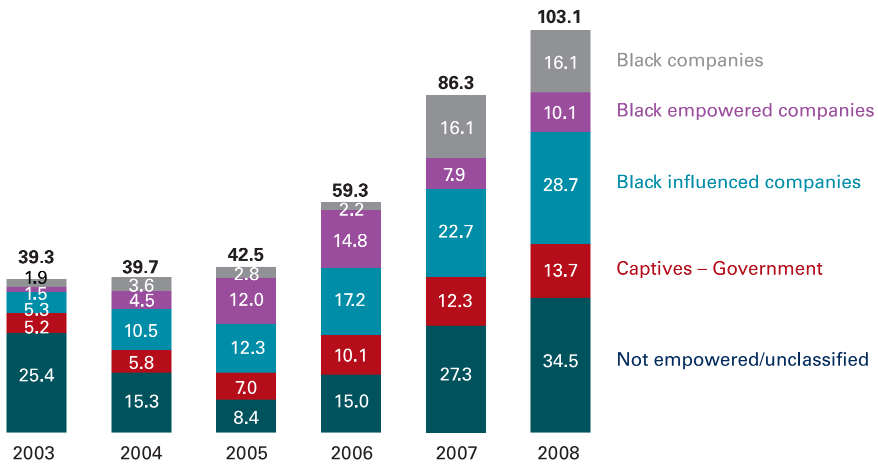
Analysis of total BEE funds under management

Captives-government and fund managers that are themselves black-owned, empowered or influenced (that is, have at least 5% black ownership) had R68.6 billion of funds under management at 31 December 2008, an increase of 16.3% (2007: R59.0 billion). 66.5% of total funds under management are thus at least black-influenced or classified as captives-government (2007: 68.4%).

Using an alternative measure, whereby captives-government are excluded, fund managers that are black-owned, empowered or influenced increased by 17.6% from R46.7 billion at the end of 2007 to R54.9 billion at the end of 2008. This represents 53.3% of total funds under management, a slight decline from the 54.1% at the end of 2007.

It should be noted that where participants did not return a completed questionnaire, and we were able to include them in certain parts of this survey using publicly available information, all these funds under management have been classified as not empowered.

Figure 8: Funds under management by BEE fund managers at year end (Rbn)



R23.1 billion of the funds under management of at least black-influenced companies and captives-government at 31 December 2008 (2007: R25.3 billion) remained undrawn at the year-end.

The BEE Codes have provided clarity as to the criteria that a private equity fund and fund managers must meet for a company to treat ownership arising from a private equity fund as if ownership were held by black people. This greater clarity around the BEE Codes as well as the significant amount of undrawn capital referred to above, shows that the industry is well poised to further increase its contribution to this vital South African socio-economic process.

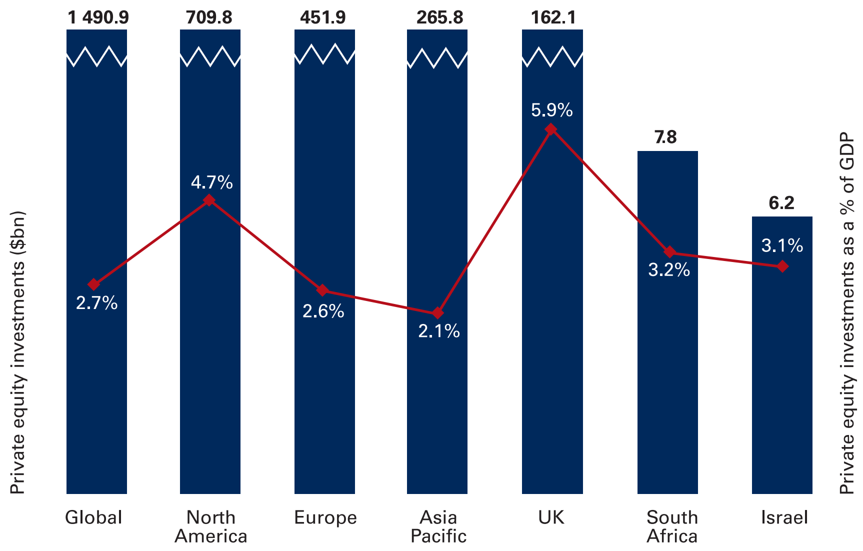
Comparison to the global market

Although the South African private equity industry is small in comparison to those of the US and UK, it is significant in relation to many other countries. These include Israel which is often sighted as having implemented a successful private equity model.

In terms of total funds under management relative to GDP, South Africa's private equity industry at 3.2% is higher than the global average of 2.7%, higher than the European average of 2.6% and the 2.1% for Asia Pacific. It is still some way off that of North America (4.7%) and the UK(5.9%).

South Africa's funds under management, excluding undrawn commitments, relative to GDP of 3.2% (2007: 2.7%) can be split between funds under management by independents, which were 1.2% of GDP (2007: 1.1%), and funds under management by captives, which were 2% of GDP (2007: 1.6%).

Figure 9: Size of international private equity markets (US$bn) relative to GDP[1]



[1] Based on funds under management excluding undrawn commitments for South Africa at 31 December 2008 and at 31 December 2007 for the UK as reported by EVCA and converted at €1=US$1.47. Global, North America, Europe and Asia Pacific is based on cumulative investments at cost made from 1998 to 2007 as reported by the PwC Global Private Equity survey (covering the 2007 calendar year). Israel is based on cumulative investments at cost made from 2000 to 2008 as reported by the MoneyTree Survey prepared by Kesselman & Kesselman PwC. South African data excludes undrawn commitments to allow for comparability and converted at US$1=R9.46. 2008 GDP for South Africa was sourced from Statistics South Africa (estimate at February 2009). Israeli GDP as reported by the CIA World Fact Book. Global, North American, UK, European and Asia Pacific GDP as reported in the PwC Global Private Equity survey (covering the 2007 calendar year).

South Africa is ranked in the global Top 20 (13th) of investment activity (2007: 11th).

Figure 10: Country ranking – Investment activity (US$bn)[1]

	Country	Investments		Country	Investments
1	USA	195.72	11	Taiwan	4.93
2	UK	40.10	12	Sweden	4.89
3	India	17.51	**13**	**South Africa**	**4.65**
4	Japan	14.71	14	Netherlands	4.60
5	Australia	14.61	15	Korea	4.28
6	France	14.4	16	Spain	3.58
7	China	10.62	17	Hong Kong	2.87
8	Germany	8.73	18	New Zealand	2.73
9	Malaysia	5.40	19	Italy	1.71
10	Singapore	5.35	20	Denmark	1.42

South Africa remained in the global Top 20 (15th) in terms of fund raising activity (2007:18th).

Figure 11: Country ranking – Fund raising activity (US$bn)[1]

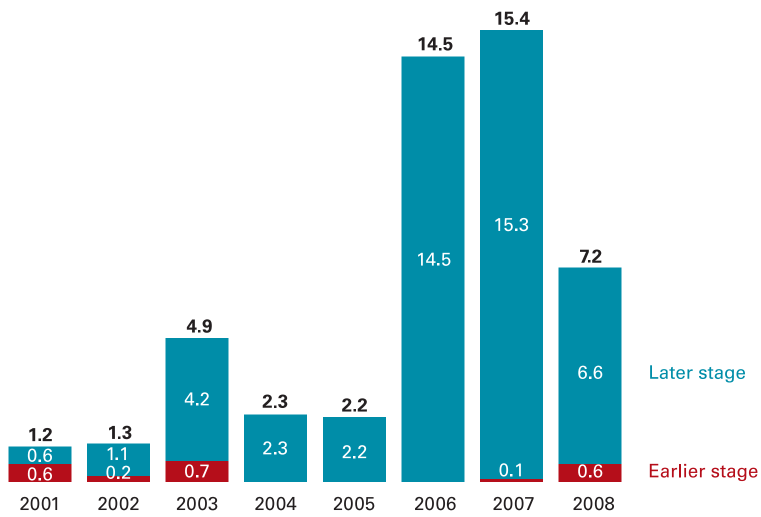
	Country	Investments		Country	Investments
1	USA	302	11	Singapore	4.03
2	UK	48.52	12	Spain	3.86
3	Hong Kong	15.52	13	Netherlands	3.68
4	China	11.00	14	Italy	2.82
5	France	7.68	**15**	**South Africa**	**2.79**
6	Germany	6.63	16	Malaysia	1.29
7	Australia	6.46	17	Korea	0.85
8	India	5.94	18	Denmark	0.42
9	Sweden	5.49	19	Taiwan	0.11
10	Japan	4.62	20	New Zealand	0.01

[1] PricewaterhouseCoopers Global Private Equity Report 2008 (The PricewaterhouseCoopers/Venture Economics/National Venture Capital Association MoneyTree™ Survey / Thomson Financial / Buyout Newsletter / Private Equity Analyst / CVCA Annual Statistical Review / EVCA Yearbook / AVCJ Guide to Venture Capital in Asia / Venture Equity Latin America / LAVCA / SAVCA Private Equity Survey / IVC Online) (2007 amounts were used in the above rankings)

Fund raising activity

The figure below highlights the decrease in the amount of funds raised from R15.4 billion during 2007 to R7.2 billion during 2008 (53.2% decrease). The trend of almost all the fund raising activity being by later stage funds continued during 2008.

Figure 12: Funds raised during the year, analysed by fund stage (Rbn)



The majority of reported fund raising activity during 2007 and 2008 was, as expected, by independents.

The major fund raisers for 2008 were Absa Capital Private Equity, Actis, Capitalworks, Horizon Equity, Inspired Evolution, International Housing Solutions, Leaf Capital and Mezzanine Partners.

In 2007, the major fund raisers included Lereko Metier Capital Growth Fund Managers, Medu Capital, Molash Capital, OMIGSA, Pamodzi Resources Fund Advisors and Vantage Capital Fund Managers.

39.7% of all third party funds raised during 2008 were from government, aid agencies and DFIs. This represented a major swing from 2007 when funds raised from government, aid agencies and DFIs were only 2.9%. The next largest categories during 2008 were private equity fund of funds (21.9%), followed by pension and endowment companies (15.2%) and corporates (8.7%).

In 2007 third party funds raised from private equity fund of funds included the R9.8bn funds raised by Pamodzi Resources Fund I.

