

2017 Annual Limited Partner Survey

Institutional investor views and expectations
about private equity in Africa



Foreword

We are delighted to present the fourth edition of the AVCA Limited Partner Survey, which examines global investor views about private equity in Africa and return expectations in an evolving industry.

AVCA's mission is to educate and equip stakeholders with valuable insight on the investment landscape across the continent. As African private equity matures, we seek to provide insight on investor perceptions with the goal of encouraging greater participation in the asset class.

Given the evolving global geopolitical landscape, it is more important than ever to undertake investor outreach in order to identify consensus views that will impact our industry. This year's report finds that despite its challenges, Limited Partners continue to see the appeal of African private equity.

We hope that presenting detailed information on the factors driving investors towards Africa will provide a practical guide on investors' outlook on key sectors and regions across the continent.

We thank all participants who have supported this important initiative by giving their time and sharing their views.

We hope to continue deepening this research and subsequently catalysing greater private investment in Africa.

Kind regards,

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



Executive Summary

This is the fourth edition of AVCA's Limited Partner Survey. The report provides data on the insights, plans, preferences and expectations of 58 Limited Partners (LPs) from Africa, Europe and North America concerning African Private Equity (PE).

Despite sluggish macroeconomic conditions in some of its key markets, LP respondents show a steady appetite for African PE. This is reflected in the significant increase in the percentage of LPs that plan to maintain their allocation to African PE over the next three years (34% this year from 12% in 2016). Overall, 88% of LPs plan to increase or maintain their allocation to PE in Africa over the period.

North Africa is increasingly on the radar of institutional investors. The share of LPs that identify North Africa as an attractive PE destination within Africa rose significantly to 50% this year from 11% in 2016. In this framework, Egypt was ranked as the 4th most attractive country for PE investment in Africa; a significant improvement from 2016, where Egypt ranked 8th.

The consumer theme is still prevalent. The majority of LPs view sectors associated with the rise of the African consumer – such as Consumer Goods, Financial Services, Healthcare and Agribusiness – as the most attractive for General Partners (GPs) investment in Africa. However, there are differences depending on LPs' location.

On the whole, LPs believe in the long-term attractiveness of African PE compared to other markets. Most LPs say that Africa will be more attractive than other markets over the next ten years; and predict that African PE returns will outperform other markets over the same period.



Key Findings

88%

LPs that plan to increase or maintain their allocation to PE in Africa over the next three years

63%

LPs that view Africa as more attractive for PE investments than other emerging and frontier markets over the next ten years

85%

LPs that identify East Africa as the most attractive region for PE investment over the next three years

69%

LPs that view currency risk as the biggest challenge when investing in African PE

73%

LPs that are currently looking for co-investment options

82%

LPs that regard GPs' investment track record as the most important factor in evaluating African PE firms

73%

LPs that would consider investing in an African GP's first fund

64%

LPs that view the fundraising environment as the greatest challenge facing GPs in Africa over the next three years

Planned investments by LPs into African PE

LPs' planned allocation to African PE

Over half of LPs (54%) plan to increase their allocation to African PE over the next three years (down from 57% in AVCA's 2016 LP Survey). Of these, 30% are Development Finance Institutions (DFIs) mainly based in Europe that are currently invested in PE funds in Africa. By location, 53% and 51% of African and non- African LPs respectively are currently planning to increase their exposure to African PE.

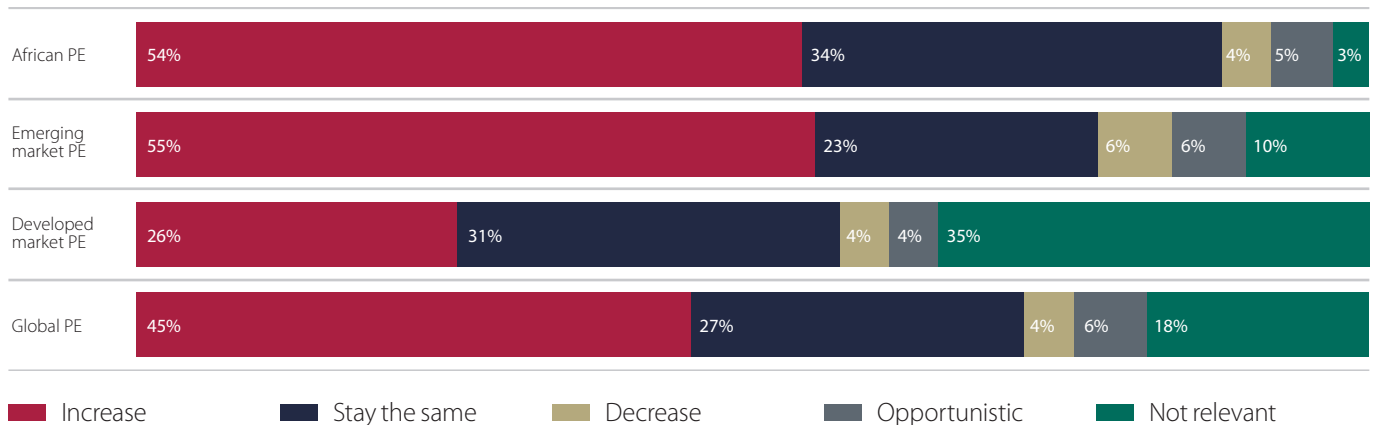
The percentage of LPs that do not plan to change their current allocation to African PE has increased significantly to 34% (from 12% last year). Of these, the majority are DFIs (26%), Fund-of-funds (26%) and Pension funds (26%).

Only 4% of survey respondents plan to decrease their allocation to African PE.

