

Annual Limited Partner Survey

Institutional investor views and expectations about private equity in Africa



Foreword

We are delighted to present the third edition of the AVCA Limited Partner Survey which examines global investor views and expectations about private equity in Africa.

Our mission at AVCA is to champion private investment in Africa, by educating and equipping stakeholders with valuable insight on the investment climate.

As the African private equity landscape evolves, investors will first need to know the *when, where and how* of deploying capital to achieve attractive risk-adjusted returns. Increasing interest in our asset class means it is even more important to address and right-size investor perceptions with the goal of encouraging genuine interest in Africa.

We hope that presenting detailed information on the factors driving investors' views towards African private equity goes some way to providing a practical guide for you, our members, on investors' views on specific regions, sectors, and preferences for accessing opportunities.

We thank all of our LP survey participants, including members of AVCA who have supported this important initiative.

We hope to deepen this research and subsequently catalyse greater private investment in Africa.

Best regards,

Michelle Kathryn Essomé
Chief Executive Officer
African Private Equity and Venture Capital Association



Executive Summary

This is the third edition of AVCA's Limited Partner Survey. The study investigates the views, changing attitudes and expectations of 67 Limited Partners (LPs) across the globe about Private Equity (PE) in Africa.

LPs' appetite for African PE continues to grow. A higher number of survey respondents compared with last year's survey plan to increase their exposure to African PE over the next three years.

In line with last year's findings, consumer-driven sectors, along with Infrastructure and Real Estate, are identified by LPs as the most attractive areas for PE investment in Africa. LPs rank Nigeria, Kenya and Ethiopia as the most attractive countries for General Partners (GPs) investment.

The study also presents LPs' views on challenges associated with PE investments in Africa. Currency risk and a limited number of established GPs are identified by LPs as the most significant barriers to investment on the continent.

Overall, LPs remain optimistic about African PE. Africa's medium to long term attractiveness relative to emerging and developed markets constitutes a prevalent theme among the majority of LPs that participated in the survey.



Key Findings

57%

57% of LPs plan to increase their allocation to PE in Africa over the next three years

66%

66% of LPs would be willing to invest in a first-time GP in Africa

77%

77% of LPs identify West Africa as the most attractive region for PE investment over the next three years

60%

60% of LPs cite currency risk as the biggest challenge when investing in African PE

69%

69% of LPs view Africa as more attractive for PE investment compared with other emerging and frontier markets over the next ten years

44%

44% of LPs say that the performance of their African PE portfolio has matched or exceeded their expectations

72%

72% of LPs rate GPs' track records as the most significant factor in evaluating African PE firms

58%

58% of LPs predict African PE returns will exceed 2.5x over a ten-year period

71%

71% are currently looking for a co-investment option

62%

62% of LPs expect returns from African PE to outperform other emerging and frontier markets over the next ten years

Planned investments by LPs into African PE

LPs' planned allocation to African PE

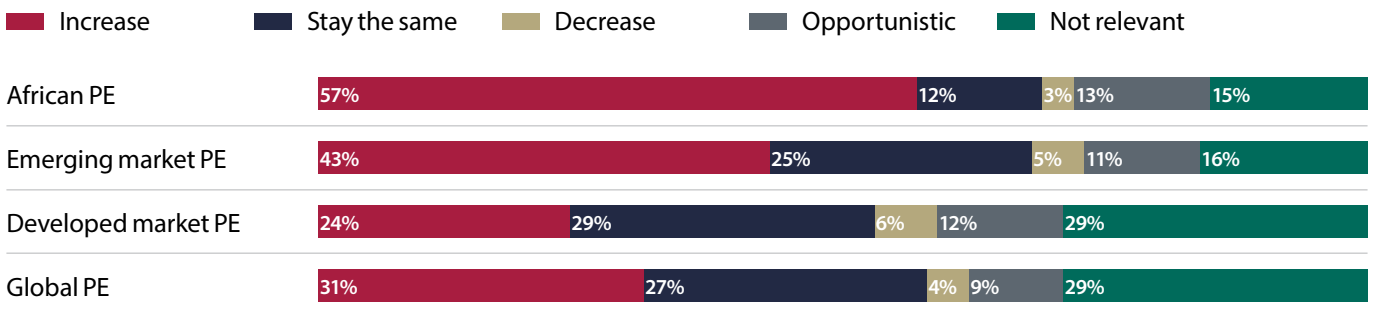
The percentage of LPs that plan to increase their allocation to African PE over the next three years has increased from 50% in AVCA's 2015 LP Survey to 57% this year. Of those LPs that entered the African PE landscape quite recently, between 2010 and 2014, 70% are currently planning to increase their exposure to African PE. By LPs' locations, 55% of non- African LPs and 63% of African LPs also look to increase their commitments to PE in Africa over the next three years.