Figure 13: Sources of third party funds raised during 2008 (R7 227m)

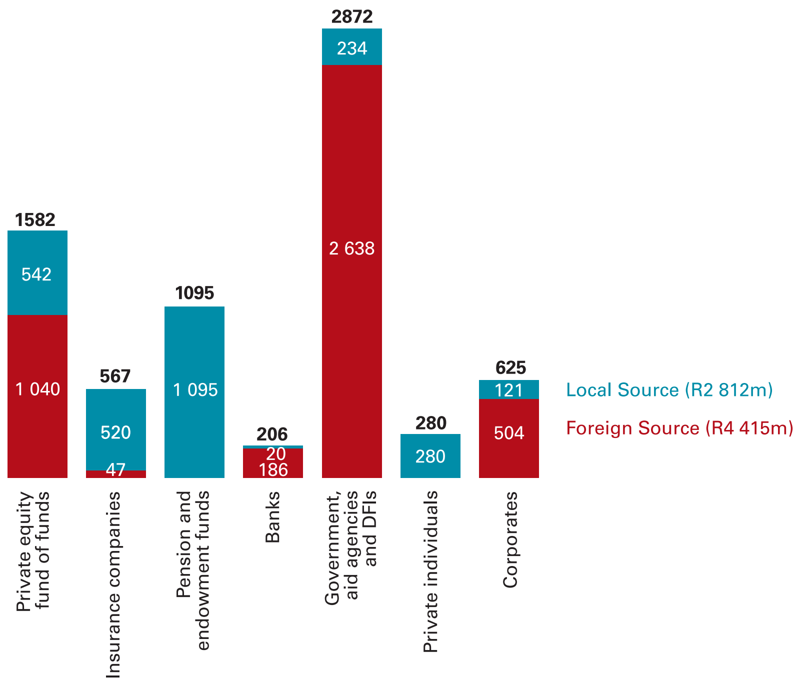
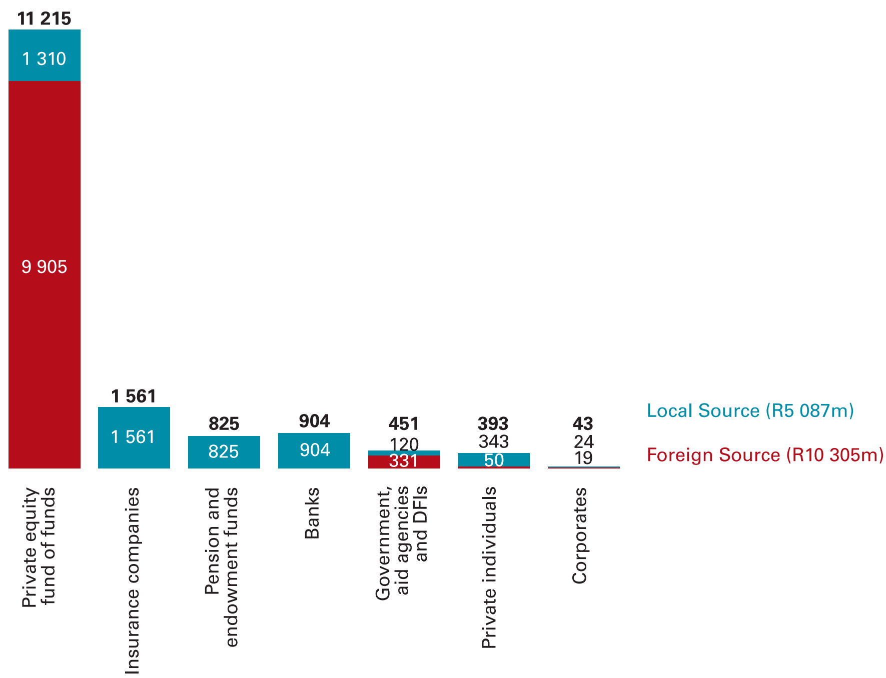
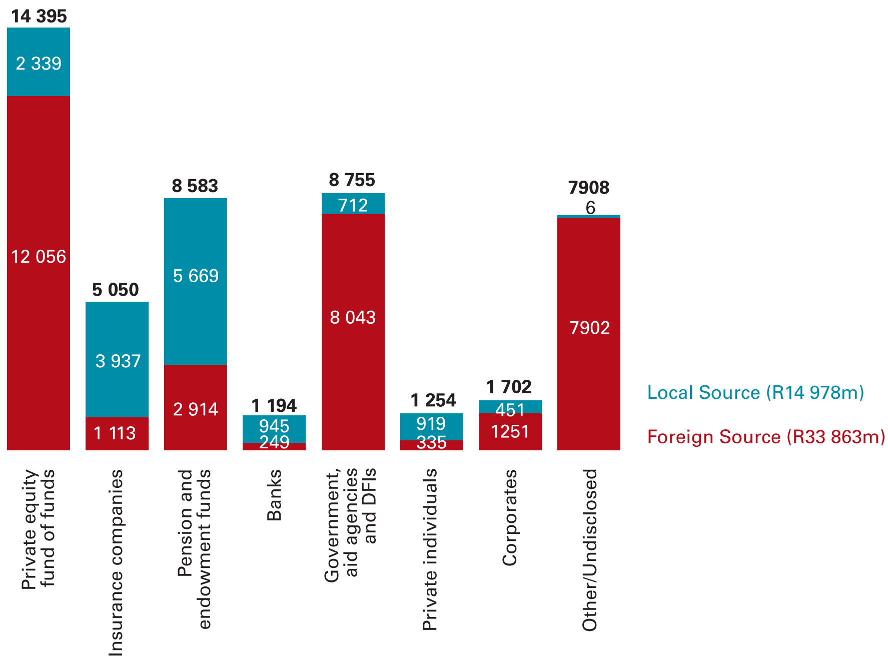


Figure 14: Sources of third party funds raised during 2007 (R15 392m)



29.5% of third party funds raised and not returned to investors to 31 December 2008 were from private equity fund of funds followed by governments, aid agencies and DFIs (17.9%), pension and endowerment funds (17.6%) and insurance companies (10.3%). The remaining 24.7% was raised from other sources.

Figure 15: Sources of third party funds raised to 31 December 2008 not yet returned to investors (R48 841)



There are a number of differences in the pattern of cumulative funds raised from 1 January 1995 to 31 December 2008 between South Africa and Europe.

The relative proportions of funds raised from fund of funds and pension and endowment companies are 29% and 18% respectively for South Africa and 12% and 23% respectively for Europe.

As one would expect, in South Africa there is a large contribution from governments, aid agencies and DFIs to the local industry (18%), whereas in Europe the contribution is smaller (6%).

In Europe, banks are a major contributor to funds raised as they tend to prefer providing funding to independents rather than investing in private equity assets directly. In South Africa the banks are still major, direct players in the local private equity industry.

Figure 16: Sources of third party funds raised not yet returned to investors – South Africa compared to Europe[1]

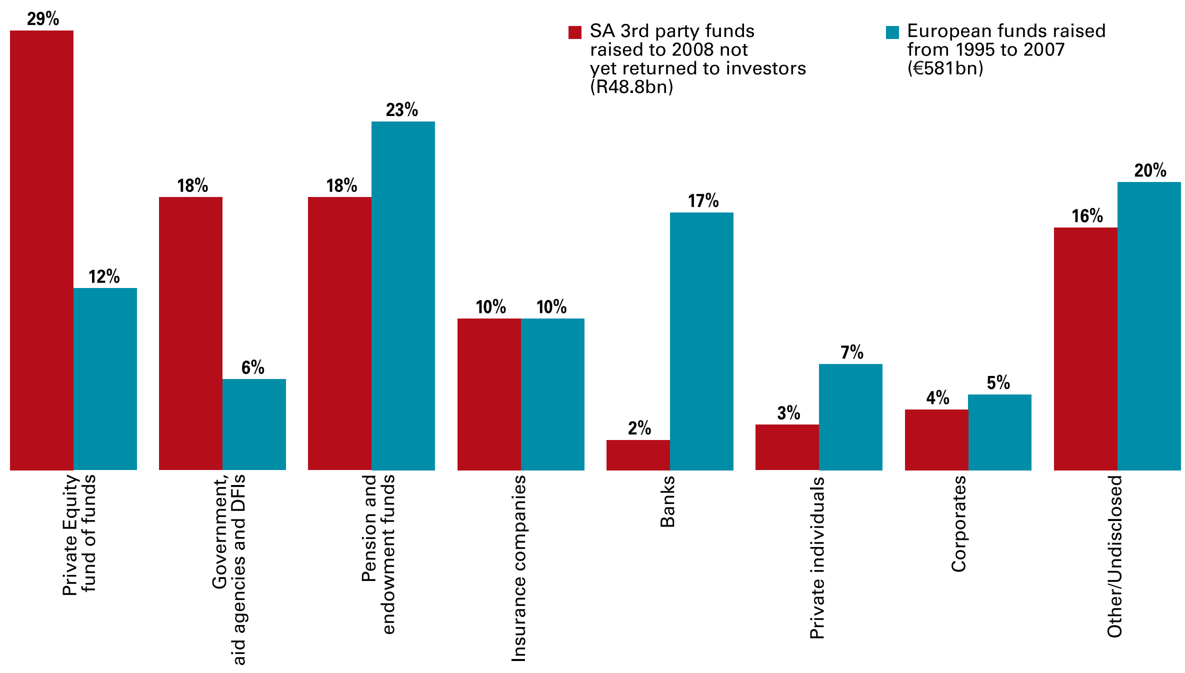
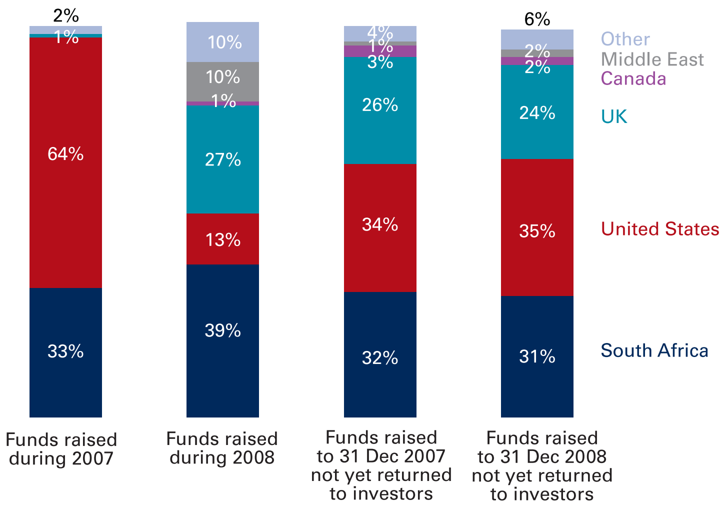


Figure 17: Geographic sources of third party funds raised



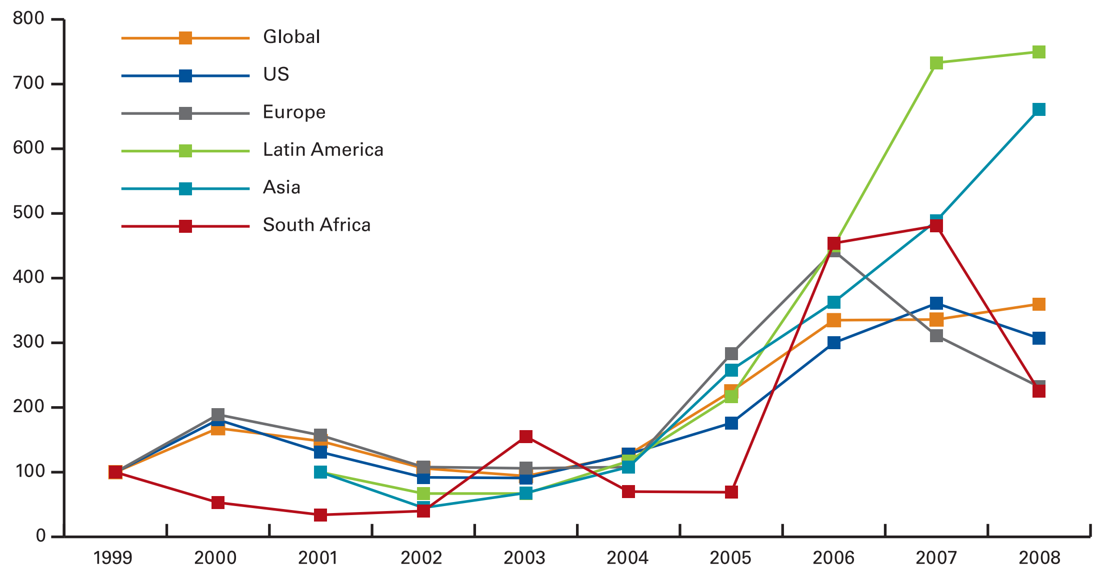
[1] European data sourced from EVCA

SA contributed 39% (2007: 33%) of funds raised during 2008. Funds raised from the UK were 27% (2007: 1%) and the US was 13% (2007: 64%).

Cumulatively, the US still remains as the main source of fund raising to date, just ahead of South Africa.

When fund raising overseas, it is vital that local fund managers are able to demonstrate local support. With a 31% contribution to funds raised to 31 December 2008 not yet returned to investors, local funders remain an important contributor of funds to the South African private equity industry.

