



**David Owino**  
Founding Partner

Ascent Capital Africa (Ascent) is an entrepreneurial investment partner focusing on Ethiopia, Kenya and Uganda. They advise the Ascent Rift Valley Fund, a US\$78mn private equity fund. This fund invests predominantly in the growth capital of companies with a proven track record and significant growth potential. Ascent has a local advisory presence and operationally focused teams in Ethiopia, Kenya and Uganda, making Ascent the complimentary partner for expanding exciting successful businesses throughout the region.

**We talk with *David Owino, Founding Partner at Ascent Capital Africa* about the firm's origins, its continued commitment to East Africa, its recent co-investment strategy with Fanisi Capital and the impacts of COVID-19 on its operations.**

**Q: Could you tell us about Ascent's history and how the firm has evolved since it was founded?**

Ascent was founded in 2012, when I and the two other founders began to look at how we could approach SME investing in East Africa differently and bring something new to the table. What we realised was that there already existed a large array SME-funds, and that most of them followed a similar strategy based on minority investments combined with certain protections. With Ascent, we opted to pursue significant minority or majority stakes where our hand-on approach could generate significant value-add and impact. Another unique aspect of our approach was that we decided to focus on three countries - Kenya, Ethiopia and Uganda - and to establish a permanent presence in each of those.

Ethiopia was a key differentiator for us because at the time of our launch, SGI's Ethiopia Growth and Transformation Fund was the only fund focused specifically on that market, with most other funds having pan-African mandates. Our partnership sits in Nairobi, but the offices in Addis Ababa and Kampala are both managed by locals who understand the local market context and dynamics. Lastly, we take a very hands-on approach to working with our portfolio companies. This reflects the DNA of our firm: the vast majority of our employees did not have a private equity background when they joined but instead came from different backgrounds including but not limited to consulting, corporate operations and most importantly entrepreneurship.

Our approach to fundraising was to first secure local commitments. At the time, Kenyan pension funds had limited knowledge about private equity as an asset

**NAME OF PROFESSIONAL SERVICES FIRM**

Ascent Capital Africa

**FIRM TYPE**

General Partner

**PROFESSIONALS FOCUSED ON AFRICA**

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class and had never committed funds to the sector. After significant engagement with local institutional investors in Kenyan, we secured commitments from three pension funds (two from Kenya Power Pension Fund and one from Nation Media Group Staff Pension Fund) as well as a locally based multilateral reinsurance company (PTA Zep-Re). In total, we secured US\$6mn in commitments from local investors.

The second step of our fundraising strategy involved targeting European family offices. The addition of a new partner to our team, a seasoned PE investor in Europe, was very helpful in opening doors. We reached our first close at US\$48mn with a US\$15mn commitment from Norfund and OeEB as the main DFIs and the backing of 12 European family offices, alongside our four local investors. For OeEB this was its first commitment to an East African focused fund. After that we were able to get more DFIs on board with the backing of CDC, FMO and LGT Group. We announced our final close at US\$80mn, exceeding our US\$60mn target. In February this year we came to end of the investment period, and our investors have given us the go-ahead to start working on Fund II.

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**Q: How do Ethiopia, Kenya and Uganda differ as investment destinations?**

They differ greatly from structural and opportunity perspectives. Ethiopia is a unique market: it has the second largest population in Africa and is undergoing significant transformation as the economy opens up, though the private sector faces major challenges in accessing hard currency.

We have three investments in Ethiopia, including a private medical lab and a plastics manufacturer. What's remarkable is that each one of our Ethiopian portfolio companies is either the only player in its field or the largest in its sector, even though we are an SME fund. The Ethiopian market is characterised by very little competition when acquiring companies and our discussions with potential investees have focused more on adding operational value rather than valuations.

Kenya, on the other hand, is East Africa's highly competitive financial hub. Individuals are highly knowledgeable about private equity as an asset class and entrepreneurs have many options of funding their businesses. Private equity firms with the strongest and broadest networks are the best placed to succeed in this competitive and diversified economy. Lastly, exit prospects in Kenya are strong, relative to its regional peers.