57% of LPs plan to increase their allocation to PE in Africa over the next three years

57%

Just 3% of survey respondents plan to decrease their allocation to African PE.

Figure 1: LPs' plans for their global, developed and emerging markets and African PE allocation over the next three years



Attractiveness of African PE

Attractiveness of Africa relative to other markets

African PE relative to emerging and frontier markets

Two thirds of LPs believe that PE in Africa will be more attractive relative to other emerging and frontier markets over the medium to long term. In the short term, however, views are more muted, with just 26% of LPs seeing African PE as more attractive over the coming year.

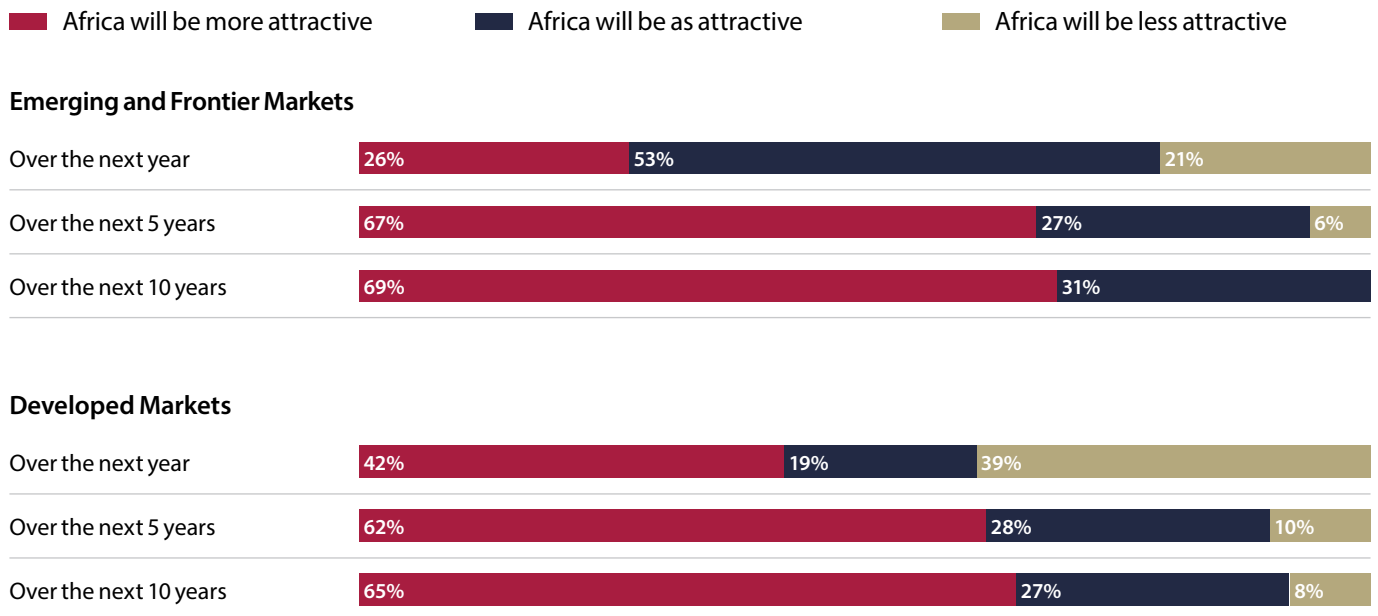
African PE relative to developed markets

Two thirds of LPs (65%) say that Africa will be more attractive for PE investment compared with developed markets over the next ten years. Of these, 61% are looking to increase their allocation to African PE.