Figure 18: Global and South African fund raising activity during the year (1999 = 100)[1]



The figure above indicates that South Africa has not always tracked the international trend when it comes to fund raising activity. Using 1999 as a base year, by 2005, South Africa was falling considerably behind the pace of fund raising of the rest of the world. In 2006, South Africa's fund raising trend-line jumped ahead of certain other regions and this was maintained in 2007. In 2008, South Africa showed a meaningful decline in fundraising activity.

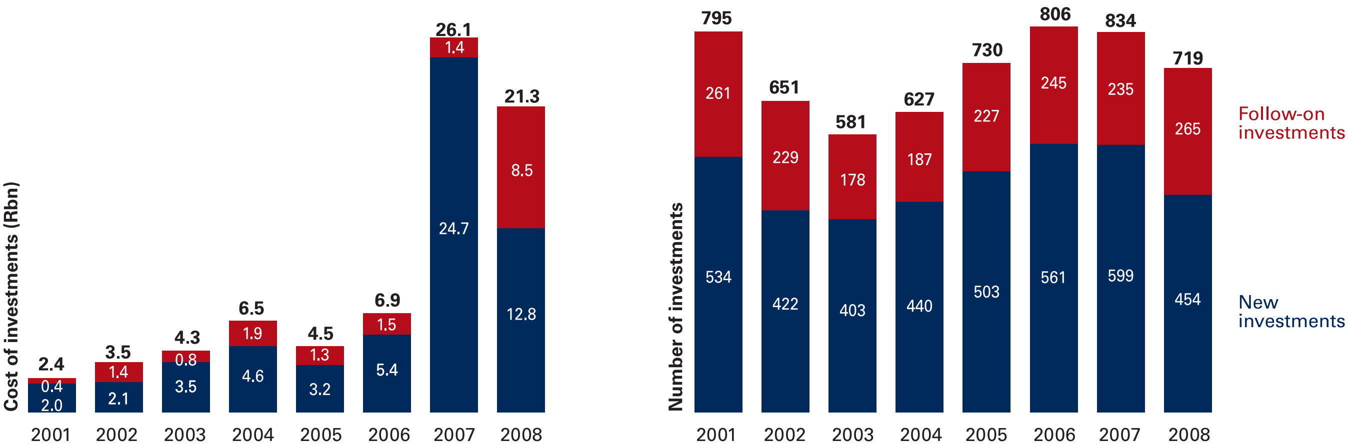
Except for South Africa, 2000 was a global peak in fund raising activity. Tracking the global economy, which was dragged down by the bursting of the 'dot-com' bubble and the Asian crisis, there was a declining trend in private equity fund raising between 2001 and 2004. Fund raising levels have, however, increased substantially especially in the last two years where US and European fund raising levels are much higher than ever before. Data indicates that US$553.8 billion was raised globally during 2008, a slight increase on the already strong 2007 figure of US$518 billion.[2]

[1] Data sourced from EVCA/Preqin/EMPEA
[2] Preqin

Investment activity

Reported private equity investments decreased by 18.4% from R26.1 billion during 2007 (which includes the Bain Capital buy-out of Edcon for an equity value of around R8.7 billion) to R21.3 billion during 2008. The total number of investments also decreased by 115, from 834 to 719 during the same period, representing a 13.8% decrease.

Figure 19: Cost and number of investments made during the year, analysed by new and follow on investments[1]



The significant decrease of 18.4% in private equity investment activity in value terms, is an expected decrease and a positive development when measured against total M&A activity in South Africa during 2008, which decreased by 39% from R514 billion during 2007 to R312 billion during 2008[2]. We caution that private equity investment activity is based on the equity cheque from private equity funds, whilst South African M&A is based on total deal size (i.e. equity plus debt).

With current capital market conditions paired with restricted credit markets, we have not seen the 'jumbo' deals (locally and internationally) that we saw in 2007. In 2008 we have seen a reduction in the value and the number of investments when compared to 2007, but the value is still considerably higher than 2004, 2005 and 2006's activity combined.

An interesting point is that in 2008, follow-on deals make up a much larger number and value of the investments completed. We believe this to be indicative of the economic conditions whereby private equity firms have provided additional financing to their portfolio companies to strengthen, recapitalise and restructure them and possibly finance strategic bolt-on acquisitions to ensure their sustainability.

1 The investment activity for 2005 reported in this survey excludes the acquisition of Waco for R5.4 billion (before accounting for net debt, that is, enterprise value) by CCMP Capital Asia, JP Morgan Partners Global Fund and management. The investment was not included in the survey since the private equity acquirers do not have a local office and the majority of Waco's revenue is also generated offshore. For the 2008 year we have also excluded two investments, due to the lack of information on these investments other than enterprise value. These were the acquisition by Denham Capital of shares in an SA-based energy firm, Bio Therm Energy, with a transaction value of R1.5bn and the acquisition of a significant shareholding in Medi-Clinic Corporation by European based private equity fund, Lehman Brothers Merchant Bank, with a transaction value of R1.3bn.*

* Major private equity transactions (2008) as reported by Mergers & Acquisitions: A Review of Activity for the Year 2008 (Ernst & Young)

2 South African Merger and Acquisition activity as reported by Mergers & Acquisitions: A Review of Activity for the Year 2008 (Ernst & Young)

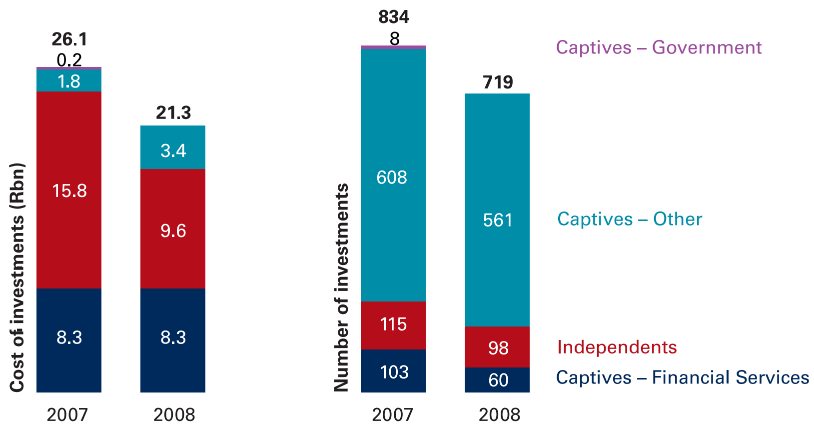
The overall average investment deal size has decreased from R31.3 million for the 2007 year to R29.7 million during 2008. New investments' average deal size decreased from R41.3 million during 2007 to R28.2 million during 2008 while follow-on investments average deal size increased from R5.8 million during 2007 to R32.3 million during 2008.

In terms of the number of reported investments, Business Partners (previously The Small Business Development Corporation), classified as captives-other, was again by far the most active investor in the South African private equity market, contributing 549 (76.4%) of the total number of reported investments made during 2008 (2007: 618, 74.1%), although only 4.2% in terms of the cost of total investments made during 2008 (2007: 2.6%). Business Partners' average deal size was R1.6 million in 2008 compared to R1.1 million in 2007.

If Business Partners' investments are excluded, the total average deal size during 2008 increases to R120.4 million (2007: R117.6 million), new investments' average deal size during 2008 decreases to R128.5 million (2007: R159.4 million) and follow-on investments average deal size during 2008 increases to R110.1 million (2007: R18.4 million).

Independents and later stage focused funds dominated investment activity during 2008.

Figure 20: Cost and number of investments made during the year, analysed by type of fund manager

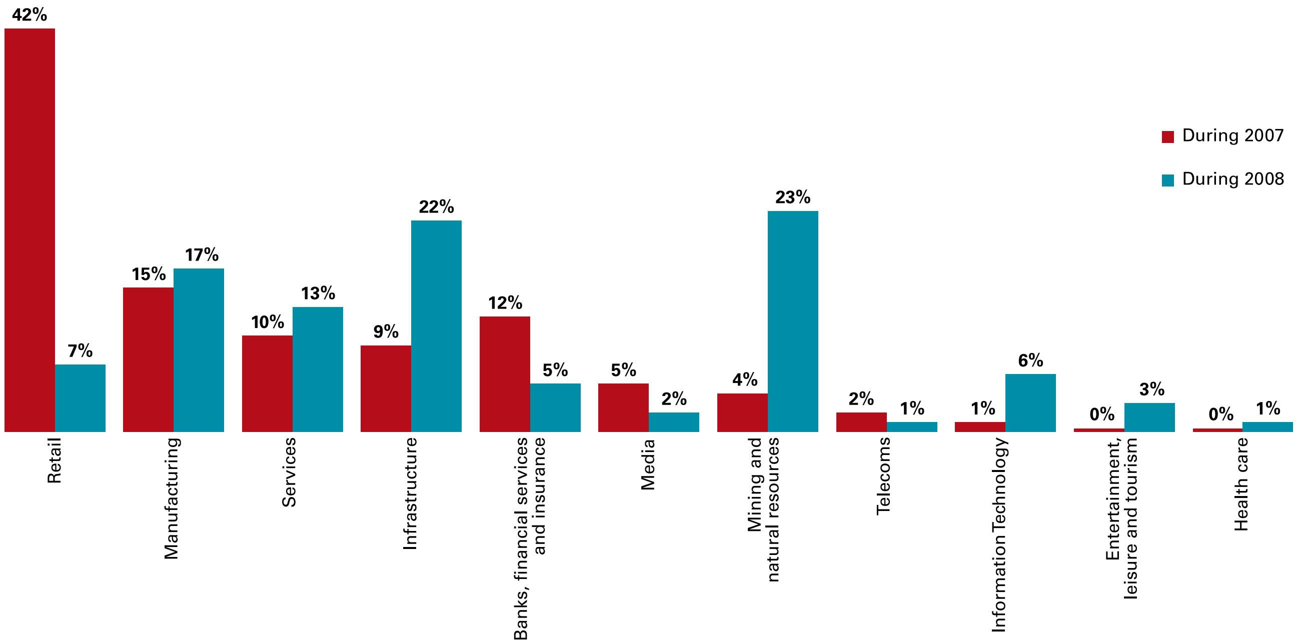


Of the investments made during 2008 classified into sectors, 23% were in the mining and natural resources sector, 22% in the infrastructure sector and 17% in the manufacturing sector.

Reflecting the South African Government's increases in infrastructure spending, investments into infrastructure continued their jump from only 9% in 2007 to 22% in 2008.

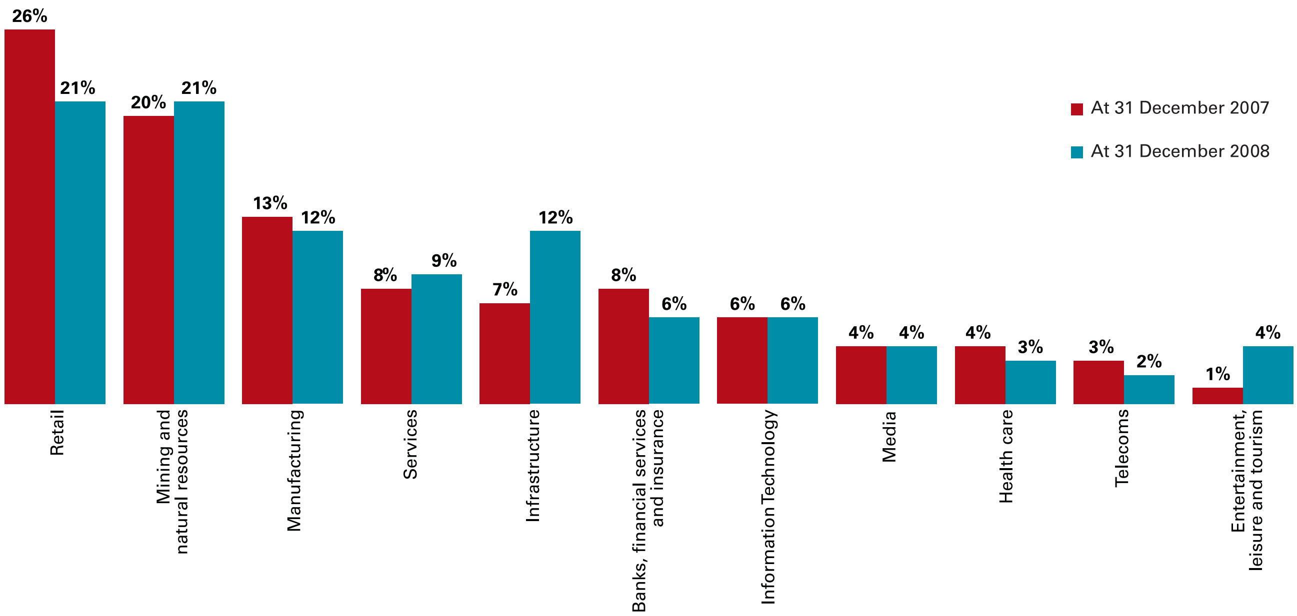
The share of investments into mining and natural resources rose from 4% in 2007 to 23% in 2008.

