



## **An introduction to Old Mutual Private Equity Secondary Fund**

### **1. Overview**

Old Mutual is pleased to launch the Old Mutual Private Equity Secondary Fund (OMPESF), a unique private equity secondary fund with exposure to a fully invested portfolio of some of the most attractive private equity assets in South Africa.

The fund is managed by Old Mutual Investment Group (OMIGSA) Private Equity. It is invested in two underlying private equity funds which are fully invested with exposure to thirteen companies across a variety of industries and investment vintages. The unique benefit of investing in a secondary private equity offering is buying into a fully invested portfolio of investments, allowing an investor to take an investment view based on the actual portfolio of assets

The salient features of some of the underlying companies are set out at the end of this document. These companies are established, high quality businesses with strong franchises which provide investors with exposure to, inter alia, the following investment themes:

- The emerging middle market
- The ongoing electricity capacity build
- SA Tourism; and
- The industrialization of the East and impact on demand for natural resources

The fund was launched on 1 October 2009 with limited capacity.

### **2. Why invest in private equity?**

Private equity entails the investment of equity (and quasi-equity) capital into companies that are generally not quoted on a public stock exchange. As an asset class, private equity has historically over the long term delivered higher returns to investors than the conventional equity

market, while also offering a diversification benefit to a typical portfolio. Data from the US (which has the longest experience of the asset class and also a large number of private equity funds) shows outperformance of more than 10% net of all fees over 20 years<sup>1</sup>. This experience has also been confirmed in other markets<sup>2</sup>.

There are several reasons why private equity investments would outperform over the longer term including active shareholder involvement, alignment of interests, long term focus, speed of decision making, management focus, optimized capital structure and information propriety. A fuller analysis of these factors is attached as an annexure.

As an asset class, private equity provides a diversification benefit. Statistical evidence in the US has shown that private equity funds on average have 60% of the volatility of the S&P 500 (Source: Cambridge Associates). Reasons for this include a preference for businesses with strong predictable cash flows, a limitation on overly aggressive expansion strategies by management (given higher leverage) and focused shareholder attention.

Private equity as an asset class provides long-term investors with a diversified, premium source of equity exposure for their portfolio.

### **3. Why invest in the Old Mutual Private Equity Secondary Fund?**

- OMPEFSF provides investors with access to a fully invested portfolio of some of the premier private equity assets in SA, spread across different investment vintages and exciting investment themes. This is a unique opportunity for investors to gain access to private equity by taking an investment view based on the actual portfolio of assets
- OMPEFSF is managed by OMIGSA Private Equity, one of the most experienced private equity managers in South Africa (12 professionals with over 120 years of collective private equity experience<sup>3</sup>), with an extensive track record of delivering high returns and unlocking value
- Old Mutual provides investors in OMPEFSF with a unique liquidity mechanism that allows them to exit the investment in any quarter, although investors should be considering an investment in this asset class for capital with a long term horizon.
- Old Mutual provides investors in OMPEFSF with a unique gearing facility that serves to optimize capital flows and will further enhance returns
- Part of the highly respected Old Mutual Group, providing world-class governance and administration standards

#### **4. Portfolio of assets**

OMPESF will be invested 33% in OMPE Fund I and 67% in OMPE Fund II. The portfolio will have a leverage facility of up to 40% of NAV, which will accrue interest at prime. It is expected that the debt will be substantially repaid within the short to medium term as OMPE Fund I (which is a relatively mature fund) investments are exited.

The entire portfolio consists of thirteen investments, with the largest seven investments, which constitute approximately 90% of the portfolio, summarized below:

##### **Pepkor**

- Pepkor is an established market leader in value retail clothing across Southern Africa with brands like Pep, Ackermans and Best & Less (in Australia)
- Partnering the founder of the business and one of SA's leading entrepreneurs, Christo Wiese
- Core attraction: Well placed to capitalize on the emerging middle class with high cash generation and growth opportunities in Africa and offshore

##### **Life Healthcare**

- The primary business of Life Healthcare is acute hospital care. Life Healthcare is one of the largest three healthcare groups in South Africa, the remaining two, Medi-clinic and Netcare are both listed on the Johannesburg Stock Exchange
- Core attraction: Defensive play with strong position in SA market and high barriers to entry

##### **Actom**

- Actom (previously Alstom) is one of the largest manufacturing, trading and contracting businesses in the South African electrical engineering sector, operating from 22 production facilities, 21 distribution centers and 26 operating units
- Core attraction: Well placed to benefit from the Eskom capacity enhancement over the medium and long term

## **Consol**

- Consol is South Africa's largest manufacturer and supplier of glass packaging products. The business has a market share of the South African glass packaging market of some 75% and is the principal supplier of glass packaging to some of South Africa's leading food and beverage companies
- Consol: Entrenched market position and high barriers to entry

