

ACM-INSIGHT!

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EXCLUSIVE INTERVIEW
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AFRICA'S EQUITY CAPITAL MARKETS

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Redefining Development Equity in Africa

Following the completion of fundraising for the African Agriculture Fund (AAF), with total commitments of US\$ 243 million, and the first close of Pan Africa Housing Fund (PAHF), US\$ 41.5 million committed to date, Phatisa discusses its role as an African private equity fund manager committed to development in Africa.

Phatisa, a private equity firm founded in 2005, has over the past eight years developed deep investment roots across sub-Saharan Africa, now with a notable presence throughout the continent, operating from offices in Mauritius, South, East and West Africa.

Speaking on the firm's commitment to Africa and its two sector-specific funds, Senior Managing Partner of Phatisa, Duncan Owen says, "Development equity has always been at the heart of Phatisa's investment philosophy. Food security and affordable housing are crucial issues across Africa and both of our funds are aimed at combating the chronic undercapitalisation in these respective sectors. The Phatisa funds behave much the same as traditional Private Equity (PE) funds by optimising operational efficiencies and maximising value on exit. However, we focus on sectors we know and understand so we are able to stimulate development in food and housing in Africa."

Phatisa is single minded in its efforts to find investment opportunities throughout sub-Sahara Africa, aligning with the best of African businesses and building long term sustainable value that will continue far beyond the life of the Fund – leaving a tangible legacy for a more prosperous Africa.

The AAF, launched in July 2009, was developed on the principle of harnessing capital from diverse international sources to invest in Africa's long term food security in a progressive and transparent manner. The Fund's investors are a wide-ranging institutional mix of US, EU and African development finance institutions, government agencies, development banks, commercial banks, fund-of-funds and private investors that have come together to bolster this truly continental effort to stimulate food production and consumption.

One of the Fund's most unique features is its innovative share structure; where DFIs offer 'more commercial' investors a preferred return. The Fund has successfully brought together European DFIs and the Overseas Private Investment Corporation (OPIC), an independent US Government agency –

underlining the G8 vision of a shared initiative.

"Being at the forefront of development equity in Africa means having the right knowledge, experience and relationships. There isn't an asset in agriculture in Africa we don't know of and we believe this sets us apart in supporting development in Africa," says Owen. "At Phatisa we consider development equity as more than simply maximising value on exit. It is about creating a balanced blend of PE and development finance. We strive to build assets on the ground; investments need to give the best possible return for our investors, but also the community in which these funds operate."

The AAF's first deal, which demonstrates Phatisa's philosophy, was an early-stage investment in post-conflict Sierra Leone, building a new palm oil mill to service 8,000 outgrowers in the eastern part of the country. Construction and commissioning of the mill took 18 months under challenging circumstances. While the business experienced the usual teething issues associated with early stage investments, both the fund manager and investors have shown commitment. The medium-term view is to deliver returns in excess of 20% per annum.

Phatisa's investment momentum has continued and, to date, the AAF has committed investments in excess of US\$ 90 million from Sierra Leone in West Africa to Madagascar, far East Africa and six other countries in between, accounting for just shy of 50% of the AAF's investors' equity. This reflects a total of 10 investments across diverse sectors: primary farming, processing, inputs, fertiliser, protein production and FMCG beverages.

"Since launch, AAF's portfolio companies employ approximately 5,500 people and we have built relationships with 9,000 outgrowers and vendors across Africa. Supporting the need for food security in Africa, the AAF portfolio produces 54,000 tons of food & beverages and hopes to triple-fold this output amount within five years," adds Owen.

The Fund also has additional development attributes including a €uro 10 million Technical Assistance Facility, supporting capacity-building for small- and medium-sized enterprises, such as outgrowers, smallholders and bottom-of-the-pyramid distributors, with the capacity to spend up to US\$500k in each AAF investment. This

grant facility is managed by Techno Serve, a not-for-profit organisation resident throughout Africa. A further development initiative is the US\$ 30 million standalone SME fund (AAF SME Fund) investing in agri and food businesses with an individual investment limit of US\$ 4 million.

Owen adds: "Given the make-up of the Phatisa senior team, who have a blend of development (largely ex-CDC) and commerce experience (Unilever, Coca Cola and Lonrho) in their DNA, it is hardly surprising that we have embarked on this journey. The evolving investment strategy of European DFIs has created a gap in the market for development equity – which supplements the DFIs who traditionally provide softer loans and the banks who provide secured debt, while the larger private equity managers have traditionally focused on generalist funds.

"We decided to concentrate initially on food production and housing in emerging economies. Managing funds focused on a particular sector meant that we could build a team with the relevant business skills and experience. Phatisa is willing to invest in early stage and brownfield investments, but is also attracted to leveraged management buyouts – empowering local management and providing exits for shareholders. Having said this, we are a PE fund manager and expect to deliver PE returns to investors. But development is also about making a positive impact in the communities in which we invest," concludes Owen.

Phatisa press contact

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Phatisa is a private equity fund manager, operating across sub-Saharan Africa, operating from offices in Port Louis, Johannesburg, Lusaka, Nairobi, Accra and London. Phatisa comprises a team with a significant track record of managing private equity funds and agricultural businesses throughout the continent. The Phatisa team is located in Africa and spends a considerable amount of time developing relationships with strategic partners in all countries where funds under management are active. This ensures that funds have reliable networks and information in the countries in which they invest. Team members have a reputation built up over the last decade, which can be seen in their track records, on-the-ground network, and access to agricultural players and facilities on the continent.