Figure 21: Investments made during the year, analysed by sector[1]



Due to the Edcon deal occurring during 2007 and some large retail deals in 2008 (House of Busby and Tiger Automotive) on a cumulative basis the retail sector still represents 21% of funds invested as at 31 December 2008. Mining and natural resources is the other dominant recipient of private equity funding as it also comprises 21% of all unrealized investments at 31 December 2008. Infrastructure investment continues to grow and has increased significantly from the 5% that it represented in 2006.

Figure 22: Unrealised investment portfolio at year end, analysed by sector[2]



1 10.6% (R2.3 billion) of investments made during 2008 were classified in the other sector category or not classified at all (2007: 12.6% / R3.3 billion). These have been excluded from the analysis shown.

2 19.4% (R14.3 billion) of the unrealised investment portfolio at 31 December 2008 was classified in the other sector category or not classified at all (2007: 17.7% / R9.7 billion). These have been excluded from the analysis shown.

The cost of investments into seed, start-up and early stage entities contributed 6% of unrealised investments at 31 December 2008 (2007: 6%). This represented 25% of the number of investments at 31 December 2008 (2007: 24%), which is indicative of the proportionally larger transaction values for the later stage types of deals and the impact of Business Partners' average transaction size.

Buy-outs as a proportion of investments made decreased from 63% in 2007 to 38% in 2008, reflecting the decrease in activity in the category during 2008.

Figure 23: Analysis of investments by stage based on cost of investments[1]

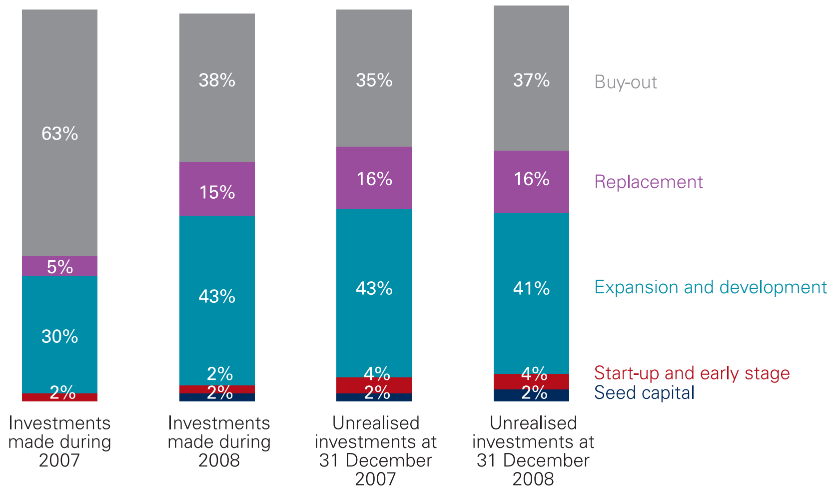


Figure 24: Analysis of investments by stage based on number of investments

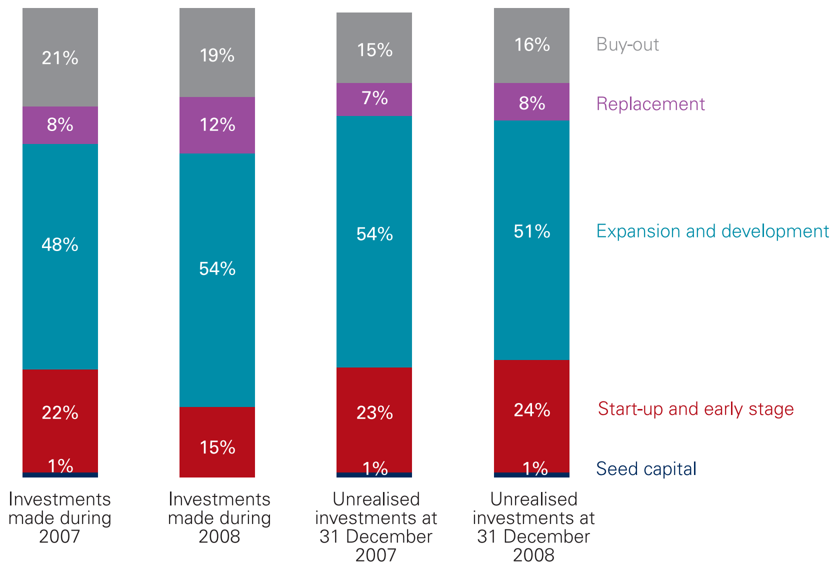
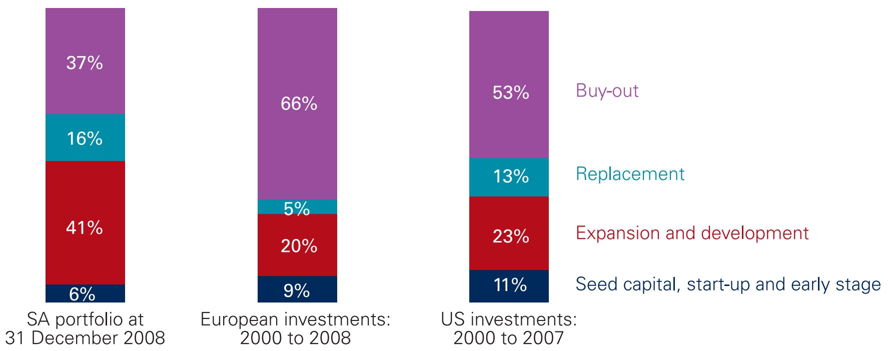


Figure 25 below shows South Africa's tendency towards later stage investments is not unlike international trends where early stage investments, which include seed and start-up, have decreased from 21% in 2000 to 6% in 2007 in North America and from 19% in 2000 to 3% in 2007 in Europe. On the other hand, buy-outs increased from 27% in 2000 to 71% in 2007 in North America and from 42% in 2000 to 79% in 2007 in Europe[2].

South Africa's early stage investment at 6% of total unrealised portfolio at cost at 31 December 2008 is lower than North America's (11%) and Europe's (9%)[2].

[1] Investments not classified by stage have been excluded
[2] Data sourced from PwC Global Private Equity Report 2008 and EVCA

Figure 25: Analysis of investments by stage based on cost of investments – South Africa compared to Europe and US

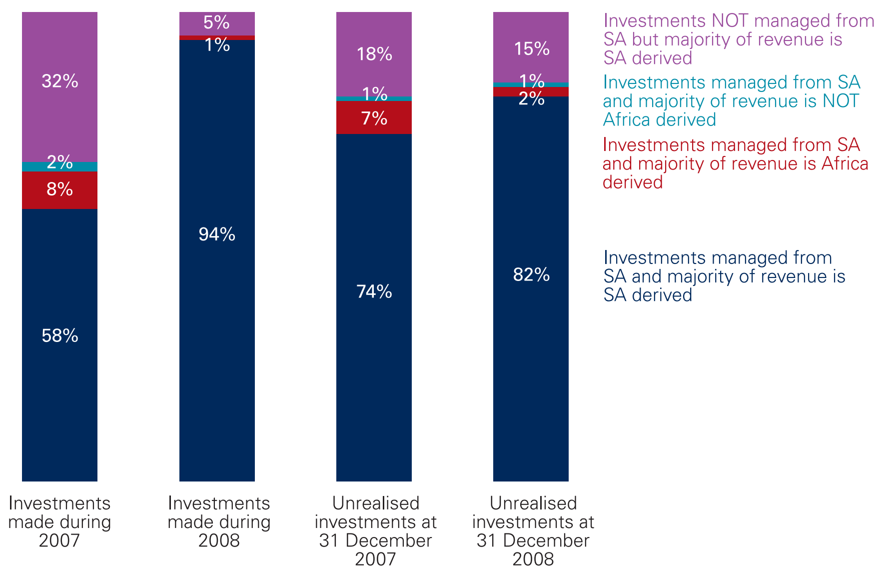


In figure 26 below it can be seen that the majority (82.3% / R60.8 billion) of the unrealised investment portfolio of R73.9 billion at 31 December 2008 comprise of investments whose majority of revenue is generated in South Africa.

The remaining 17.7% comprises South African investments not managed from South Africa (14.6% / R10.8 billion), other African investments managed from South Africa (2.2% / R1.6 billion) and non-African investments managed from South Africa (0.9% / R638 million).

We note an increasing tendency of South African fund managers raising capital with a mandate to invest outside of South Africa, mainly into sub-Saharan Africa. This perhaps reflects the better acceptance of the region as a viable investment opportunity and a degree of relaxation of exchange controls in South Africa. There are still, however, regulatory concerns that relate to certain tax and exchange control regulations which impacts on the ability of our local Fund Managers to create value both in South Africa and the broader sub-Saharan Africa region. In addition, these regulations hamper the country's ability to attract foreign direct investment and retain and benefit from existing human capital. SAVCA is currently engaging with both the South African Reserve Bank and National Treasury on these matters.

Figure 26: Analysis of investments by geography based on cost of investments



The figure below provides an analysis of the Top 10 largest reported private equity transactions in 2008.

Figure 27: The ten largest private equity transactions reported during 2008 based on total funding raised

Name of investment	*Equity provider/s[18]*	*Debt provider/s*	*Total funding raised*	*Type of investment*	*Private Equity Fund's equity interest*	*Part of syndication*	*BEE ownership (post-deal)*
Alstom	Actis, Old Mutual Private Equity, Tiso, Kagiso	Nedbank	R5 160m	LBO	55%	Yes	Black Influenced
Idwala	Ethos, Old Mutual Private Equity, Tiso Group	Mezzanine Partners, RMB, Nedbank Capital	R2 937m	LBO	Controlling interest	Yes	Black empowered company
Enviroserv Holdings	Absa Capital Private Equity	Investec Bank Limited	R2 201m	MBO	40%	No	Black influenced company
House of Busby	Ethos, Sphere	Absa Capital	R1 319m	LBO	Controlling interest	No	Black influenced company
Tiger Automotive	Ethos	Absa Capital	R1 032m	LBO	Controlling interest	No	Not empowered
Liberty Star Consumer Holdings	Lereko Metier Capital Growth Fund	Nedbank Capital, Standard Bank	R696m	Replacement capital	85%	No	Black Owned
Capital Africa Steel	Brait, WBHO	None	R493m	Expansion capital	40%	Yes	Black influenced
Astrapak	Lereko Metier Capital Growth Fund		R391m	PIPE	28.8%	No	48.8%
Buildmax	Brait	None	R332m	PIPE	24%	No	Black influenced
The York Timber Organisation	Lereko Metier Capital Growth Fund		R302m	PIPE	16.7%	No	41.7%

During 2008 there were two direct acquisitions into South Africa made by overseas private equity firms. The first being an acquisition by Denham Capital of shares in a SA-based energy firm, BioTherm Energy (transaction value: R1.5bn), and the second being the acquisition of a significant shareholding in Medi-Clinic Corporation by Lehman Brothers Merchant Bank (transaction value: R1.3bn). Both these transactions involved private equity funds, however, they have been excluded from the top 10 list above and the data reported in this survey as these funds did not participate in the 2008 survey and the transaction details were not made public.[1]

[1] Source: Major private equity transactions (2008). Ernst & Young. A review of activity for the year 2008.

