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THE AFRICA HANDBOOK 2012

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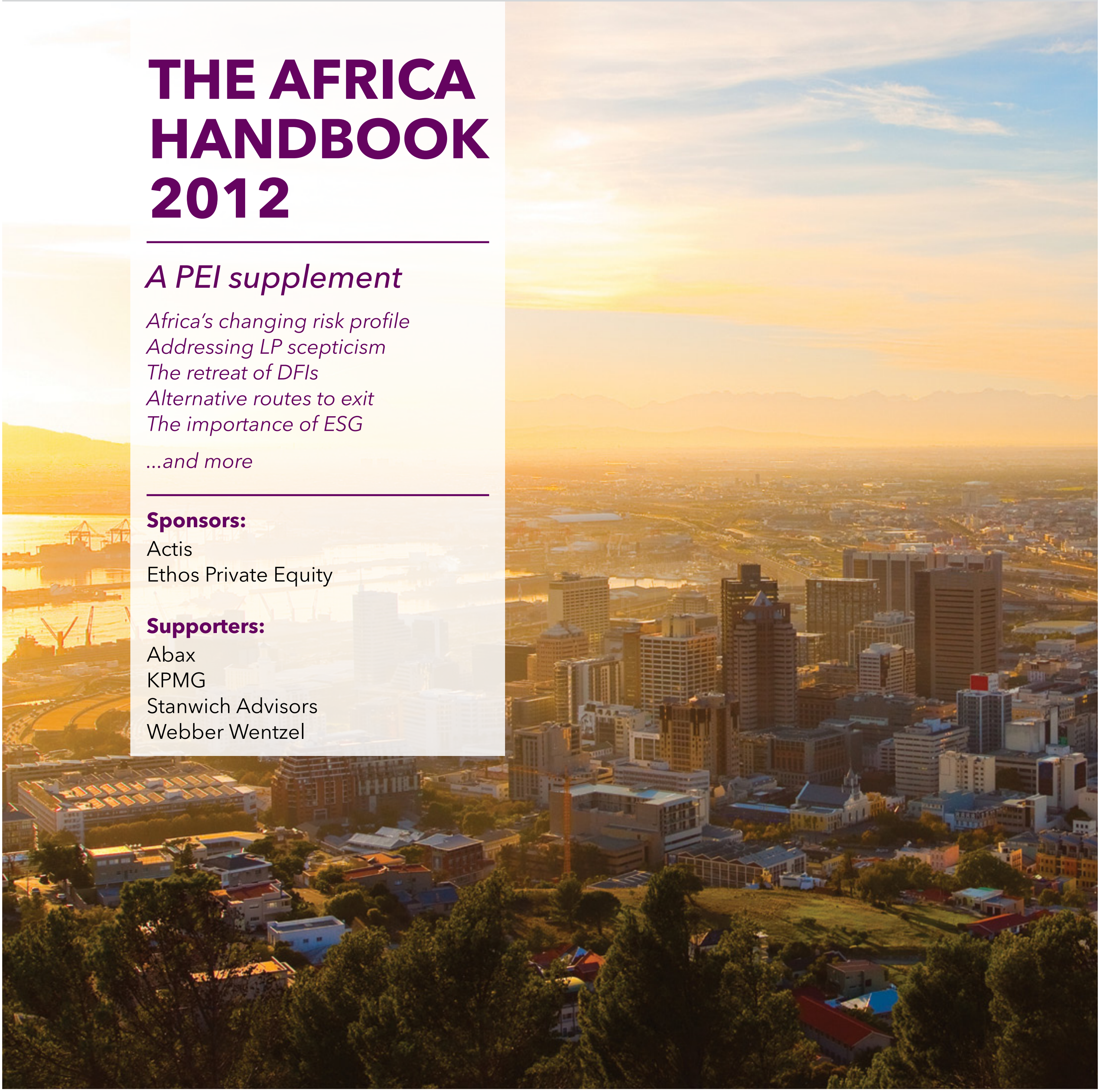

African investment round-up

Charles Daugherty, managing partner of Stanwich Advisors, casts an eye over developments in the African private equity market

STANWICH ADVISORS: FIRM PROFILE

Stanwich Advisors is a boutique investment bank that focuses exclusively on providing advisory and fundraising services to private equity and venture capital firms on a global basis. The senior members of the Stanwich Advisors team have worked together for an average of 12 years and have collectively raised in excess of $17 billion for more than 40 funds across a wide range of private equity strategies.

Over the past five years, Stanwich Advisors has been particularly active in emerging markets having successfully raised capital for pan-regional, sub-regional, and country specific funds in Latin America, as well as funds focused on China and India.