88%

LPs that plan to increase or maintain their allocation to PE in Africa over the next three years

Figure 1: LPs' plans for their global, developed, 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

Whilst only 26% of LPs believe that Africa will be more attractive for PE investments than other emerging markets over the next year, the figure rises to 60% over a five-year time horizon, and 63% over a ten-year time horizon.

African PE relative to developed markets

Almost two thirds of LPs (65%) believe that Africa will be more attractive than developed markets over the next ten years. Of those, a significant percentage expect African PE returns to outperform developed markets over the medium and long term (66% and 71% respectively).



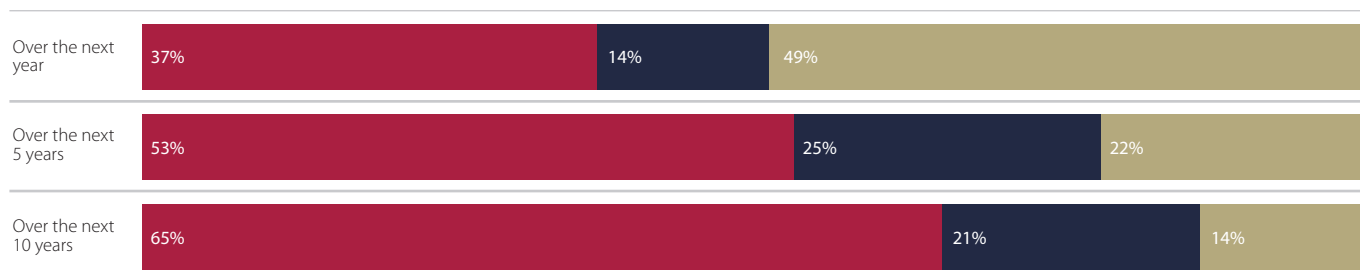
Most LPs view Africa as more attractive for PE investment compared with other markets over medium to long term

Figure 2: Attractiveness of African PE compared with other markets

Emerging and Frontier Markets



Developed Markets



■ Africa will be more attractive
 ■ Africa will be as attractive
 ■ Africa will be less attractive

Attractiveness of African regions for PE investment

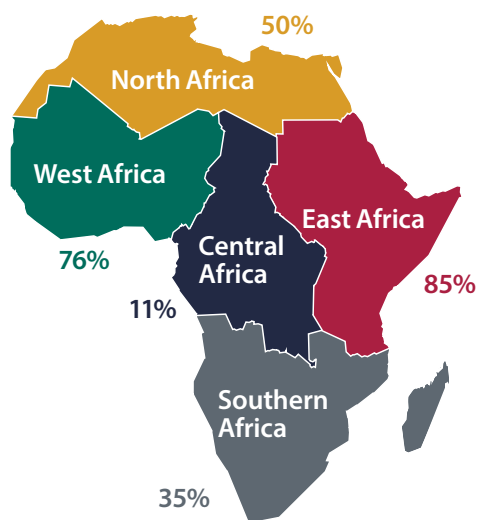
East Africa has been identified as the most attractive region for PE investments in Africa over the next three years, followed by West Africa. The percentage of LPs that identify East Africa as one of the most attractive regions has increased to 85% this year from 68% in last year's LP survey.

North Africa showed a significant increase, as 50% of LPs view it as an attractive region for PE investment within Africa, compared with only 11% in 2016.

85%

LPs that identify East Africa as the most attractive region for PE investment over the next three years

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



Attractiveness of African countries for PE investment

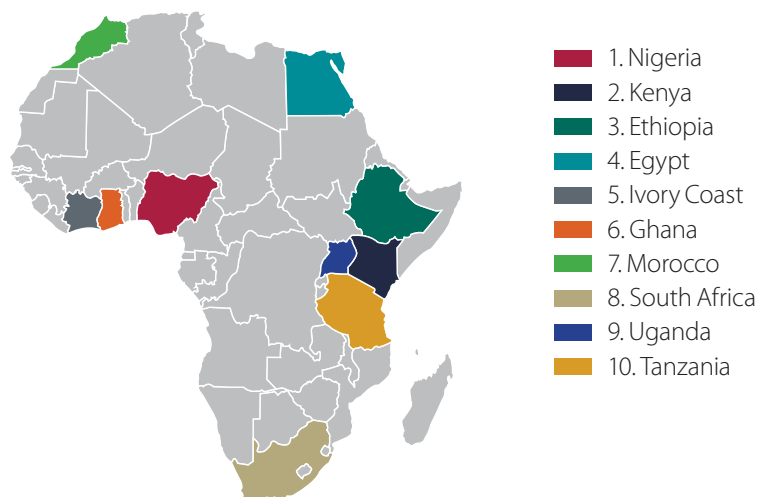
Nigeria (45% of LPs), Kenya (43% of LPs) and Ethiopia (32% of LPs) are selected as the three most attractive countries for PE investment in Africa over the next three years.

LPs rate Egypt as the 4th most attractive country for PE investment in Africa over the period. This is a significant improvement from 2016, where Egypt was ranked 8th.



LPs rank Nigeria, Kenya, Ethiopia and Egypt 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

The majority of LPs identify consumer-driven sectors as the most attractive for PE investments in Africa over the next three years. Among LPs that are currently planning to increase their allocation to African PE, Consumer Goods, Financials and Healthcare are identified as the top three sectors for GP investment over the period.

African LPs identify Infrastructure 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 theme is still prevalent for PE investments in Africa among the majority of LPs

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



LPs' drivers and preferences when investing in African PE

LPs' drivers for investing in African PE

Over half of LPs (53%) rank performance as the key factor driving their investment into African PE. Of these, 46% are currently planning to increase their exposure to African PE over the next three years. By organisation type, 90% of fund-of-funds participating in the survey ranked performance first.