The figure below provides an analysis of the Top 10 largest reported private equity transactions in 2007, as reported in last year's survey.

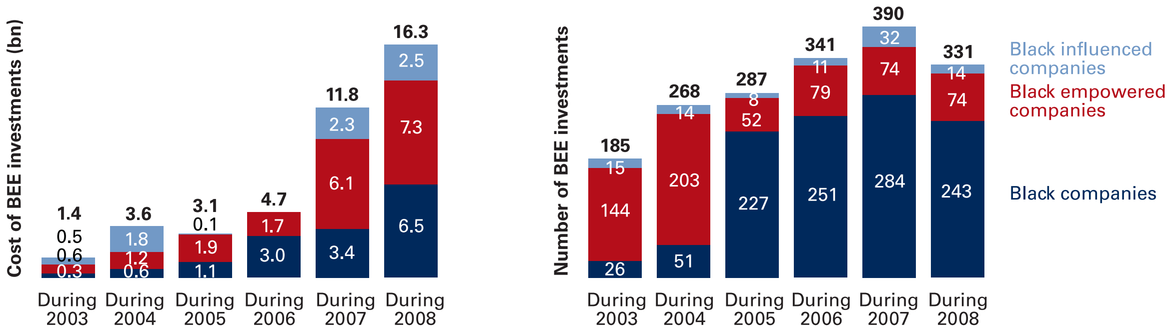
Figure 28: The ten largest private equity transactions reported during 2007 based on total funding raised

Name of investment	*Equity provider/s*	*Debt provider/s*	*Total funding raised*	*Type of investment*	*Private Equity Fund's equity interest*	*Part of syndication*	*BEE ownership (post-deal)*
Edcon	Bain Capital Barclays Private Equity Absa Capital Private Equity	Barclays Capital Absa Capital	R27 132m	LBO	Controlling interest	Yes	Not empowered
Alexander Forbes	Actis Africa Ethos Harbourvest Capital International OTPP CdpQ	RMB Investec Bank Nedbank JP Morgan Goldman Sachs	R8 982m	LBO	50.1%	Yes	Black-influenced company
Primedia	Brait	RMB OMIGSA Vantage Capital	R7 300m	LBO	18.3%	Yes	38.8%
Consol	Brait OMIGSA Sanlam Private Equity Harbourvest Capital International	CitiBank JP Morgan	R6 600m	LBO	61.5%	Yes	26%
Steinfurn	Absa Capital Private Equity	Absa Capital	R1 580m	LBO	49.9%	No	Black-empowered company
Premier Foods	Brait	N/A	R1 500m	MBO	Not disclosed	No	Not disclosed
Tsebo Outsourcing Group	Absa Capital Private Equity	Investec Bank Vantage Capital	R1 435m	LBO	45%	No	Black-empowered company
Brandcorp	Ethos Sphere	Absa Capital Nedbank	R1 420m	LBO	Controlling interest	No	Black-influenced company
Vox Telecom	Lereko Metier Capital Growth Fund	Investec Bank Limited	R490m	Later stage expansion capital	23.3%	No	Black-empowered company
Mvelaphanda Holdings	Absa Capital Private Equity	N/A	R450m	Later stage expansion capital	Not disclosed	No	Black company

Analysis of BEE investments

The cost of investment into entities that are at least black influenced companies in 2008 was R16.3 billion, an increase of 38.1% from 2007 levels. The number of BEE investments decreased from 390 during 2007 to 331 during 2008. This reflects the private equity market's recognition that BEE investments are an increasingly important element of the South African economy.

Figure 29: Cost and number of BEE investments made during the year (excluding Captives – Government)



The 38.1% increase in private equity BEE investments is again positive when measured against total BEE M&A activity in South Africa during 2008, which decreased by 36.5% from R96 billion during 2007 to R61 billion during 2008[1].

The average private equity black economic empowerment deal size in 2008 was R49.2 million compared to R30.3 million during 2007. These are investments into black owned, empowered or influenced companies.

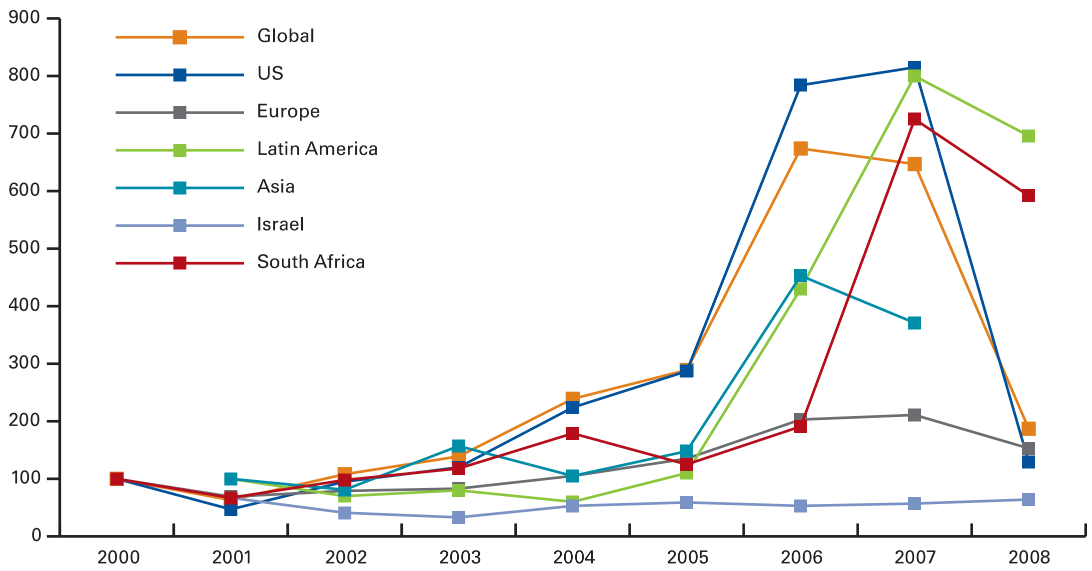
[1] BEE transaction contribution to total transaction value as reported by Mergers & Acquisitions: A Review of Activity for the Year 2008 (Ernst & Young)

Global investment activity

Global investment activity declined in 2001 but recovered steadily from 2002 until 2005. Investment activity then rapidly increased in 2006 and this was maintained in 2007. In 2008 there was a sharp drop off in investment activity.

South Africa's trend of growing investment activity year-on-year since 2001, reversed in 2008. Following the decline in 2005, there was a strong rebound in 2006. As reported in this survey, 2007 was a record year for investment activity in South Africa. In 2008, investment activity in South Africa showed a decline although the decline was less than the decline shown by the global and US trend.

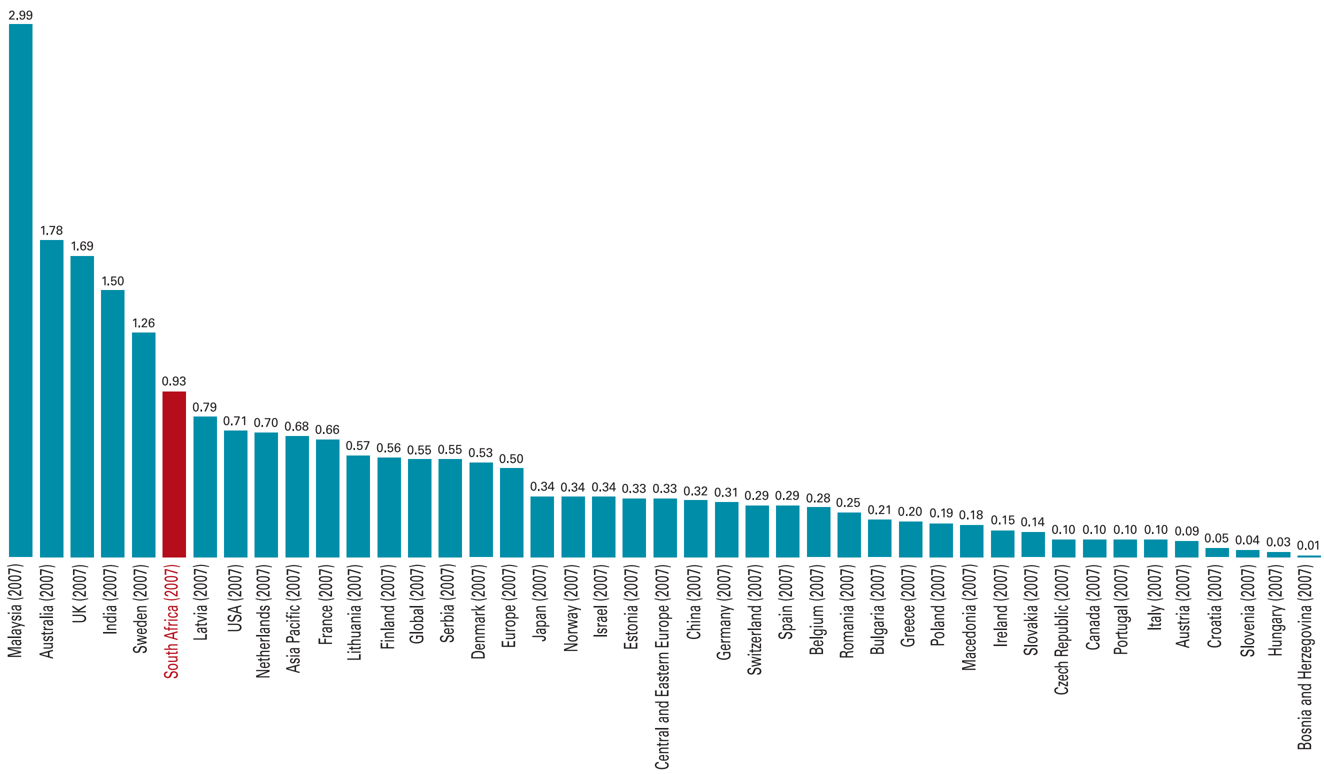
Figure 30: Global and South African investment activity during the year (2000 = 100)



South African private equity investments as a % of GDP decreased from 1.28% in 2007 to 0.93% in 2008. This is higher than the 0.71% recorded in the US and the European average of 0.5% during 2007.

South African investments as a % of GDP's global ranking is 6th in 2008 down from 4th in 2007. It is worth noting that South Africa is ranked above all the so-called N-11 and BRIC countries, except for India.

Figure 31: Global investment activity during the year as a percentage of GDP (%)[1]



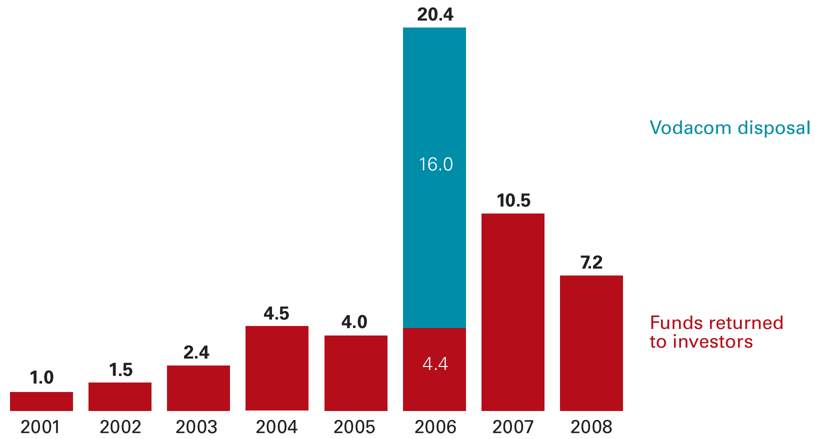
[1] Sourced from PwC, EVCA, EVCA CEE and PwC Kesselman and Kesselman (Israel) (2008 for South Africa, 2007 for all others.)