We have been active in emerging markets for many years, particularly in Latin America and Asia. Over the past 12–24 months, we have seen a significant increase in appetite from limited partners with whom we have close relationships for private equity strategies focused on Africa. Our experience is supported by a recent survey conducted by Coller Capital and EMPEA, which reported that a majority of respondents indicated that they are planning on expanding their activities in Africa or beginning to invest in the region over the next two years.

The increasing demand for Africa among institutional investors has been driven by several factors. First, Africa's significant natural resource endowment coupled with its expanding middle class and increasing consumerism have created positive growth dynamics across many industries that have historically been favorable for private equity investment. For example, the retail, telecom, banking, infrastructure, and natural resources sectors are all expected to present favorable private equity investment opportunities over the near term.

Second, Africa remains significantly underpenetrated from a private equity investment perspective, particularly when compared to its more popular emerging market peers. The relative scarcity of capital has created a view among some limited partners that investment opportunities in Africa may be less competitive than in markets such as China, Brazil or India, creating opportunities for well-networked and experienced private equity players to purchase stakes in high-quality companies at relatively attractive valuations.

Finally, over the last decade, there has been an emergence of several private equity firms in Africa, which have provided solid evidence that there is a positive role for private equity to play on the continent and that attractive investment returns can be generated by managers with specialized skills and expertise.

AFRICA PRIVATE EQUITY: EVOLVING MARKET PLACE

Africa is an enormous and complex continent consisting of over 50 countries, which often vary dramatically in terms of their economic, social and political conditions. As the private equity market continues to mature the differences between specific countries, markets, and regions will become more important as general partners seek to differentiate themselves in an evolving marketplace. Similar to what has occurred in other emerging markets, including Latin American and Asia, the African private equity market appears to be in the initial stages of a natural evolution in which:

1) Sub-regional and country specific strategies become more prevalent (as opposed to the vast majority of funds taking a pan-regional approach)
2) Experienced professionals spin out from established platforms to create their own firms
3) First time funds are founded by professionals with varying degrees of relevant experience (e.g., former entrepreneurs, operators, consultants, and/or investment bankers)
4) Large global players begin to enter the market

KEY CHALLENGES FOR LIMITED PARTNERS

In light of the evolving marketplace described above, particularly with regards to the growing number of spin-outs and first time funds, limited partners are faced with several challenges when looking to deploy capital in Africa. Among the most important and obvious considerations an investor must examine, apart from the macro opportunity, is a manager's investment track record. While private equity is not new to Africa, very few firms have deep track records making "traditional" private equity investments over multiple market cycles. In fact, in our conversations with limited partners, this consideration remains the largest deterrent for investors that are new to the region.

Investors must therefore understand the macro and micro drivers behind the investment opportunity and be clear in terms of what they must have as the sufficient evidence of necessary ability and expertise to execute against the opportunity. They must be prepared to "roll up their sleeves" to evaluate the return potential of unrealized portfolios, make value judgments with respect to key professionals' attribution at previous firms, and/or take first time fund risk with a manager that has skills and experience that serve as a close proxy to the ability to create value in private equity.

KEY CHALLENGES FOR GENERAL PARTNERS

While the challenges facing limited partners seeking to deploy capital in Africa are considerable, they often pale in comparison to those faced by local general partners that are looking to raise capital from international investors. The current fundraising market remains among the most difficult of the last two decades, driven primarily by the fact that many investors are currently over allocated to the asset class and/or are proactively looking to reduce the number of general partners in their portfolio.

The difficult fundraising environment is exacerbated by the fact that, according to Preqin, there are currently over 40 funds targeting more than $14 billion for strategies focused on Africa, which is more than the total capital raised for African private equity strategies over the previous five years. Within this context, it is important for general partners to focus their fundraising efforts on investors that have direct experience in, or specific allocations for, Africa rather than spending substantial time educating investors that are new to the region. In addition, it is critically important for general partners to effectively highlight those attributes that differentiate themselves from competing offerings. Finally, it is crucial for general partners to be armed with marketing materials that successfully address the increasing due diligence requirements of institutional investors.

CLOSING

Africa is an attractive and inherently complex market, which will play an increasingly important role within the portfolios of sophisticated institutional investors. As has occurred in other emerging markets, successful general partners will establish themselves as trusted destinations for large pools of capital while other managers will struggle to get institutional support and produce attractive returns. Stanwich Advisors is focused on partnering with high quality general partners to help them establish themselves as the next generation of institutional private equity managers. ■

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