Risk and return profile was ranked as the second most important factor by LPs, followed by impact investing. Over half of DFIs (53%) that completed the survey rated impact investing first.



LPs rank performance as the most significant driver for investing in African PE

Figure 6: Ranking of factors driving LPs' investments in African PE



LPs' preferences on exit routes for their African portfolio companies

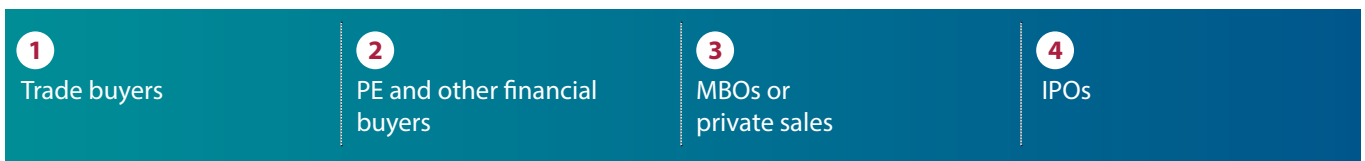
Two thirds of LPs (67%) rank trade sales as their most preferred exit route for their African portfolio companies. According to AVCA/EY's 2017 Exit Study, trade sales still represent the most common exit route in Africa.

Exits to PE and other financial buyers are ranked by over half of LPs (54%) as their second most preferred exit route for their African portfolio companies. This trend is also reflected in the significant increase of sales to PE and other financial buyers that occurred in 2016 (AVCA/ EY 2017 Exit Study), and indicates a PE market that is becoming more competitive and mature.



LPs rank trade sales as their most preferred exit route

Figure 7: Ranking of preferred exit routes for LPs' African portfolio companies



LPs' preferred strategies when investing in African PE

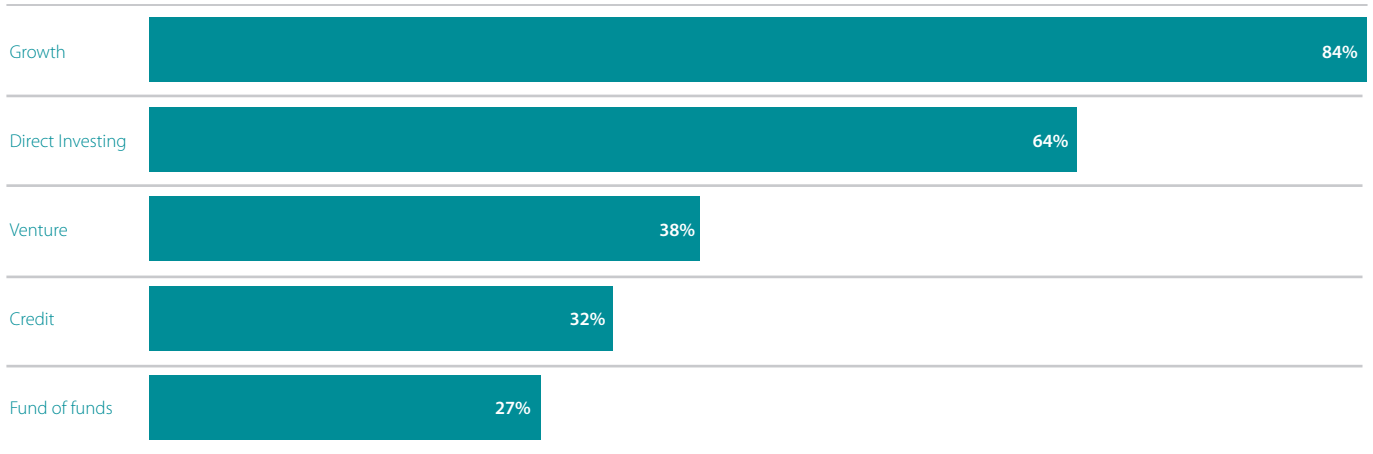
Across all organisation types and geographies, growth equity appears as a favoured strategy over the next three years, selected by 84% of LPs as a preference. Direct investing is viewed as the second most attractive investment strategy (64% of LPs).

Venture capital is viewed as an attractive investment opportunity by 38% of respondents. Of those, 40% rank impact as the most important factor that drives their investments in African PE.

84%

LPs that regard growth equity as being of most interest when investing in African PE over the next three years

Figure 8: LPs' preferred strategies when investing in African PE over the next three years