The majority of LPs view Africa as more attractive for PE investment compared with other markets over the medium to long term

Figure 2: Attractiveness of African PE compared with other markets



Attractiveness of African regions for PE investment

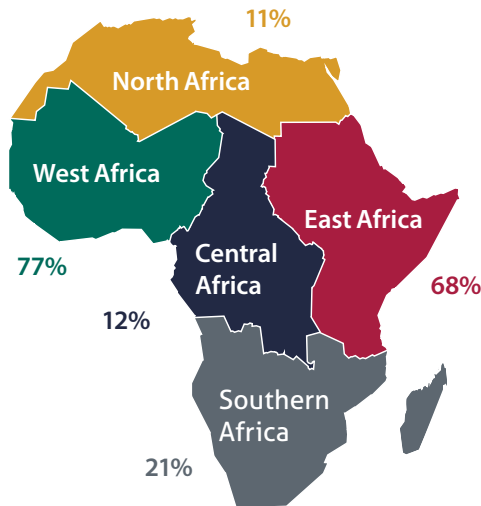
West Africa is viewed by the majority of LPs (77%) as the most attractive region for PE investment over the next three years. AVCA's PE Data Tracker (February 2016) shows that West Africa accounted for the greatest share of PE deals by number between 2010 and 2015.

East Africa is second, with two thirds of LPs (68%) identifying it as an attractive region for PE investment.

77% of LPs identify West Africa as the most attractive region for PE investment over the next three years

77%

Figure 3: Attractiveness of African regions for PE investment over the next three years



Attractiveness of African countries for PE investment

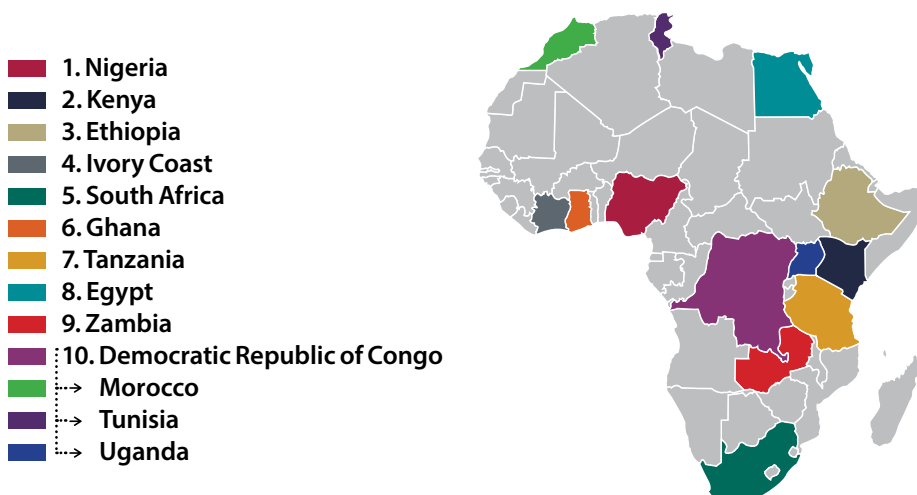
Africa's largest economy, Nigeria, is ranked by LPs as the most attractive country for PE investment in Africa over the next three years. Other West African countries, including Ivory Coast and Ghana, are also viewed by LPs as attractive.

LPs rate Kenya and Ethiopia as the second and third most attractive markets for PE investment, respectively. South Africa, Africa's third largest economy is ranked fifth.



LPs rank Nigeria and Kenya as the most attractive countries for PE investment in Africa over the next three years

Figure 4: The ten most attractive countries for PE investment in Africa over the next three years



Attractiveness of sectors for PE investment

LPs rank Consumer Goods as the most attractive sector for PE investment in Africa over the next three years. Financial Services, Infrastructure & Real Estate, Healthcare, and Agribusiness are also identified by LPs as other top sectors for GP investment.

There are differences in LPs' views depending on their location. African LPs rate Infrastructure and Real Estate as the most attractive sector for PE investment over the next three years, while non-African LPs rate Consumer Goods as the most attractive.



Consumer-driven sectors are viewed by LPs as the most attractive areas for PE investment

Figure 5: Most attractive sectors for PE investment in Africa over the next three years



Important factors in evaluating African PE investments

African PE fund managers

The majority of LPs (72%) consider a GP's track record of investment through to exit as the most important factor when evaluating African GPs. This supports a similar finding in AVCA's 2015 LP Survey.