Exits

Total funds returned to investors

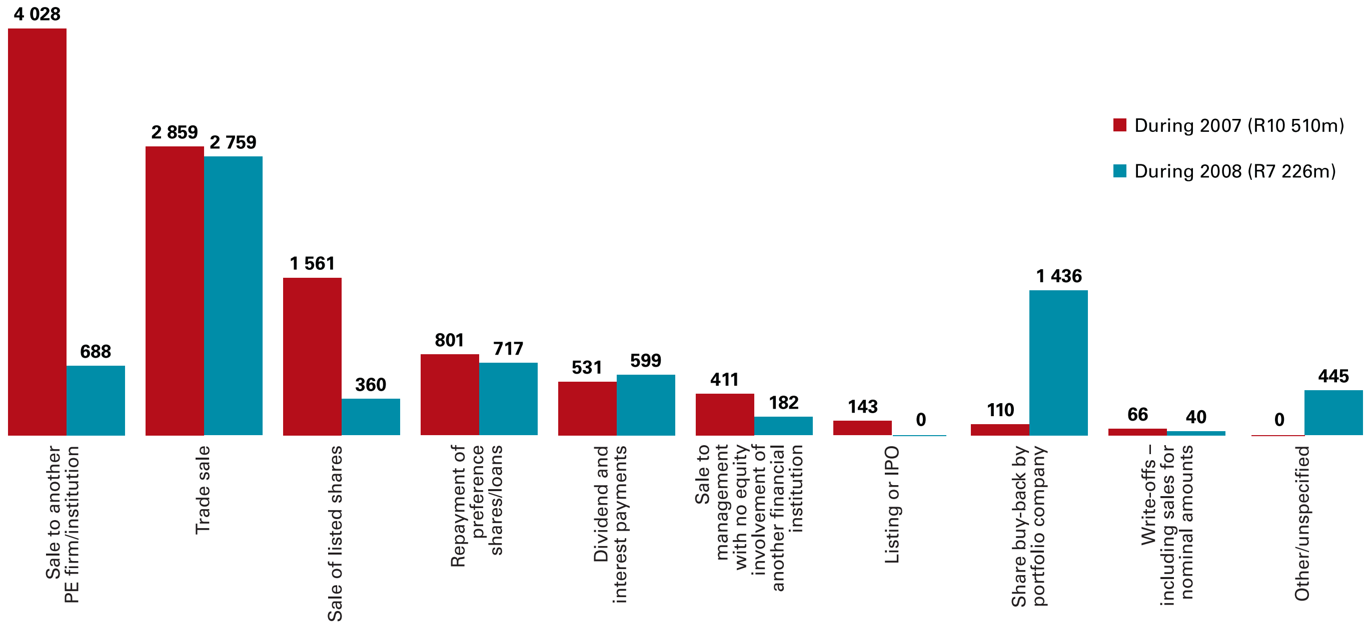
Funds returned to investors decreased by R3.3 billion from R10.5 billion during 2007 to R7.2 billion during 2008.

Figure 32: Funds returned to investors during the year (Rbn)



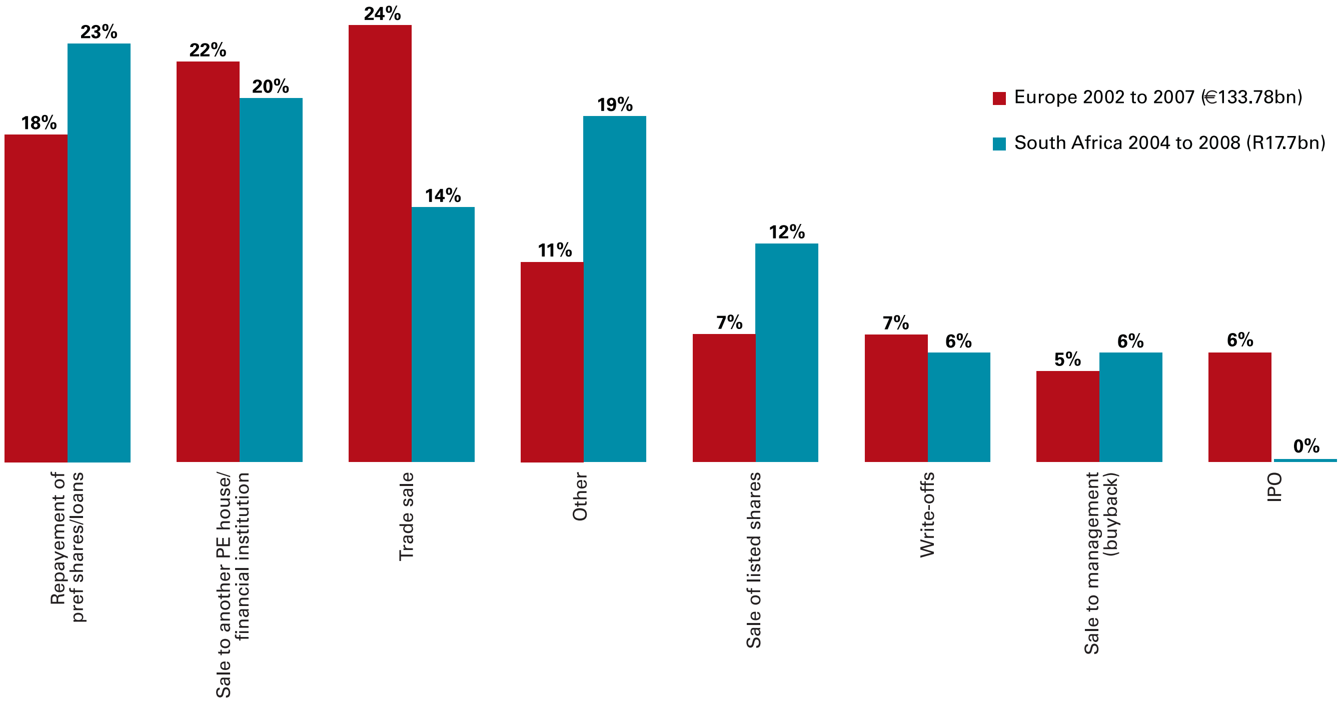
The analysis of funds returned to investors during 2007 and 2008 is shown below. It is interesting to note that sales to another PE firm/institution has significantly declined and trade sales now dominates the exit mechanism in 2008.

Figure 33: Analysis of funds returned to investors during the year (excludes Vodacom disposal) (Rm)



The comparison of South African and European divestments at cost is shown below.

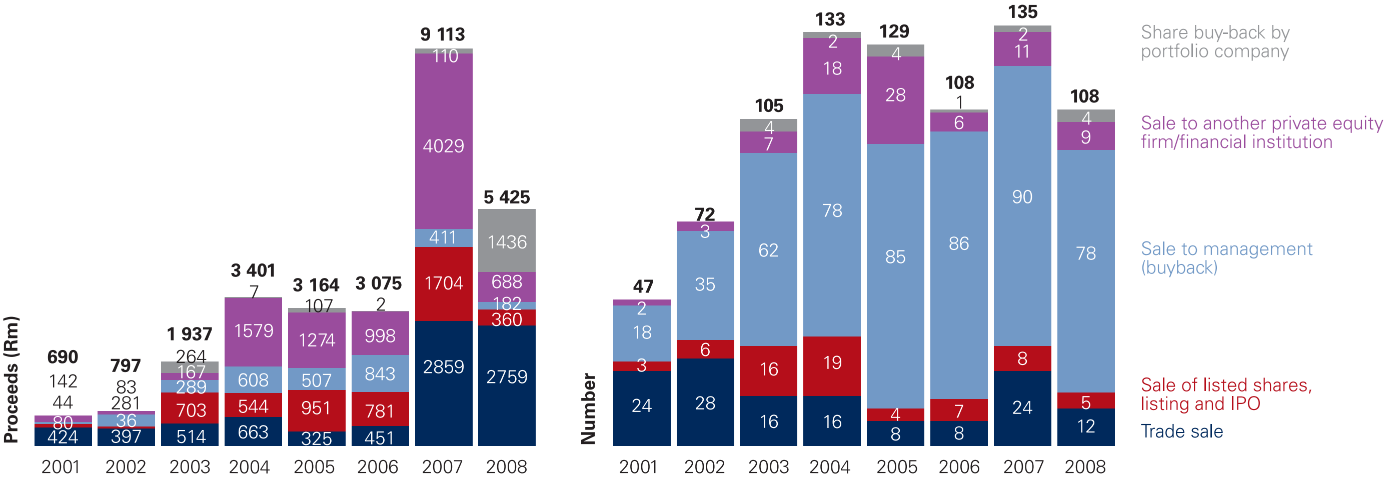
Figure 34: Analysis of exits based on cost: South Africa compared to Europe



Disposals

The value of disposal[1] proceeds decreased to R5.4 billion in 2008 from R9.1 billion during 2007. Disposals to other private equity firms or financial institutions was not the option which attracted the most transactions in value terms which it has been in the past. This year it was trade sales, while sales to management (buy-backs) still repeats the historic trend of attracting the highest number of transactions.

Figure 35: Analysis of disposals during the year based on proceeds (excludes Vodacom disposal during 2006)



The average proceeds per disposal have decreased from R68 million in 2007 to R50 million in 2008.

Figure 36 shows the reported profit (proceeds less cost of investment) on disposals of R4.1 billion during 2008 was lower than the R5.5 billion during 2007. The trade sale category was the main contributor of 2008 with R2.5 billion (2007: R1.9 billion) followed by the share buy-back from portfolio company category with R0.9 billion (2007: R0.03 billion).

[1] Disposal proceeds exclude the proceeds on the repayment of preference shares/loans, proceeds from disposals for a nominal amount and dividend and interest payments.

The implied times money back multiple during 2008 was 2.3 times, higher than the 2.1 times reported for 2007 disposals.