Important factors in evaluating African PE investments

African PE fund managers

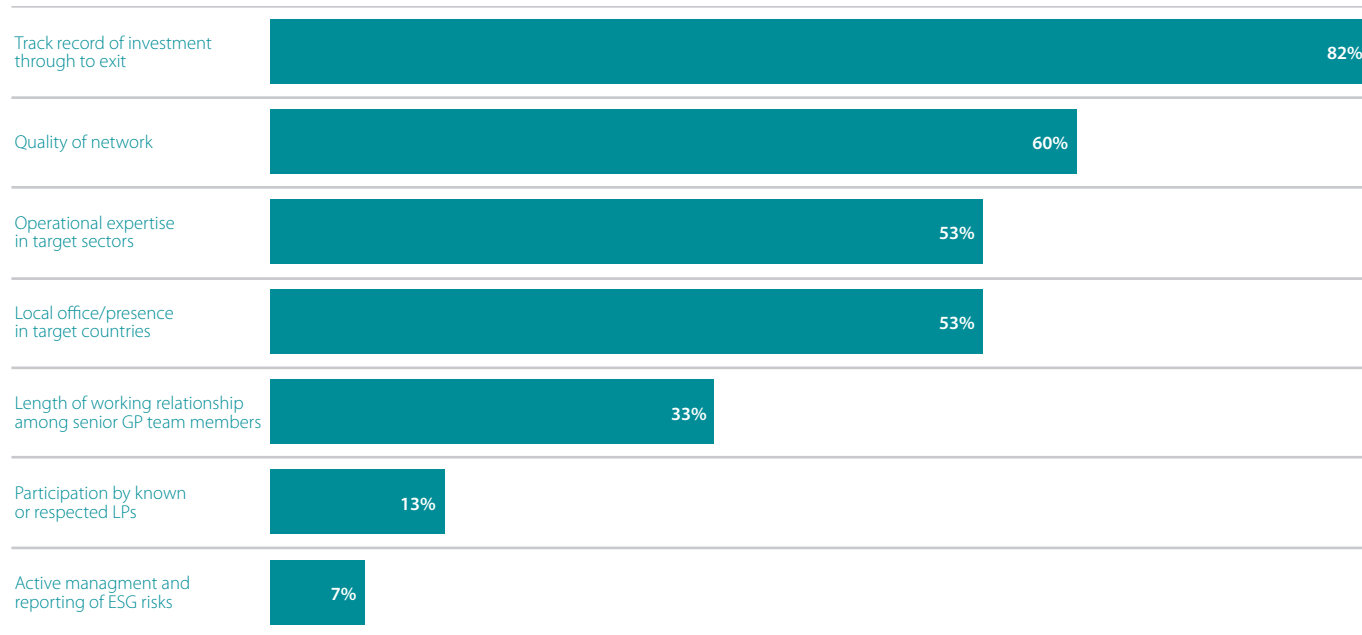
Most LPs (82%) rank GPs' investment track record as the most important factor when evaluating African PE firms. AVCA's 2015 and 2016 Africa Limited Partner Surveys also identified GPs' track record as the most significant factor (it was selected by 73% of LPs in 2015, and 72% in 2016).

The quality of GPs' networks to source, manage and support companies, along with PE firms' operational expertise in selected sectors and local presence in target countries, are also regarded by LPs as significant factors.



LPs regard GPs' investment track record as the most important factor in evaluating African PE firms

Figure 9: Important factors in LPs' evaluation of African PE fund managers



Co-investments

Almost three quarters of LPs (73%) are currently looking for potential co-investments when investing in an African PE manager. This trend is particularly prevalent among European DFIs.

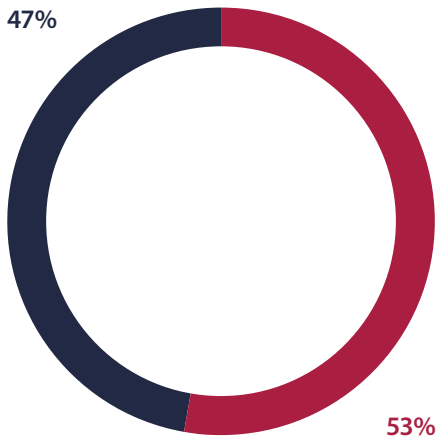
Over half of LPs (53%) say that they have invested alongside an African GP over the last five years.

73%

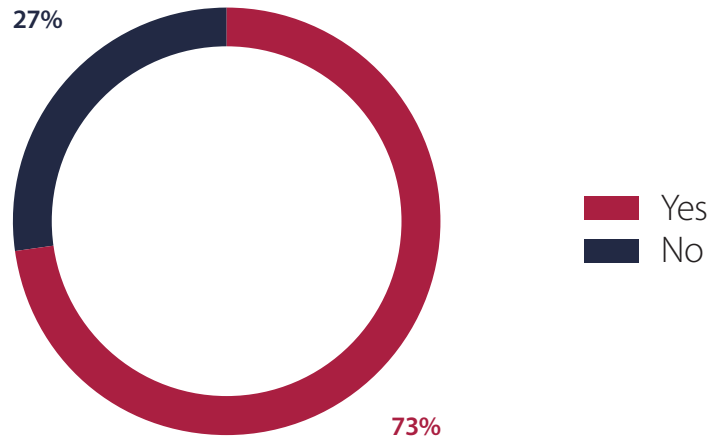
LPs that are currently looking for co-investment options

Figure 10: LPs co-investing alongside African GPs

Co-invested over the last 5 years



Looking to co-invest



Yes
No

First-time fund managers

The percentage of LPs that would consider investing in a first time African GP has grown from 66% in 2016 to 73% this year. Of those LPs, 65% have actually invested in an African GP's first fund over the last five years, and 62% are also planning to increase their allocation to African PE over the next three years. The majority of those that would invest in an African first time GP are DFIs (30%), Fund-of-funds (20%) and Pension funds (18%).

Almost a third of LPs (27%) are not willing to invest in a first-time fund manager in Africa. Of these, 40% are Pension funds based in Africa and North America.

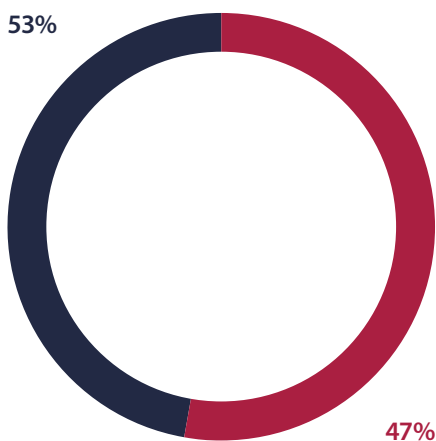
Overall, almost half of respondents (47%) have invested in a first-time fund in the past five years. Of these, the majority are DFIs (46%) and Fund-of-Funds (23%).