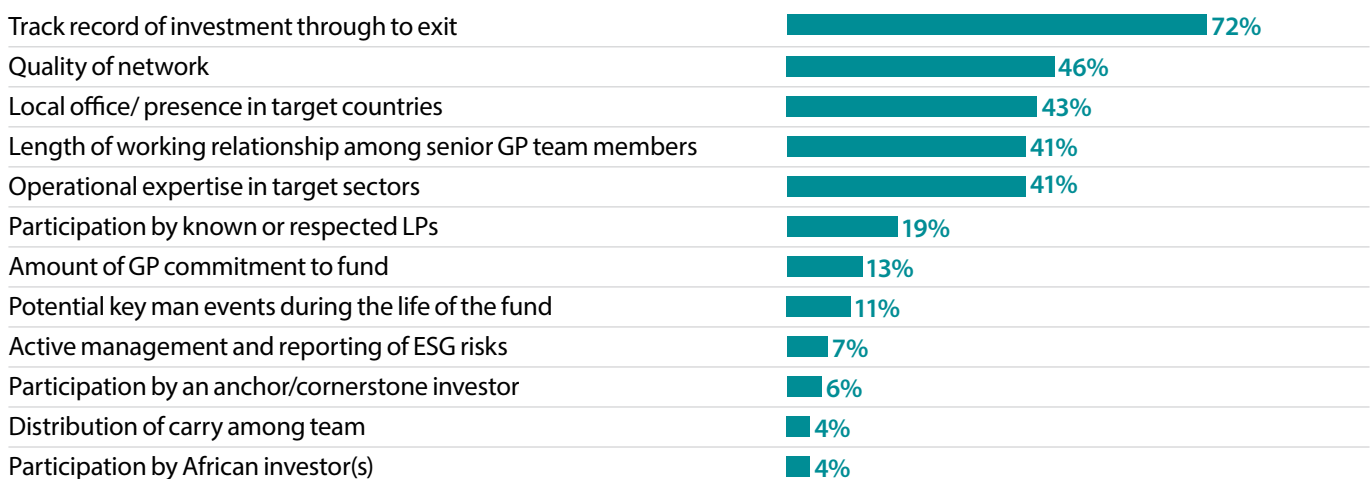
The quality of a GP's network is viewed by LPs as the second most significant factor when evaluating African GPs, further supporting the finding in AVCA / EY's 2016 Exit Study that points out that access to PE firms' networks remains an important value driver for African portfolio companies.

Other factors that are also identified as important by LPs include a GP's local presence, operational expertise and length of working relationship among a GP's senior team. Nearly half of African LPs (40%) see the participation by known or respected LPs, including Development Finance Institutions (DFIs), as a significant factor when evaluating African GPs.



LPs rate GPs' track records as the most significant factor in evaluating African PE firms

Figure 6: Important factors in LPs' evaluation of African PE fund managers



Co-investments

The majority of LPs (71%) say that they are currently looking to co-invest alongside African GPs. Only 29% of LPs would not look for a co-investment option; and these tend to be those that are relatively new entrants, and those with relatively small commitments to African PE.

Just over a third of LPs (38%) have invested alongside an African GP over the last five years.

71% are currently looking for co-investment options; 38% of LPs have co-invested alongside African GPs over the last 5 years

71%

Figure 7: LPs co-investing alongside African GPs

■ Yes ■ No

Co-invested over the last 5 years



Looking to co-invest



First-time fund managers

Nearly a half of LPs (47%) have invested in an African GP's first fund over the last five years; and an even higher percentage (66%) would consider doing so. The organisation type affects LPs' willingness to invest in a GP's maiden fund in Africa. For example, all the DFIs that participated in the survey have invested in first-time funds in Africa over the last five years.

A third of LPs (34%) are not willing to invest in a first-time fund manager in Africa. Of these, 37% are not yet invested in African PE.

66% of LPs would be willing to invest in an African GP's first fund; 47% have done so over the last 5 years

66%

Figure 8: LPs investing in a first-time GP in Africa

■ Yes ■ No

Invested in a first-time GP over the last 5 years



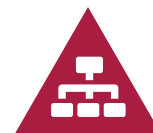
Would invest in a first-time GP



Sector-specific funds

Almost half of survey respondents (47%) have invested in African PE via sector-specific funds. Of these, the majority started investing in Africa before 2010. An even higher number of LPs (60%), across a variety of organisation types and locations, would consider investing in African sector-focused funds over the next five years.

As LPs' appetite for sector-specific funds increases, more African GPs are likely to raise funds targeted at different sectors such as agribusiness, energy, real estate, financials services, and infrastructure.