## **Shanduka Group**

- Shanduka Group is a privately held black-owned investment holding company which has Cyril Ramaphosa as its largest single shareholder. Shanduka is recognized as one of the pre-eminent BEE entities in South Africa and owns interests in a variety of blue-chip companies. Shanduka is materially exposed to the mining/resources (notably coal and iron ore) and financial services industries in South Africa
- Core attraction: Premier black-owned investment holding company with high quality assets and well placed for future opportunities

## **Idwala**

- Idwala is a vertically integrated supplier of lime and industrial minerals. Its two main products, lime and calcium carbonates, are used in a variety of applications in the mining and industrial markets
- Core attraction: Very strong market position, very high barriers to entry and good growth opportunities in Africa

## **Tourvest**

- A leading tourism company that offers a wide range of business and leisure travel services and experiences through a range of tourism based businesses. The businesses include the following: corporate travel agents, leisure travel agents, the provision of foreign exchange services to inbound and outbound travelers, the operating of tourism based retail stores, tour operators and the ownership and operation of several small hotels and restaurants
- The business is also one of the main inbound operators for the sponsors attending the World Cup 2010 to be hosted in South Africa
- Pure play on tourism in SA, which we believe to be a growth area going forward

1. Thomson Financial/ National Venture Capital Association Survey Sep 2009
2. "Is private equity a suitable investment for South African Pension funds?" Missankov et al Oct 2006
3. Source: OMIGSA

### **Statutory Information**

Old Mutual Investment Group (South Africa) (Pty) Limited is a licensed financial services provider, FSP 604, approved by the Registrar of Financial Services Providers ([www.fsb.co.za](http://www.fsb.co.za)) to provide intermediary services and advice in terms of the Financial Advisory and Intermediary Services Act 37 of 2002. Old Mutual Investment Group is a wholly owned subsidiary of Old Mutual (South Africa) Limited. Reg No 1993/003023/07.

The investment portfolios are market-linked. Products may either be policy based or unitised in collective investment schemes. Investors' rights and obligations are set out in the relevant contracts. Market fluctuations and changes in rates of exchange or taxation may have an effect on the value, price or income of investments. Since the performance of financial markets fluctuates, an investor may not get back the full amount invested. Past performance is not necessarily a guide to future investment performance. Contractual rights and obligations of investors in these funds are subject to contract. Private Equity investments have short term to long term liquidity risks and there are no guarantees on the investment capital nor performance. The value of the investment may fluctuate as the value of the underlying investments change. Past performance is not necessarily a guide to future investment performance.

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## Annexure

- **Active shareholder involvement:** A private equity investment typically entails a business being owned by one or more private equity managers (normally a controlling interest), management and a black empowerment or other strategic shareholder – a very focused shareholder base. The private equity managers are represented on the board of directors and are actively involved in the business, providing management with strategic direction and regular and pro-active support. In contrast, listed equity shareholders are typically much more fragmented, more reactive and passive, and have very little ability to pro-actively influence strategy on a coherent basis (strategy is typically driven by management and non-executive directors, not shareholders). The focus of private equity managers is also on enhancing the value of the business, while the focus of portfolio managers in the conventional equity space is more on determining the value of a business,
- **Alignment:** Both the private equity managers and management are incentivized based on the return achieved upon exiting (selling) the investment. There is consequently perfect alignment between investors, private equity managers and management. In the listed equity environment, alignment between shareholders and management is more complex, usually more short-term, and not always achieved.
- **Long-term focus:** Given that the objective is to grow and build the business for the long term (only a good exit will ensure good returns), the focus in a private equity investment is typically more long-term and strategic, compared to the listed environment where the focus at times can be short-term and earnings-based.
- **Decision-making:** The focused and involved private equity shareholder base can typically make decisions very quickly, based on full information, leading to relevant decisions based on relevant information. In the listed environment, information dissemination to shareholders and decision making by shareholders are heavily regulated and often cumbersome.
- **Management focus:** Management of a private equity investment is typically continually focused on building and enhancing the value of the business for the long term with a specific focus on cash management, rather than short-term profits. In the

listed environment, management also spends a significant portion of their time engaging with a broad shareholder base and other external stakeholders like the media.

- **Optimized capital structure:** Private equity investments typically have higher debt levels than their listed counterparts. While this increases financial risk, it is done judiciously and aimed at ensuring an optimal capital structure, which in turn is aimed at enhancing returns. Lazy balance sheets are not tolerated.
- **Information Propriety:** Competitive and other strategic information of privately owned companies does not have to be made publically available and is therefore not accessible by competitors.