Figure 36: Disposal profits during 2008 (Rm)

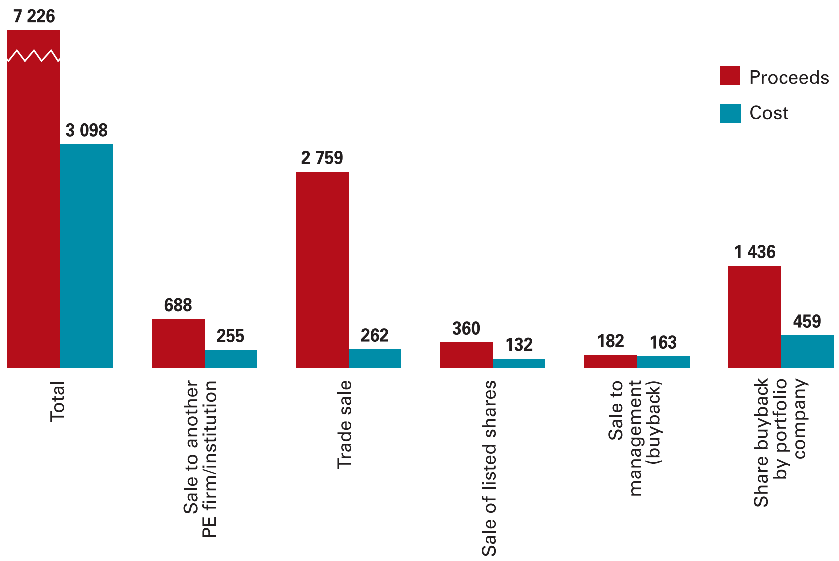
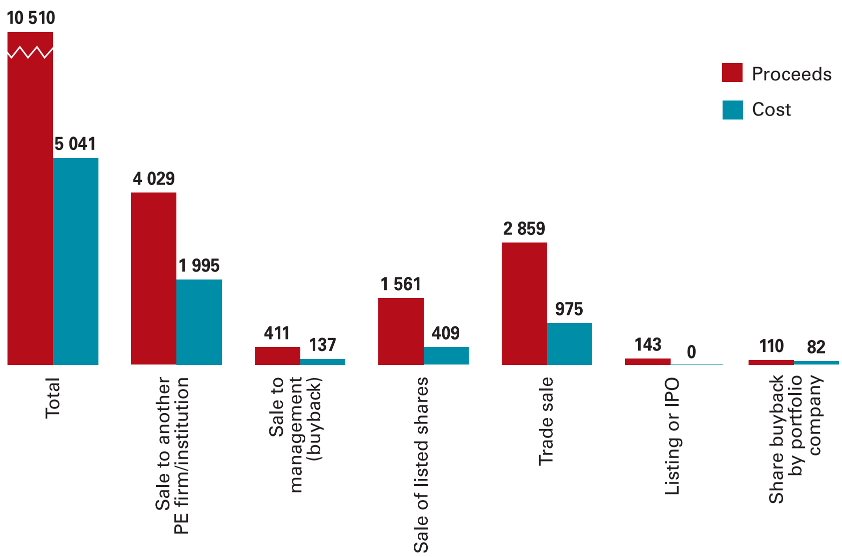


Figure 37: Disposal profits during 2007 (Rm)



Write-offs

49 investments were written off during 2008, inclusive of sales for nominal amounts (2007: 45 investments). The net loss on these investments (cost less proceeds) was R61 million in 2008, significantly down from R208 million during 2007.

Cancelled/expired funds

R101 million (2007: R47 million) of committed but undrawn funds at 1 January 2008 were cancelled and/or expired during 2007 and are thus no longer available for investment by the fund manager.

Performance

Background

Consistently measuring the performance of private equity funds can be difficult as private equity investments' valuations are, by their very nature, highly subjective. The overriding principle of the International Private Equity and Venture Capital Valuation Guidelines is to show a fair valuation of investments to the investor. These guidelines were released during 2005 and adopted by the majority of global private equity associations, including SAVCA and EVCA.

In reviewing the IRRs reported in this survey, a number of issues should be considered:

- The IRRs reported reflect the consolidated/aggregated returns achieved by fund managers. The reported IRRs are thus not by fund where a fund manager manages more than one fund.
- The IRRs reported for South Africa are gross IRRs and therefore reflect returns prior to the payment of expenses such as management fees and carried interest.
- When assessing the performance of private equity, it is important to focus on long-term returns. Initial results over the first two or three years of a fund can be misleading if viewed in isolation. A high short-term IRR can be achieved through a few attractive divestitures, while low rates may result from new funds only just beginning their investment activity. Any consideration of returns over the short-term must be done in combination with scrutiny of the general level of investment and divestiture activity.
- Captive funds generally do not calculate and/or report IRRs. Their fee structures are not usually linked to the achievement of prescribed IRRs. Most of the funds that reported IRRs were, therefore, independent private equity funds.

South Africa

IRR

Figures 38 and 39 presents the total IRR for realised and unrealised investments, while Figure 40 and 41 presents the IRR for realised investments only. Whilst the total IRR presents the total return of the fund since inception, including unrealised investments, the realised IRR only presents the returns of funds deployed and subsequently realised and returned to investors. This presents a less subjective picture of fund returns, although excluding the negative effect of investments that are difficult to exit.

51 of the 59 funds that returned a completed questionnaire (88%) claimed compliance with the International Private Equity and Venture Capital Valuation Guidelines in terms of their valuation methodology applied to their unrealized investments.

The 2008 results in the figure below include the IRR levels for 41 respondents (2007: 46), managing R59.1 billion at 31 December 2008 (57% of total funds under management) (2007: R53.4 billion / 62%). Included is the response from 23 independents (2007: 27) managing 39% of the funds under management by independent fund managers at 31 December 2008 (2007: 53%).

Figure 38: Total gross IRR since fund inception – Only independents (realised and unrealised portfolio)

	0 – 5 years included in IRR calculation		5 – 10 years included in IRR calculation		> 10 years included in IRR calculation	
IRR	2008 No. of respondents	2007 No. of respondents	2008 No. of respondents	2007 No. of respondents	2008 No. of respondents	2007 No. of respondents
Below 10%	7	3	1	–	–	–
10% – 19.9%	1	2	3	–	–	–
20% – 29.9%	3	6	1	2	–	–
30% – 39.9%	–	1	2	2	2	6
> 40%	2	5	1	–	–	–

Figure 39: Total gross IRR since inception – Only captives (realised and unrealised portfolio)

	0 – 5 years included in IRR calculation		5 – 10 years included in IRR calculation		> 10 years included in IRR calculation	
IRR	2008 No. of respondents	2007 No. of respondents	2008 No. of respondents	2007 No. of respondents	2008 No. of respondents	2007 No. of respondents
Below 10%	3	1	–	1	–	–
10% – 19.9%	1	2	2	–	–	–
20% – 29.9%	–	1	3	4	2	–
30% – 39.9%	1	–	2	3	1	2
> 40%	2	3	1	2	–	–

The 2008 results in the figure below include the realised IRR levels for 29 respondents (2007: 35), managing R44.9 billion / 44% of total funds under management at 31 December 2008 (2007: R43.5 billion / 50%). Included are the responses from 14 independents (2007: 21) managing R13.2 billion / 28% of the funds under management by independent fund managers at 31 December 2008 (2007: R18.1 billion / 42%).

Figure 40: Total realised gross IRR since fund inception – Only independents (excludes unrealised portfolio)

	0 – 5 years included in IRR calculation		5 – 10 years included in IRR calculation		> 10 years included in IRR calculation	
IRR	2008 No. of respondents	2007 No. of respondents	2008 No. of respondents	2007 No. of respondents	2008 No. of respondents	2007 No. of respondents
Below 10%	1	2	1	–	–	–
10% – 19.9%	–	–	1	–	–	–
20% – 29.9%	2	2	2	–	–	–
30% – 39.9%	–	4	1	4	2	1
> 40%	2	3	2	–	–	5

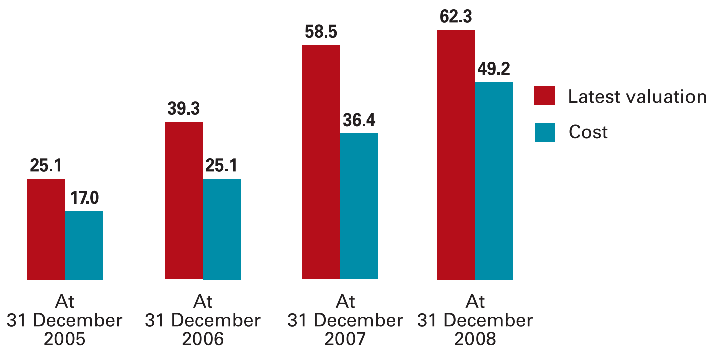
Figure 41: Total realised gross IRR since fund inception – Only captives (excludes unrealised portfolio)

	0 – 5 years included in IRR calculation		5 – 10 years included in IRR calculation		> 10 years included in IRR calculation	
IRR	2008 No. of respondents	2007 No. of respondents	2008 No. of respondents	2007 No. of respondents	2008 No. of respondents	2007 No. of respondents
Below 10%	1	–	2	1	–	–
10% – 19.9%	1	2	2	–	–	–
20% – 29.9%	2	2	2	2	1	–
30% – 39.9%	–	1	–	2	2	1
> 40%	1	–	1	2	–	1

Investments at latest valuation

The valuation of investments made at a cost of R49.2 billion was shown to be R62.3 billion at 31 December 2008. This represents 66.6% of all unrealised investments at 31 December 2008 (2007: R36.4 billion / 66.5%). This dataset is not complete because either the latest valuation was not provided or the respondents indicated that investments are valued on a cost basis.

Figure 42: Unrealised investments at year end – cost compared to valuation (Rbn)



The data above indicates that the implied times money back multiple, which is, assuming investments are disposed of at valuation value, is 1.3 times at 31 December 2008 and 1.6 times at 31 December 2007. This reflects the possible conservative nature of valuations as the exit multiple for disposals during 2008 was 2.3 times the original cost.

US and Europe

Internationally, net returns[1] achieved by private equity investments have outperformed public equity markets over the medium and long-term. The returns for various investment horizons for the US and Europe are shown below.

Figure 43: US and European Returns

	US at 31 December 2008[2]				Europe at 31 December 2008[3]			
	3 Year %	5 Year %	10 Year %	20 Year %	3 Year %	5 Year %	10 Year %	20 Year %
Early stage	1.7	3.7	36	21.8	-1.7	-0.2	-2.4	-1.1
Development	–	–	–	–	0.3	4.2	3.7	7.4
Balanced	4.6	8.4	13.5	14.5	1.7	2.7	0.6	3.3
Later stage	9.5	8.7	7.5	14.5	–	–	–	–
All venture capital	**4.2**	**6.4**	**15.5**	**17.0**	**0.0**	**2.1**	**0.4**	**3.1**
Buy-outs	–	–	–	–	8.5	14.1	13.3	14.1
Generalist	–	–	–	–	5.5	7.9	8.0	9.2
All private equity	–	–	–	–	**6.3**	**10.5**	**9.3**	**10.4**
NASDAQ	-10.3	-4.6	-3.2	7.3				
S&P500	-10.0	-4.0	-3.0	6.1				

US[4]

Venture capital performance showed positive returns across all investment horizons 3 years and longer for the period ending 31 December 2008, according to Thomson Reuters and the National Venture Capital Association (NVCA). However, with the exception of the 20 year horizon, most categories experienced quarter over quarter and year over year declines.

Turmoil in the broader capital markets caused the one-year all venture private equity performance index (PEPI) to decline significantly to -20.9%, a 18.8 percentage point decrease from the period ending 30 September 2008. The slowed exit markets in 2008 have driven lower one-year return numbers throughout 2008. The next largest consecutive quarterly change occurred in the three-year time horizon where all venture PEPI decreased by 2.1 points quarter-over-quarter to 4.2%. Five-year and ten-year performance posted similar declines from the previous quarter, decreasing 2.0 and 1.6 percentage points, respectively. Twenty-year performance has showed no change from the previous quarter at 17.0%.

1 Gross IRRs, before management fees and carried interest, are reported for South Africa while net returns are shown for Europe and the US
2 NVCA and Thomson Financial - press release of 27 April 2009
3 EVCA and Thomson Financial – Performance Benchmarks 2008 - European Private Equity.
4 All US information is from NVCA and Thomson Financial (now called Thomson Reuters) – press release of 27 April 2009

Venture returns across all horizons outperformed public market indices, NASDAQ and the S&P 500, through 31 December 2008.

"The next year will be challenging for the venture capital industry as the shuttered IPO window and lower M&A valuations will take a toll on performance numbers in the short term," said Mark Heesen, president of NVCA. "Additionally, the roll-off of the positive 1999 return figures is expected to drive the longer term performance figures down as well. However, we do believe that venture capital will continue to perform well relative to other alternative investments and once the exit market improves, so too should return numbers", he added.

Europe[1]

Private equity activity slowed during 2008 in response to widespread uncertainty across financial markets, according to preliminary data for 2008 released at the EVCA Investors' Forum 2009 in Geneva.

The statistics, which cover fundraising, investment and divestment activity, showed that private equity funds raised €65.3bn during 2008, a fall of 20% on the €81.4bn raised in 2007.