An increasing number of LPs are looking to invest in African PE via sector-specific funds over the next 5 years

Figure 9: LPs investing in sector-specific funds in Africa

■ Yes ■ No

Have invested in sector-specific funds



Would invest in sector-specific funds over the next 5 years



Potential obstacles to LP and GP investment in Africa

Barriers to LP investment in African PE

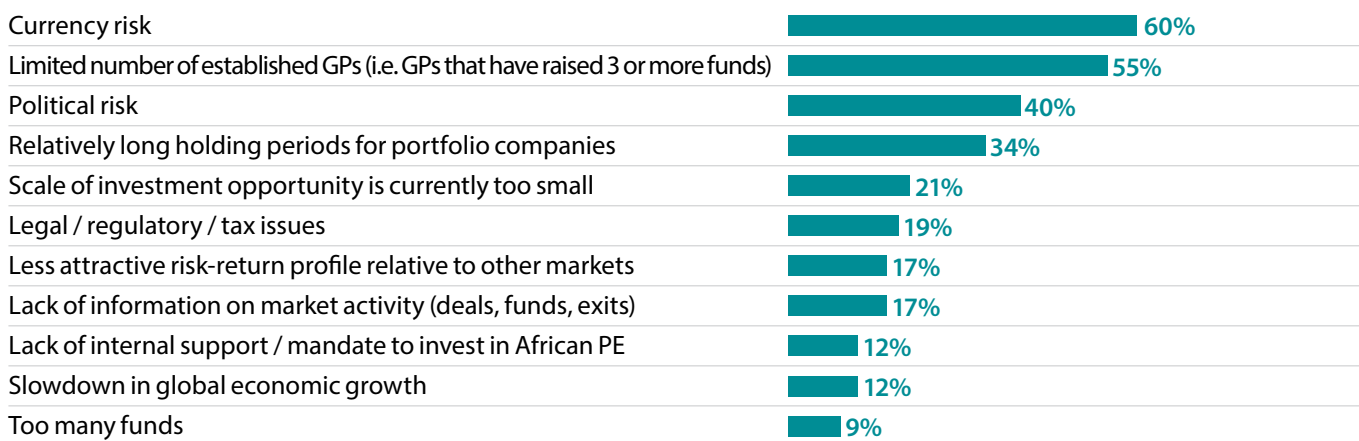
Nearly two thirds of survey respondents (60%) say that currency risk constitutes the biggest challenge to LPs when investing in African PE. This view is particularly prevalent among non-African LPs.

Other barriers to investment on the continent include a limited number of established GPs (55%), political risks in African countries (40%), and a relatively long holding period (34%). This supports findings in AVCA's 2015 Africa Limited Partners Survey which also identified these factors as significant.



Currency risk is identified by LPs as the biggest challenge when investing in African PE

Figure 10: Biggest challenges for LPs investing in African PE



Challenges facing GP investment in Africa

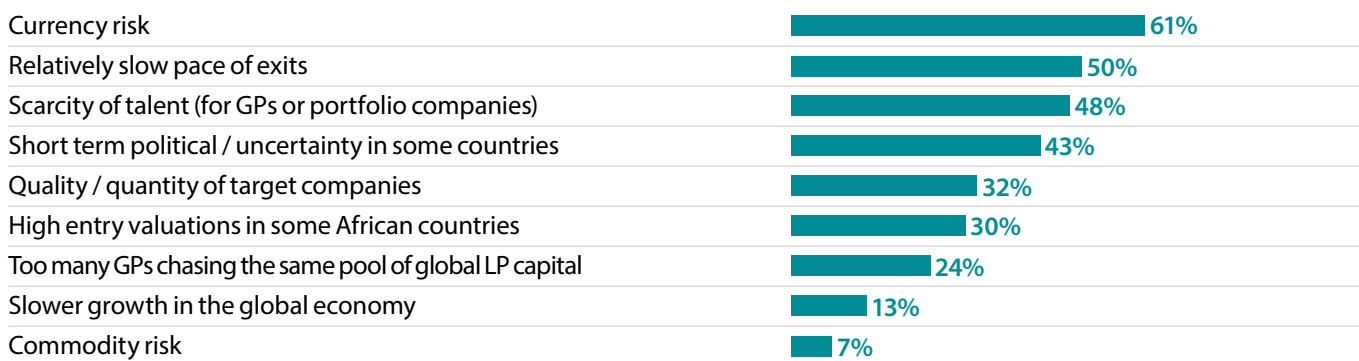
The majority of LPs (61%) say that currency risks in Africa constitute the greatest challenge to GPs over the next three years. Other significant factors are seen to be a relatively slow pace of exits and a scarcity of talent for GPs and portfolio companies.

More non-African LPs (59%) view the scarcity of talent as a challenge compared with African LPs (20%).