73%

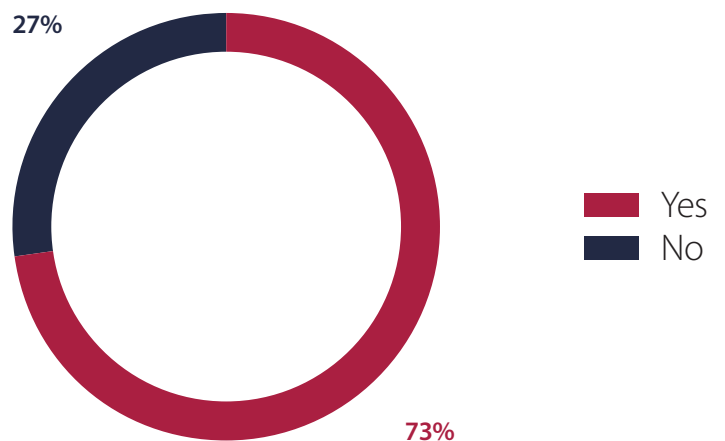
LPs that are open to investing in an African GP's first fund

Figure 11: LPs investing in a first-time GP in Africa

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



Would invest in a first-time GP



Yes
No

Potential obstacles to LP and GP investment in Africa

Barriers to LP investment in African PE

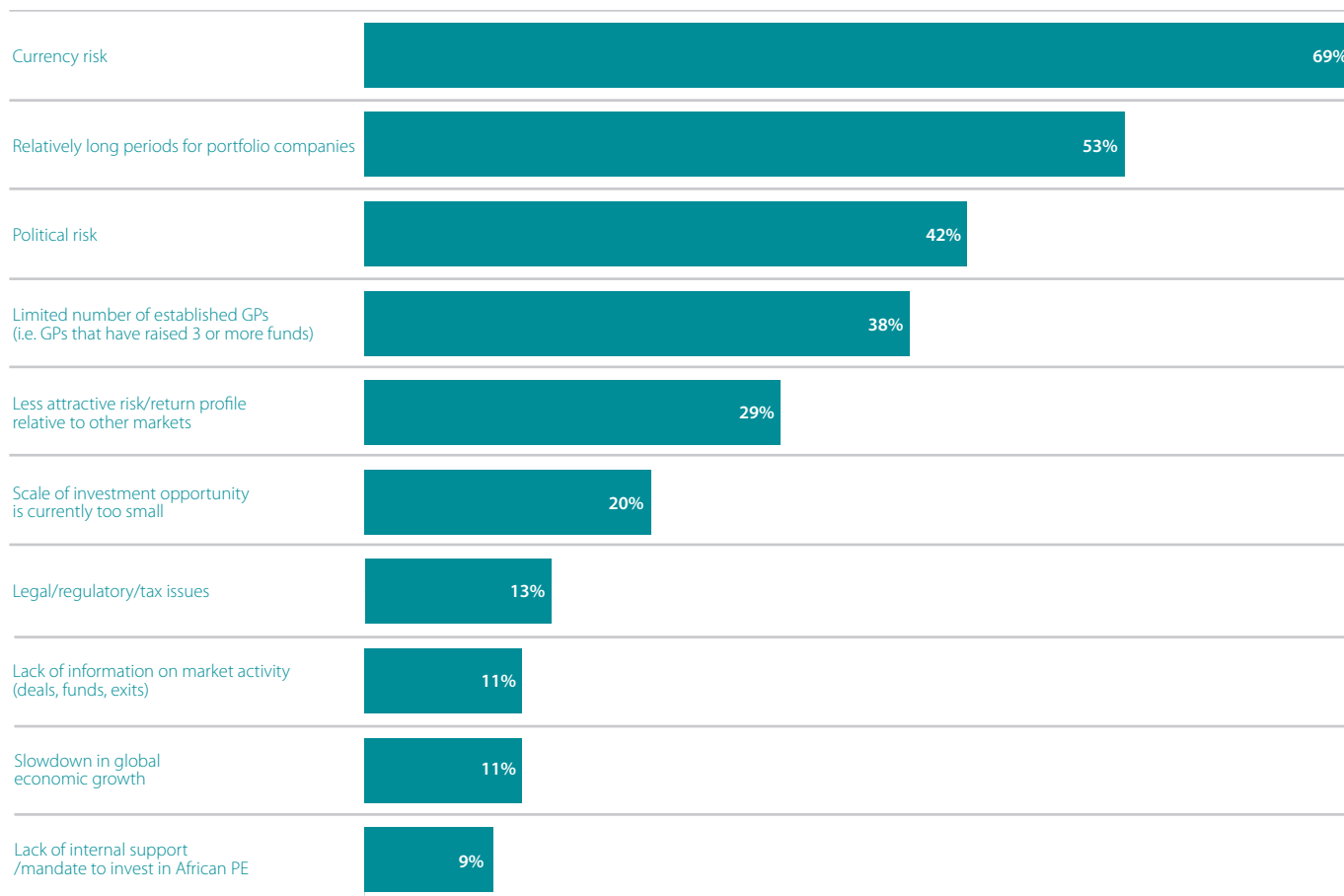
Currency risk is viewed by survey participants as the biggest challenge to LPs when investing in African PE. The percentage of LPs sharing this view has increased to 69% this year from 60% in last year's survey.

Other factors that are identified by LPs as significant challenges when investing in African PE are a relatively long holding period for portfolio companies (53%), and political risks in African countries (42%). The percentage of LPs that consider the limited number of established GPs as a barrier to investment on the continent has decreased to 38% in this year's survey from 55% last year.