In 2008, 128 funds reached a final close, down from 144 in 2007. Average fund sizes also fell, from €496.9m in 2007 to €425.7m during 2008.

The amount invested by private equity firms in Europe fell around 27% in 2008 to €52.4bn and by 12% by number of companies financed to 4 593, mainly driven by a drop-off in activity during the final quarter of 2008.

The sale of equity stakes, measured at cost, halved during 2008, from €26.6bn in 2007 to €13.1bn in 2008, with trade sales and secondary buyouts representing two-thirds of the exits. The public markets were effectively closed with just nine new listings, six of which were venture-backed companies and three buyout-backed.

Commenting on the figures, Javier Echarri, Secretary General of EVCA, said: "The fact that institutional investors continued to commit significant sums to private equity funds during 2008, amounting to nearly €80bn of 'dry powder' in Europe, means the industry is well-placed to find attractive investment opportunities at a time when other sources of corporate finance are scarce. With capital markets all but closed and so much uncertainty in the wider economy, it is no surprise that there was a significant slump in both investment and divestment activity towards the end of last year. As holding periods increase, private equity will demonstrate its capacity to support portfolio companies, with a combination of capital and skills, through the downturn."

[1] All Europe information is from EVCA and Perep Analytics press release of 13 March 2009, Private equity activity slows during 2008.

Investment professionals

The figure below illustrates that white males still make up approximately half of all private equity investment professionals (2008:52.3%; 2007: 52.7%). The second largest category is black males which contributes 16.6% of the total reported numbers at 31 December 2008 (2007: 19.9%).

Indian, coloured and black professionals employed by the private equity industry decreased by 4 during 2008 to 139, representing a 2.8% decrease). The proportion of these professionals to the total number of professionals decreased slightly from 38.4% at 31 December 2007 to 36% at 31 December 2008.

77 females (19.9%) of all population groups were reported as being private equity investment professionals at 31 December 2008 (2007: 15.9%).

Figure 44: Racial and gender constitution of private equity fund management professionals at the end of 2008 and 2007

	2008						2007					
	White	Indian	Coloured	Black	Not specified	Total	White	Indian	Coloured	Black	Not specified	Total
Male	202	29	12	64		307	196	27	15	74		312
Female	43	6	3	25		77	32	4	3	20		59
Not specified					2	2					1	1
Total	**245**	**35**	**15**	**89**	**2**	**386**	**228**	**31**	**18**	**94**	**1**	**372**
% Breakdown (% of total)												
Male	52.3%	7.5%	3.1%	16.6%	–	79.5%	52.7%	7.3%	4.0%	19.9%		83.9%
Female	11.1%	1.6%	0.8%	6.5%	–	19.9%	8.6%	1.1%	0.8%	5.4%		15.9%
Not specified					0.5%	0.5%					0.3%	0.3%

The industry showed an overall 3.8% increase from 372 professionals employed at the end of 2007 to 386 professionals at the end of 2008.

Data tables

	Total funds under management at year end	Undrawn commitments at year end	Investment activity during the year	Funds returned to investors during the year	Proceeds from disposals during the year
	R billions	R billions	R billions	R billions	R billions
Year ended 31 December 2008					
Early stage funds					
• Independents	1.226	0.811	0.029	0.036	0.036
• Captives – Financial Services	–	–	–	–	–
• Captives – Government	–	–	–	–	–
• Captives – Other	0.225	0.056	–	–	–
	1.451	0.867	0.029	0.036	0.036
Later Stage Funds					
• Independents	45.669	17.780	9.533	1.651	1.178
• Captives – Financial Services	32.437	6.893	8.330	4.923	4.005
• Captives – Government	13.722	1.790	–	–	–
• Captives – Other	9.798	1.883	3.458	0.616	0.206
	101.626	28.346	21.321	7.190	5.389
	103.077	**29.213**	**21.350**	**7.226**	**5.425**
Year ended 31 December 2007					
Early stage funds					
• Independents	0.591	0.292	0.012	0.162	0.162
• Captives – Financial Services	–	–	–	–	–
• Captives – Government	–	–	–	–	–
• Captives – Other	0.237	0.099	0.076	–	–
	0.828	0.391	0.088	0.162	0.162
Later Stage Funds					
• Independents	42.259	20.799	15.817	5.359	4.707
• Captives – Financial Services	24.738	6.976	8.280	2.709	2.170
• Captives – Government	12.306	2.318	0.172	0.003	–
• Captives – Other	6.145	1.140	1.724	2.277	2.074
	85.448	31.233	25.993	10.348	8.951
	86.276	**31.624**	**26.081**	**10.510**	**9.113**

Participants

Name	Min investment (Millions)	Max investment (Millions)	Contact name	Contact telephone
Absa Capital Private Equity	R250	R1 500	André Pieterse	011 895 6896
Actis Africa	US$50	US$250	Patrick Helson	011 778 5900
Aureos South African Advisers	US$2	US$25	Ron den Besten	011 884 2066
Biotech Venture Partners	R2	R12	Heather Sherwin	021 462 2152
Brait Private Equity	R5*	R1 000*	Kuhle Kunene	011 507 1000
Business Partners	R0.15*	R60*(syndicated)	Nazeem Martin	011 470 3000
Capitalworks Investment Partners	R75	R600	Chad Smart	011 301 3000
Capricorn Capital Partners	R10	R150	Gavin Chadwick	011 666 0700
Collins Private Equity	Nil	R25	Bruce Chelius	031 208 6266
Ethos Private Equity	R100	R1 000*	Craig Dreyer	011 328 7400
Glenhove Fund Managers	R5	15%	Alun Frost	011 263 9500
HBD Venture Capital	R10	R25	Julia Fourie	021 970 1000
Horizon Equity Partners (Fund III)	R20	R100	Greg Durst	011 502 6940
Industrial Development Corporation	R1	*	Paul Johl	011 269 3000
Inspired Evolution Investment Management	R10	R150	Christopher Clarke	021 702 1290
International Housing Solutions	R25	R250	Elize Stroebel	011 268 5166
Leaf Capital	R5	R28.75	Paul Leaf-Wright	021 425 2295
Lereko Metier Capital Growth Fund Managers	R50	R750	Anthony Hewat	011 268 4055
Medu Capital	R30	R175	Nhlanganiso Mkwanazi	011 268 9140
Mezzanine Partners	R50	R1 000 (co-invest)	Walter Hirzbruch	011 507 1082
Molash Capital	R20	R100	Eldon Beinart	011 883 2897
Nedbank Capital Private Equity	R50	R500	Dave Stadler	011 295 8316
Old Mutual Investment Group, Alternative Investments	R5	R500 (with ability to exceed this on approved exception basis)	Mark Gevers	021 509 3182
Pamodzi Resources Fund Advisors	$150	$325	Gerhard Kemp	011 912 7525
RMB Corvest	R10	R500	Kerry-Lee Hurst	011 380 8300
Sanlam Private Equity	R100	R250	Cora Fernandez	011 778 6610
Sasfin Private Equity Fund Managers	R5	R50	Malcolm Segal	011 445 8001
Sphere Private Equity	R10	R50	Aadil Carim	011 944 7800
Standard Bank Private Equity	R200	R200 (enterprise value)	Ross Randall	011 631 4935
The Median Fund	R0.05	R2	Rob Spaull	021 671 5480
Treacle Private Equity	R10	R93	Rudolf Pretorius	011 463 7476
Trium Investments	N/A	R10	Hagen Spaeth	012 803 1039
Vantage Capital Fund Managers (Mezzanine Fund)	R80	R350	Chris Lister-James	011 530 9100
WIP Private Equity	Unlimited	Unlimited	Yulandi van Wyk	011 715 3500

*Fund/transaction dependent

Note: Only those participants in the survey that permitted the disclosure of their participation have been included in the list above

Glossary

BEE	Black Economic Empowerment BEE, as defined in the Financial Sector Charter, means the economic empowerment of all black people, including women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies The definitions used in this survey for BEE companies are stated below: – ‘Black companies’ refers to companies that are more than 50% owned and are controlled by black people. Control centres on the authority and power to manage assets, the determination of policies and the direction of business operations. ‘Black people’ refers to all Africans, Coloureds and Indians who are South African citizens and includes black companies – ‘Black-empowered companies’ refers to companies that are more than 25% owned by black people (but not more than 50%) and where substantial participation in control is vested in black people – ‘Black-influenced companies’ refers to companies that are between 5% and 25% owned by black people and with participation in control by black people – ‘Not empowered companies’ refers to companies that are less than 5% owned by black people
BRIC	Grouping of the countries of Brazil, Russia, India and China
Captive fund	Those funds making investments mainly on behalf of a parent or group, typically an insurance company, bank or institutional asset manager, often from an indeterminate pool of money
Carried interest	This represents a fee enhancement for a private equity fund manager for achieving a benchmark return or hurdle rate. The fee is often set at 20% of the value of returns achieved in excess of the benchmark return

CdpQ	Caisse de dépôt et placement du Québec
DBSA	Development Bank of Southern Africa
DFIs	Development Finance Institutions
DTI	South African Department of Trade and Industry
Draw down	A draw down or capital call occurs when third party investors (called limited partners in the US) provide cash to a private equity fund for investment into a portfolio company. The draw down reduces the outstanding commitment due from the investor
Edcon	Edgars Consolidated Stores Limited
EMPEA	Emerging Markets Private Equity Association
EVCA	European Private Equity and Venture Capital Association
Follow-on investments	Investments into companies where at least one round of funding has already been made
FSC	Financial Services Charter
GDP	Gross Domestic Product
Gross IRR	IRR before the deduction of management fees and carried interest
Gross realised IRR	Gross IRR on the total realised portfolio of investments
Independent fund	Those private equity companies, managers or funds raising and disbursing capital which has been sourced mainly from third party investors
IPO / Listing	When a company's equity is sold to investors via a listing on an exchange
IRR	Internal Rate of Return
JSE	The Johannesburg Stock Exchange
KPMG	KPMG Services (Proprietary) Limited
LBO	Leveraged buy-out
M&A	Mergers and acquisitions
MBO	Management buy-out
Mezzanine debt	Debt which ranks behind senior secured debt but ahead of trade credit and shareholders' funds in terms of security. Mezzanine debt is often used in higher leveraged transactions to maximise funding availability from a company's own balance sheet. It may provide for equity-like features such as attached share purchase warrants or participation in cash-flow

MIC	Mineworkers Investment Company
N-11	The Next Eleven (or N-11) is a short list of 11 countries named by Goldman Sachs investment bank on 12 December 2005 as having promising outlooks for investment and future growth
OMIGSA	Old Mutual Investment Group of South Africa
OTPP	Ontario Teachers' Pension Plan
NVCA	National Venture Capital Association (US)
PIC	Public Investment Corporation
PIPE	Private Investment in Public Entity
PwC	PricewaterhouseCoopers
SA	South Africa
SAVCA	The Southern African Venture Capital and Private Equity Association
Semi-captive fund managers	Semi-captive fund managers can be subsidiaries of: a financial institution, an insurance company or an industrial company, that operate as independent companies. They manage funds in which, although their main shareholder contributes a large part of the capital, a significant share of the capital is raised from third parties
Total funding	Total funds raised by all providers of capital during a transaction. This could include the purchase consideration, funds to pay advisors fees, funds required for immediate working capital requirements, etc. This could be in the form of equity, shareholder loans, senior, mezzanine and junior debt and working capital facilities
Trade sale	Sale of business to a third party, often referred to as M&A and frequently to an acquirer within the industry of the business being sold
UK	United Kingdom
US	United States of America

Notes

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Our intricate understanding of the private equity market, strong relationships with key players, and a well established track record, are testament to how we can serve you.

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KPMG does not provide financing, so our advice is always independent and objective.

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