LPs view currency risk, a relatively slow pace of exits and a scarcity of talent as the greatest challenges facing GPs in Africa over the next 3 years

Figure 11: Greatest challenges facing GPs in Africa over the next three years



African PE returns

Performance of African PE portfolios relative to LPs' expectations

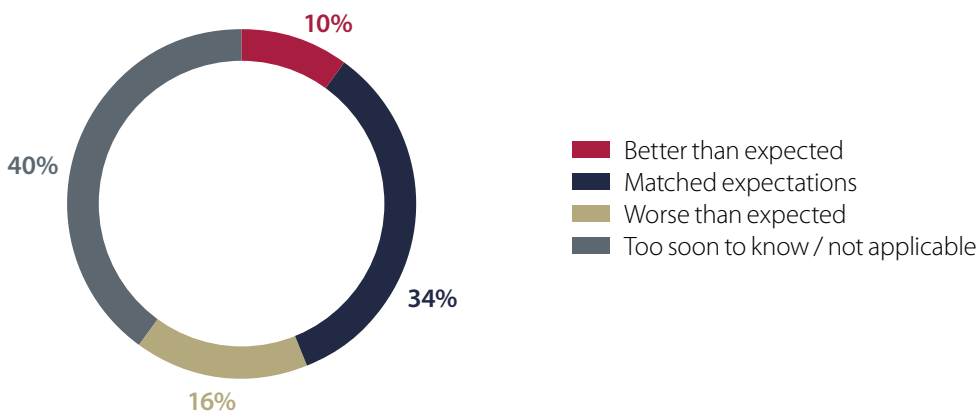
Nearly half of LPs (44%) say that the performance of their African PE portfolio has matched or exceeded their expectations. Of these, 69% first started investing in African PE before 2010.

A minority of LPs (16%) state that their African PE portfolios have performed worse than expected.

44% of LPs say that the performance of their African PE portfolio has matched or exceeded their expectations

44%

Figure 12: Performance of African PE portfolio relative to LPs' expectations



LPs' expectations about African PE returns over the next three, five and ten years

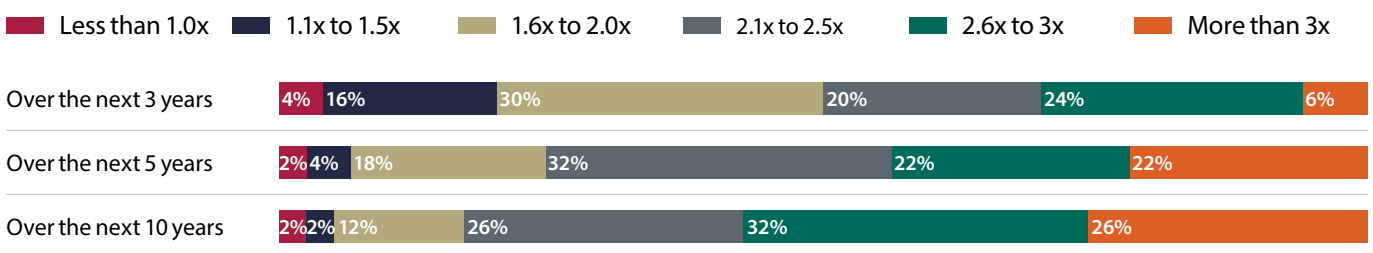
LPs' expectations regarding African PE returns vary significantly in the short versus medium to long term. Over the next 3 years, only a third of LPs (30%) expect their African PE returns to exceed 2.5x.

In comparison, 44% and 58% of LPs believe that African PE returns will exceed 2.5x in the next five and ten years respectively.

58% of LPs predict African PE returns will exceed 2.5x over a ten-year period

58%

Figure 13: LPs' expectations about the aggregate cash-on-cash returns from African PE



Expected PE returns in Africa compared with other markets

Nearly two thirds of LPs (62%) predict that African PE will outperform other emerging markets over the next ten years. Among these, 72% are currently planning to increase their allocation to African PE. Over the next three and five years, however, over half of LPs expect African PE returns to be similar to other emerging and frontier markets.

Relative to developed markets, LPs are slightly more optimistic, saying that African PE is likely to outperform over the next three, five and ten years.