Uganda is similar to Kenya in many ways, although its economy is driven by services and trading, with a comparatively smaller manufacturing base. We currently have nine investments across East Africa, with Ethiopia and Kenya accounting for 50% and 30% of our portfolio, respectively, while Uganda accounts for 20%. Regional diversification has enabled us to achieve balanced returns across our portfolio

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**Q: Could you talk us through your investment in Auto Springs East Africa? How have you worked with the company's management to create value?**

Auto Springs is a manufacturer of springs for commercial motor vehicles in East Africa. Isuzu, which has an assembly plant in Kenya, is one of their main clients. The company has long been a leader in local manufacturing, but as a family-owned business had never had formal governance structures or a board. Following our investment in early 2018, we worked closely with the son of the founder to boost management capacity and create adequate governance structures.

We had identified a number of significant ESG issues prior to investment, related to workplace safety. We visited the company's factory with our investors and felt an obligation to invest and improve the situation, knowing that other investors might invest but retain the same poor conditions. Establishing control over the company that allowed us to drive ESG transformation, for which we set aside US\$500,000.

Beyond workplace safety, we've focused our efforts on providing decent compensation packages and medical care for employees. This has paid off with productivity increasing since these measures were implemented. The level of employee engagement has also increased and we have seen that despite having the right to join a workers union the employees have opted not to because of this. In addition to this the motor vehicle assemblers who are the main customers of the business are much happier to see the business working to achieve good manufacturing practices in a sustained manner.

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**Q: In December 2018, you started fundraising for your second fund. Could you shed some light on this process?**

Our unique approach of having multiple offices with a well-established local presence, alongside our focus on the SME segment and our experience with Fund I has been well received by our current and prospective investors. One area that investors prize is an exit track record. While we have not yet exited any of our investments, we are working on two exits in Ethiopia, which should challenge the popular notion that it is a difficult market to exit from.

We are aiming to raise US\$120mn for our second fund, with a first close of US\$80-100mn by end of quarter three this year. As with our first fund, we are targeting sizeable DFI commitments, alongside commercial capital, European family offices and local capital pools. We are in discussions with the potential first close investors on how to navigate fund raising efforts to enable us achieve a final close in a reasonable time frame despite the Covid-19 challenge.

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**Q: Earlier this year, you decided to consolidate your operations with those of Fanisi Capital. What motivated this move and how do you see the partnership playing out?**

Fanisi Capital announced the final close for its second fund – Fanisi II – at US\$35mn in 2017, having secured the backing of mainly Kenyan local investors. However, executing the fund's regional strategy has been challenging given the fund's relatively limited size. Fanisi II had particular common LPs with Ascent and there were similarities in the strategy that both funds were pursuing. As a result, Fanisi's II will be managed by the Ascent team and will invest alongside Ascent II in a co-investment structure. The consolidation fits well with our ambition of attracting local pools of capital to invest alongside the DFI and more experienced commercial investors from the developed world.

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**Q: What impact has the COVID-19 pandemic had on your operations? How have your portfolio**

### **companies adopted to this new reality?**

It's too early to tell the impact on East Africa and our view is that we'll have a clearer picture in a month. While there was no discernible impact in the first quarter, we saw a varied performance across our portfolio in April. Auto Springs has been negatively impacted by the subdued demand for vehicles, but other companies have not reported any dramatic changes. One of the advantages of having multiple offices on the ground is that we've been able to continue engaging with our investees and will be able to continue identifying new opportunities and conducting due diligence much more easily than other investors with no local presence and who operate on a fly-in-fly-out basis.

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### **Q:How have you benefited from the AVCA membership?**

AVCA's annual conferences have provided us with a great platform to network and connect with the right people. Beyond this, we have also commissioned data on returns from the Association's research team which we have shared with local investors considering allocating to private equity. Finally, we've used AVCA to showcase East Africa as an attractive investment destination and look forward to continuing playing this role

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Want to learn more about Ascent Capital Africa? [Click here](#) to explore AVCA's 2020 Member Directory.

#### **CONTACT AVCA**

37 North Row  
3rd Floor  
London W1K 6DH

E [avca@avca-africa.org](mailto:avca@avca-africa.org)  
W [www.avca-africa.org](http://www.avca-africa.org)  
T +44 (0)20 3874 7008



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