LPs view currency risk as the biggest challenge when investing in African PE

Figure 12: Biggest challenges for LPs investing in African PE



Challenges facing GP investment in Africa

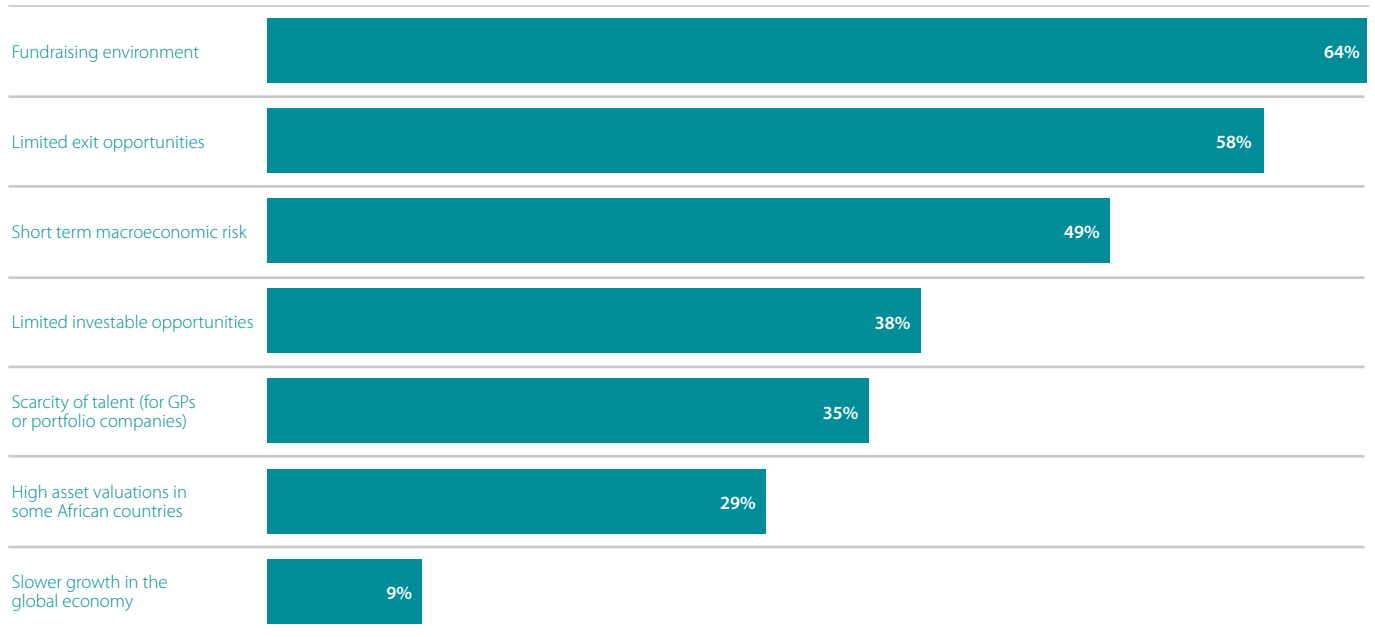
Nearly two thirds of LPs (64%) regard the fundraising environment as the greatest challenge to African GPs over the next three years. Other significant factors include limited exit opportunities (58% of LPs) and short-term macroeconomic risks (49% of LPs).

However, there are differences in LPs' views depending on their location. Whilst African LPs consider the fundraising environment to be the greatest challenge for African GPs, non-African LPs regard limited exit opportunities as the most significant factor. By organisation type, 80% of DFIs participating in the survey cite the fundraising environment as the most significant obstacle to African GPs over the next three years.



Fundraising environment, limited exit opportunities and short-term macroeconomic risks are viewed by LPs as the greatest challenges facing GPs in Africa over the next three years

Figure 13: Greatest challenges facing GPs in Africa over the next three years



African PE returns

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

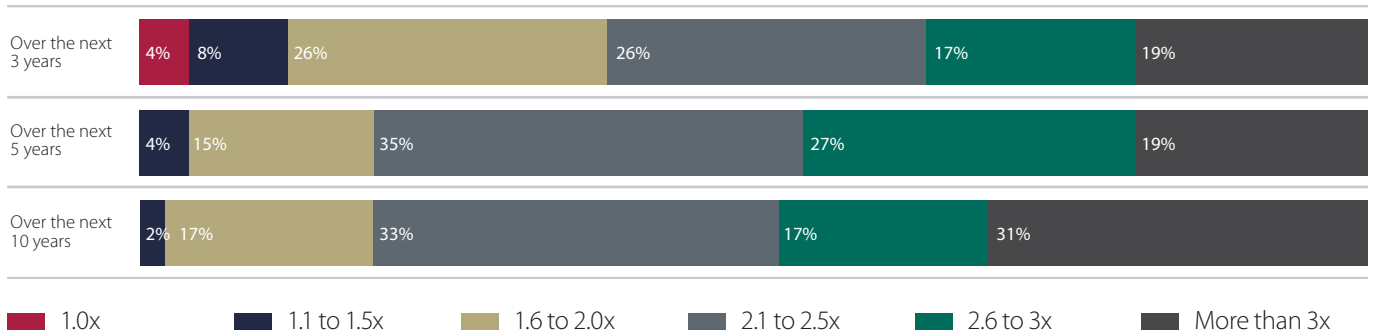
There are differences in LPs' expectations depending on their location. The largest part of African LPs (59%) that responded expect African PE returns to exceed 3x over the next ten years, while most of non-African LPs (54%) predict African PE returns will be between 2.1x to 3x over the same period.

Overall, 46% and 48% of LPs expect returns from African PE to exceed 2.5x over the next five and ten years, respectively.

48%

LPs that predict African PE returns will exceed 2.5x over the next ten years

Figure 14: LPs' expectations about the aggregate cash-on-cash returns from African PE



Greatest influences on African PE returns

Respondents value fund manager skills and expertise first, ranking it as the most important influence on their African PE returns. Of those, 93% are currently invested in African PE funds and 71% plan to increase their allocation to PE in Africa over the next three years.