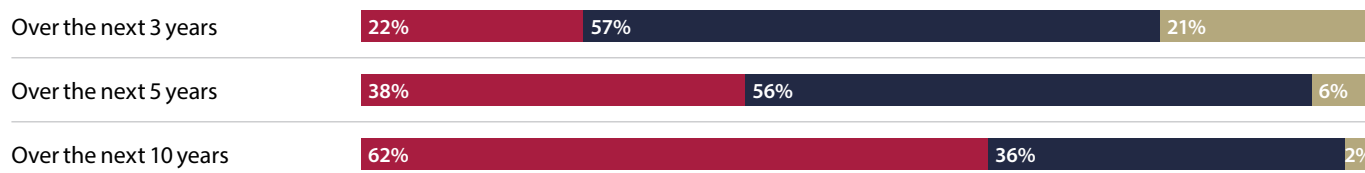


The majority of LPs expect African PE to outperform other emerging and developed markets over a ten-year period

Figure 14: LPs' expectations about PE returns in Africa relative to other markets

■ African returns will outperform
 ■ African returns will be similar
 ■ African returns will underperform

Emerging and Frontier Markets



Developed Markets



Research Methodology

AVCA surveyed 67 LPs from across the world between December 2015 and July 2016. Participants were selected to represent a broad cross-section of investors.

The sample contains a diverse mix of LPs, such as pension funds, DFIs, endowments, foundations and sovereign wealth funds. Respondents range from organisations managing less than US\$500mn total assets under management (AUM) to those with over US\$50bn AUM.

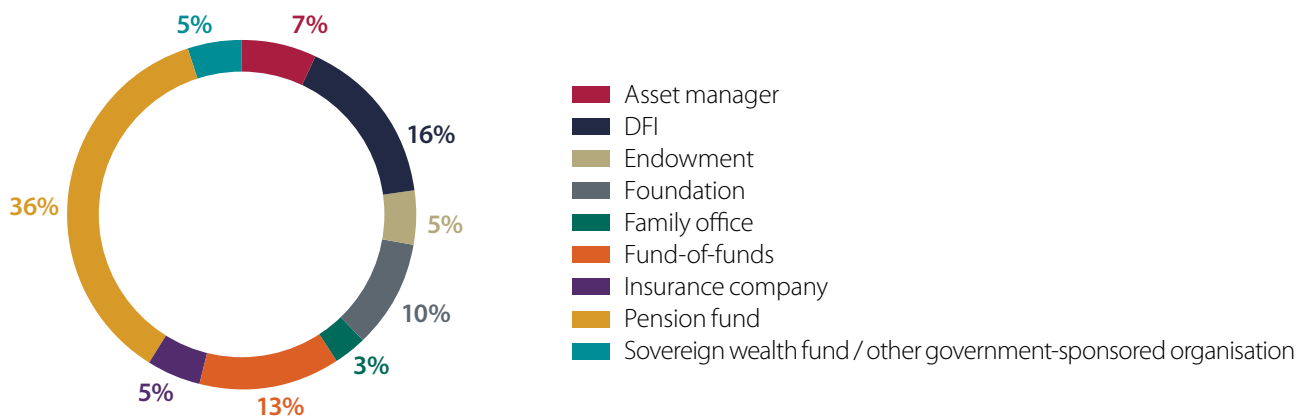
The survey was undertaken via an online questionnaire and incorporates the views of African and non- African investors who are currently invested in PE in Africa, as well as those who were not yet invested. Questions included LPs' views, plans and expectations for African PE.

Survey definitions and abbreviations

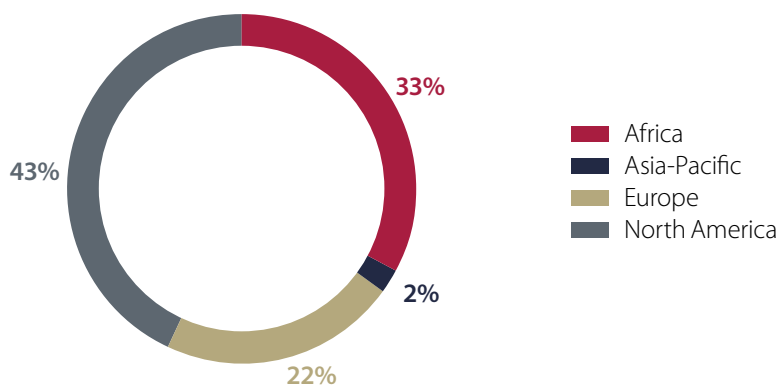
- Assets under management abbreviated to "AUM"
- Development Finance Institutions abbreviated to "DFIs"
- Emerging markets encompasses the private equity markets of all countries outside of the United States, Canada, Western Europe, Japan, Australia and New Zealand.
- General Partners abbreviated to "GPs"
- Limited Partners abbreviated to "LPs"
- Private Equity (abbreviated to "PE") encompasses leveraged buyouts, growth capital, and venture capital and mezzanine investments

