

# **PRIVATE EQUITY**





Under Regulation 28 of the Pension Funds Act, retirement funds are limited as to how much they can invest in private equity (PE) funds. Currently, this limit is set at a maximum of 10% of a retirement fund's portfolio, with a likely increase to 15% if Regulation 28 draft amendments are to be adopted. PE funds are not regulated, but service providers – such as PE fund managers – are subject to South African legislation.



Retirement



Other institutional investors



Retail investors. incl. high-net-worth individuals



Collective Investment Schemes (CIS)

# Limited partners (LP)

Investors who commit a limited investable amount to the PE fund, which is drawn down by the fund manager as needed to make investments

### **General partner (GP)**

Typically a specialist PE manager that sets up the fund and invests alongside the limited partner (to show skin in the game)

Raise capital and set up a fund based on commitment from investors. Once the targeted fund size is achieved, a fund is typically closed for further investment (often >R250M).

The fund manager sells the fund's stake in the unlisted companies (often during year 7-10) and closes the fund after capital and profits have been shared between investors and managers.

The fund manager invests equity and/or debt in a small number of companies (often during year 1-3) that have undergone a thorough due diligence.

> The fund manager actively manages investments to ensure high financial returns (sometimes social and/or environmental impacts are also achieved).

# Partnership agreement

#### PE fund manager

- Specialist PE investment team
- Manages based on the fund mandate
- Builds a pipeline and invests
- Actively involved in the underlying investments in order to unlock value
- Ensures the fund is correctly exited
- Ensures the investments are sold at a profit
- Returns profits to investors (often at the close of the
- Collects a management fee (often 2%) and share in fund profit (often 20%) above a hurdle rate



## Geography

Geographic focus varies, depending on fund mandate



#### Sector

Various, consider high growth and ability to exit



#### Size

Usually medium to large unlisted companies



#### **Impact**

Can consider social and/or environmental impact, such as job creation



## Exit strategy

Considers how it will exit, e.g. sell to other investors, or list on stock exchanges

**Building blocks for** private equity investing