Portfolio company growth and local currency are ranked second and third among LPs respectively.



Fund manager skills and expertise rank first in terms of importance as the greatest influence on African PE returns

Figure 15: LPs' views on the greatest influences on their African PE returns



Expected PE returns in Africa compared with other markets

Over half of respondents (51%) expect higher returns on African PE, than that of other emerging markets over the next ten years; as such, 65% of those LPs are currently considering increasing their allocation to African PE over the three years. A significant percentage of respondents also expect returns on PE in Africa to perform similar to other Emerging markets over the next three, five and ten years.

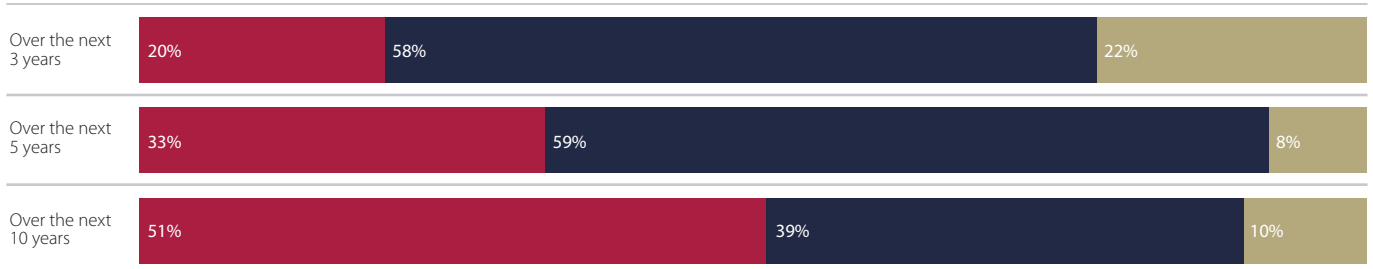
In relation to developed markets, LPs believe that African PE returns will outperform and are more optimistic in regards to medium and long term investments.



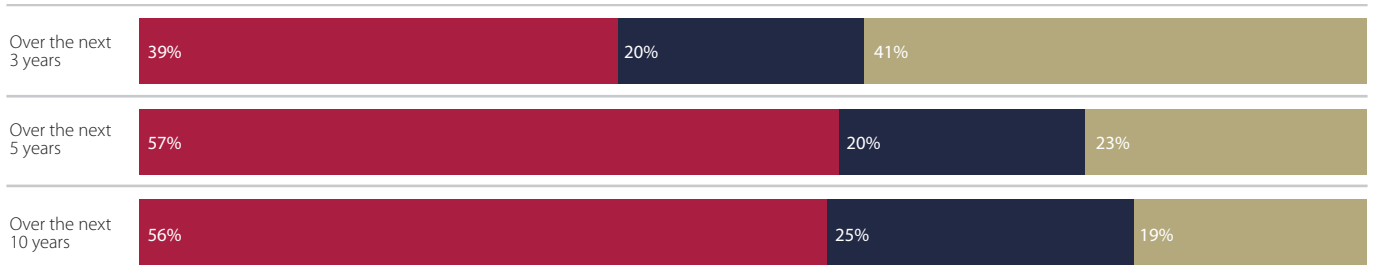
Most LPs expect African PE returns to outperform other emerging and developed markets over the next ten years

Figure 16: LPs' expectations about PE returns in Africa relative to other markets

Emerging and Frontier Markets



Developed Markets



■ African returns will outperform

■ African returns will be similar

■ African returns will underperform

Research Methodology

AVCA surveyed 58 LPs from across the world between July 2017 and October 2017. 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.

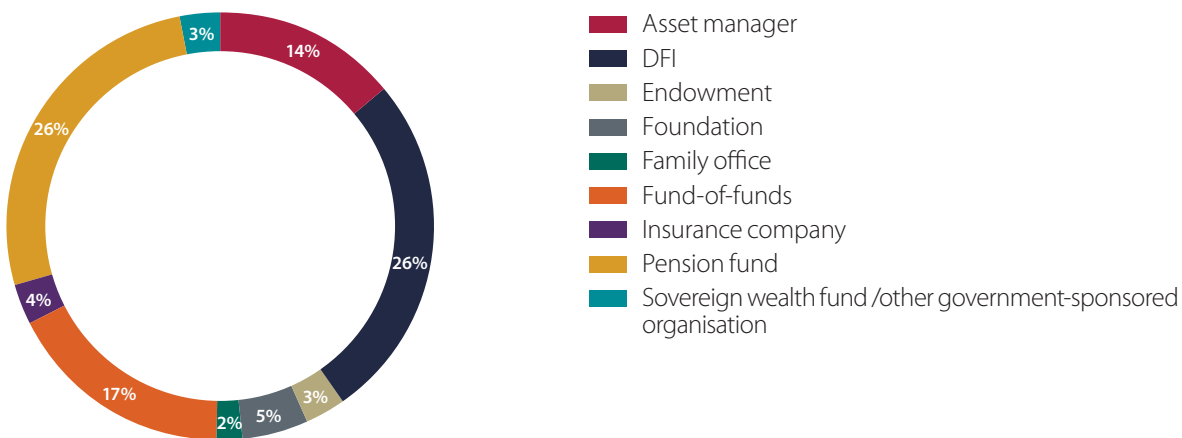
The survey was undertaken via an online questionnaire and incorporates the views of African and non- African investors who are currently invested in PE in Africa, as well as those who were not yet invested. Questions included LPs' views, plans and expectations for African PE.