Respondent Profile

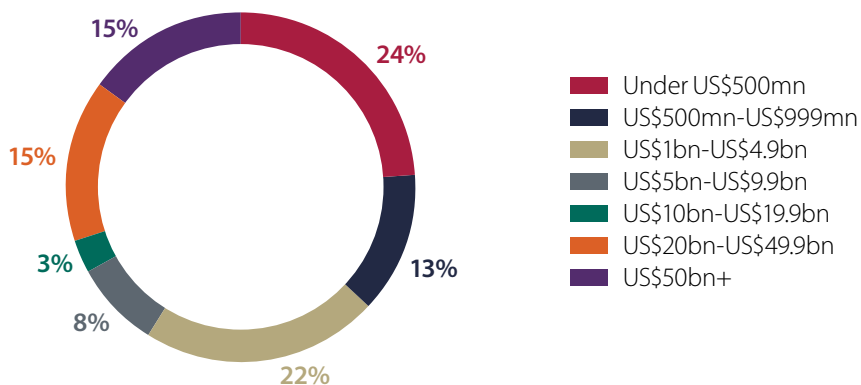
Type of organisation



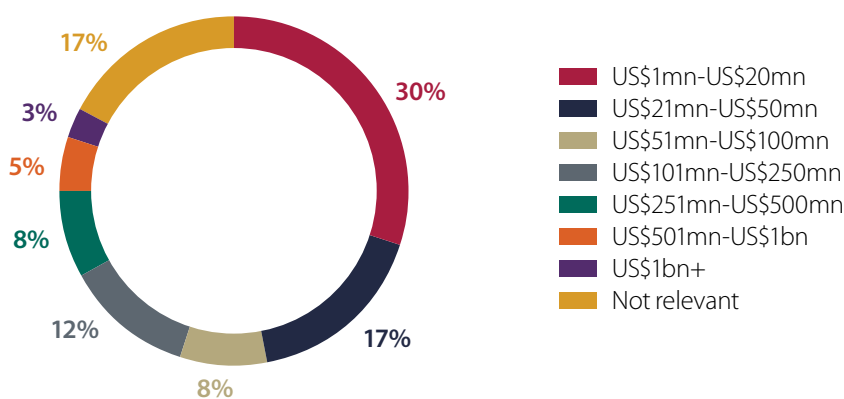
Head office location



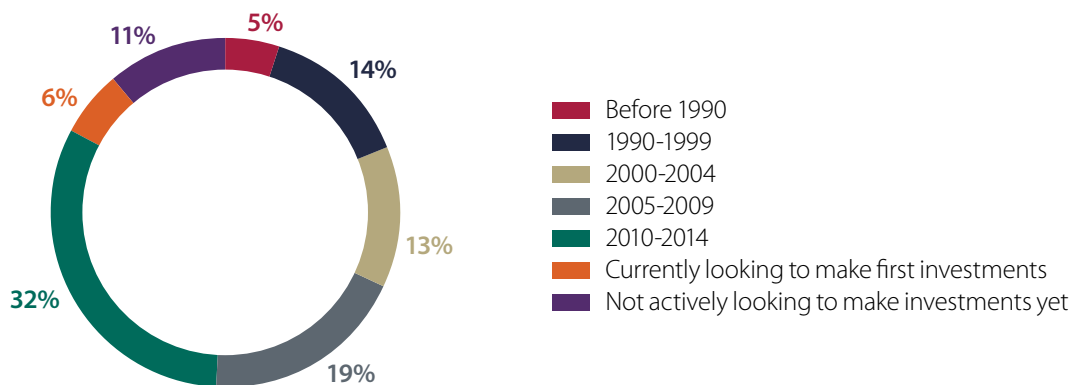
Total assets under management (all asset types)



LPs' current commitments to African PE



Year organisation first started investing in African PE



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About AVCA

AVCA: Championing private investment in Africa

The African Private Equity and Venture Capital Association is the pan-African industry body which promotes and enables private investment in Africa.

AVCA plays an important role as a champion and effective change agent for the industry, educating, equipping and connecting members and stakeholders with independent industry research, best practice training programmes and exceptional networking opportunities.

With a global and growing member base, AVCA members span private equity and venture capital firms, institutional investors, foundations and endowments, pension funds, international development finance institutions, professional service firms, academia, and other associations.

This diverse membership is united by a common purpose: to be part of the Africa growth story.

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