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PRIVATE EQUITY: In it for the long term

Jun 5, 2014 I Charlotte Mathews

Private equity investors can make returns and spur development in Africa

PHATISA, a private equity firm, is contradicting common perceptions that private equity is about making as much money as possible. It is trying to attract more investment to Africa by generating real returns from projects that have a long-term development focus.

Phatisa senior partner Stuart Bradley says "development equity" means investing in businesses that can survive in the longer term, create jobs, train people, grow other businesses and operate in an ethical and environmentally sustainable way.

Phatisa is one of several private equity specialists focusing on Africa but they each have a slightly different emphasis.

One is 8 Miles, a US$200m fund chaired by Sir Bob Geldof, which says it invests in consumer-driven business and service providers with strong growth prospects. It has made two investments: in a Kenyan company that builds commodity exchanges, and in Ethiopia's former state-owned wine producer. Another is the Carlyle Sub-Saharan Africa Fund, which has stakes in an agricultural supply chain company and J&J Transport. Carlyle, with the African Development Bank, has devised a system to track job creation, tax revenues and capital flows to its portfolio companies.

Helios Investment Partners, which says it is one of the largest investment firms focusing on Africa, has about $1,7bn in a suite of funds that focus not on sectors but on providing buyout capital, growth for private enterprises, start-ups and structured investments in listed entities.

Another big investor in Africa is Abraaj, a Middle East firm with a range of interests in emerging markets. It bought Aureos Capital two years ago to expand its presence in Africa and Latin America. Aureos was a spin-off from the UK's Commonwealth Development Corp.

Phatisa has two funds: the African Agriculture Fund, which has $246m in commitments and has invested $102m to date; and the Pan African Housing Fund, which has attracted $41,5m to date and is still open for investment as it is aiming for $100m. Both have a 10-year horizon: five years of investment and five years to realise returns. It is too early to judge their effects. Financial returns are obvious but the development impact has to be measurable as well, and the fund managers will monitor it, says Bradley.

Phatisa's team includes financiers and deal makers, food and agriculture specialists, including farmers, and business people.

The housing fund is run by two property professionals: Eton Price, who founded Sasfin Property Private Equity in 2006, and Jan van der Merwe, who has worked at Standard Bank, Anglo American and Investec Bank. The housing fund is targeting the equity gap in middle-class housing and mixed-use developments in Southern Africa, excluding SA, and East Africa. Its first investment was in a housing project in Kenya.

The agriculture fund is run by Joseph Bergin, who has 18 years' experience in private equity; Duncan Owen, who spent 22 years at Unilever; and Bradley, who has 17 years of private equity experience in Africa, including time with CDC Capital Partners and Aureos Capital.

The fund invests between $5m and $24m in ventures in primary agriculture, food processing and services, and has created a separate $30m small and medium enterprise subfund, managed by Databank.

The strategy is to take a meaningful shareholding in a business, depending on its size, usually with a minimum of around 25%, which affords some shareholder protection, and up to 70%-80%. Management of the business must have a significant stake so as to align its interests with Phatisa's.

To date the agriculture fund has made six investments, including Goldenlay, a Zambian egg producer; Continental Beverage, a Côte d'Ivoire water bottling company; and Goldtree, a palm oil processing plant in Sierra Leone.

Bradley says investors in the agriculture fund range from European development finance institutions whose primary objective is development rather than return, through to individuals and businesses with a commercial approach.

To accommodate the different types of returns these investors expect, there are three different types of shares: A, B and C, where the C shareholders, who have the greatest commercial focus, rank first in receiving returns. Once all investors have received their capital back and an 8% internal rate of return, the fund managers can take a profit share.

"It's a kind of comfort blanket for private investors," Bradley says.

He says Phatisa's managers do not simply sit on the board of directors and read the management accounts. They apply their practical experience to help the manage-ment of each business to reach markets and improve margins.

Phatisa plans to seek commitments for another food fund next year, by which time the current fund should be fully invested. A second property fund will follow on the same basis. There could be other sector-specific Africa-focused funds in future , Bradley says.

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