Survey definitions and abbreviations

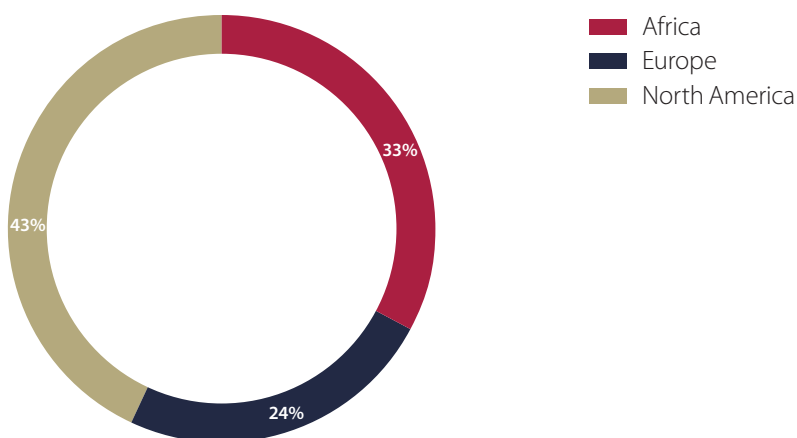
- Assets under management abbreviated to "AUM"
- Development Finance Institutions abbreviated to "DFIs"
- Emerging markets encompasses the private equity markets of all countries outside of the United States, Canada, Western Europe, Japan, Australia and New Zealand
- General Partners abbreviated to "GPs"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

Respondent Profile

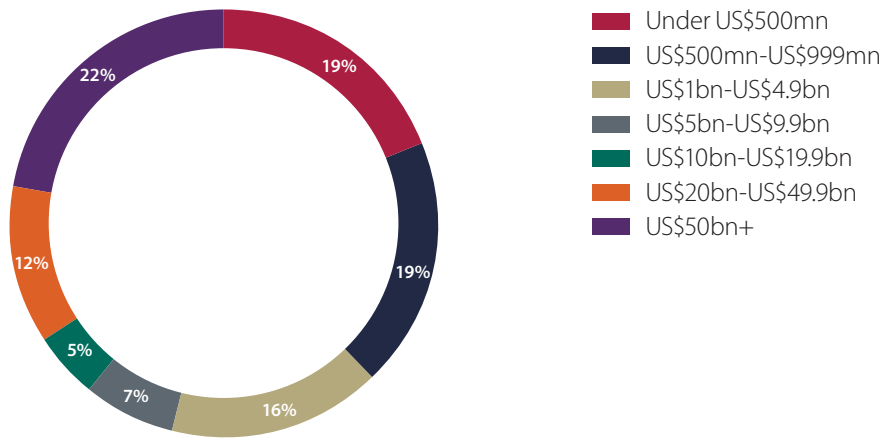
Type of organisation



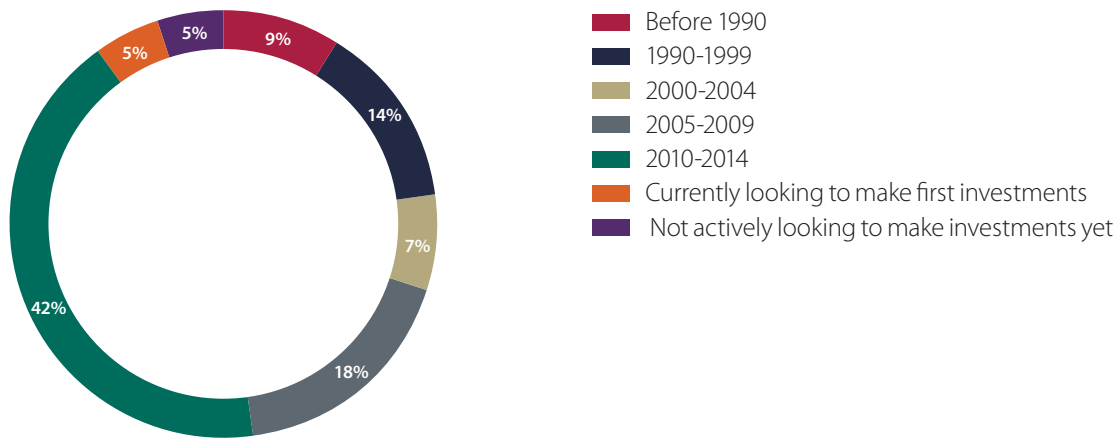
Head office location



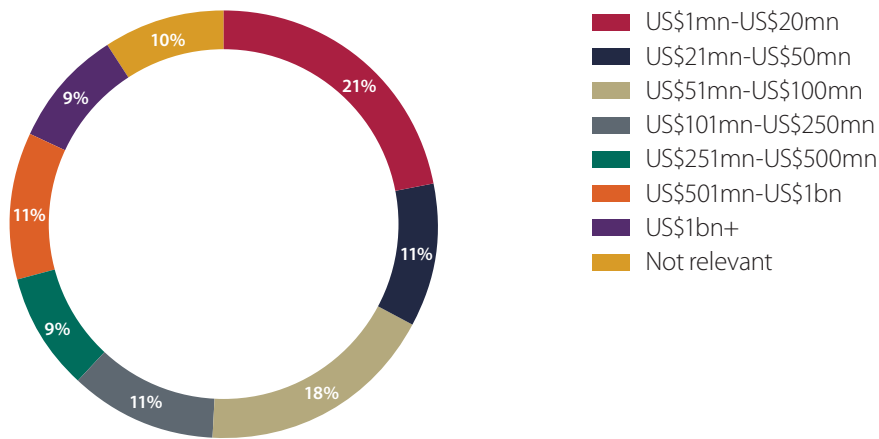
Total assets under management (all asset types)



Year organisation first started investing in African PE



LPs' current commitments to African PE



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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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