Private Equity in Africa – an investors perspective

Nigeria private equity roundtable

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CDC Background

- **CDC is the UK development finance institution (DFI)**
- **CDC's mission is to foster growth in sustainable businesses, helping raise living standards in developing countries**
- **It was founded in 1948 and has been investing in Africa since then**
- **CDC's geography covers Sub-Saharan Africa and South Asia**
- **Portfolio value of GBP 1.9bn**
- **71 fund managers**
- **930 companies**

(Data as of December 2010)

Strategy 2004- 2010

- Introduction of Fund of Fund model
- Concentration on Sub-Saharan Africa and South Asia
- CDC committed GBP 2bn in SSA in period
- Assets increased three fold (including legacy assets)

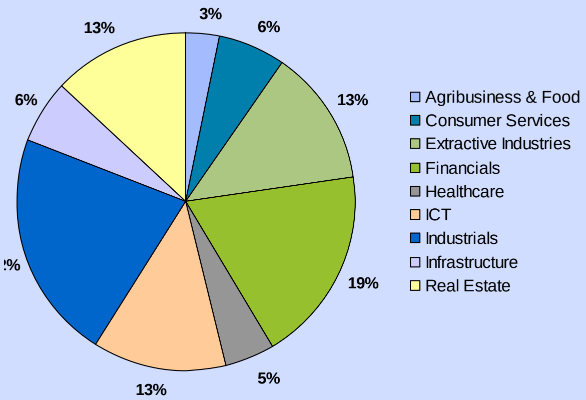
Strategy 2011-2015

- CDC's prime investment focus will remain PE funds (60%)
- Direct participations through co-investments will amount to 20% of portfolio by 2015
- Debt products will amount to 20% of portfolio by 2015
- Will invest GBP 1.2bn in SSA
- Strong focus on Low Income Countries and Low Middle Income Countries
- UMICs will be avoided except where it facilitates further investment in LICs and LMICs

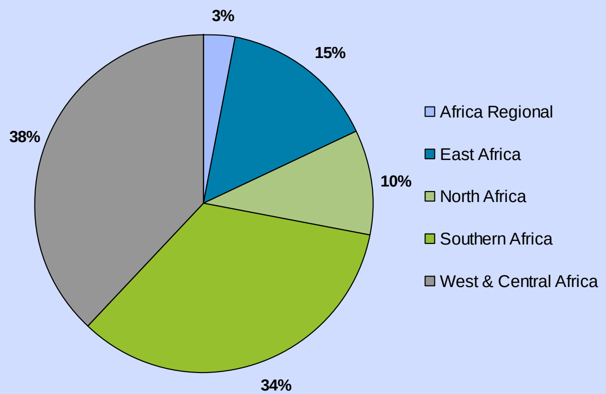
CDC Portfolio in Africa

EXPOSURE

Sector exposure, as of December 2010



Geographic exposure, as of December 2010



Source: CDC

PERFORMANCE (2004- 2010)

IRR (%)

CDC's PE African funds portfolio	Cambridge Associates Emerging Markets VC/PE Index	Cambridge Associates US PE Index
XX%?	14.1% (1)	9.1% (1)

Note: (1) over 5 years period

CDC Portfolio in Nigeria

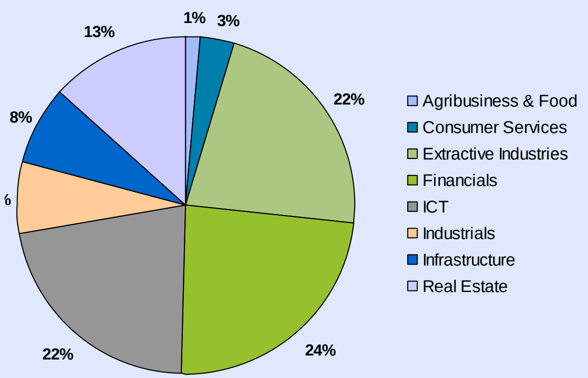
CDC invested in Nigeria through local managers African Capital Alliance, Adlevo and Travant and through pan African fund managers that include Helios, Aureos, Actis and ECP;

CDC resumed investment in Nigeria in 1998 with a commitment to CAPE I which returned about 14% gross

Lessons learnt

- The quality of fund managers is key: (i) the three Cs: composition, cohesion, character
  (ii) sourcing, analysis, execution, management, exit
- Ensure strong alignment of interests with GPs
- Back teams with strong local offices and a true commitment to the country (fly-in fly-out rarely works)
- Negotiate hard on legal/commercial terms, Europe/US terms may sometimes be too relaxed (but don’t overdo it as you can kill the alignment of interests)
- Monitor your portfolio and visit the team and investee companies on the ground regularly
- ESG is key, and its starts with the G

SECTOR EXPOSURES (as of Dec 2010)



GROSS IRR (Dec 2010)

Agribusiness & Food	35.90%
Consumer Services	34.75%
Extractive Industries	19.30%
Financials	0.50%
ICT	53.56%
Industrials	24.41%
Infrastructure	27.88%
Real Estate	28.13%
Total Nigeria	30.02%

Nigeria exemplifies some of the risks associated with PE in Africa

The lack of private equity fund managers remains the key issue

Either obtain opt out rights from investments outside Nigeria (after the allocated 25%), or help the local industry grow

Factors likely to deter LPs from beginning to invest in individual emerging markets/regions over the next 2 years – % of respondents

	Limited number of established GPs	Scale of opportunity to invest is too small	Entry valuations are too high	Weak exit environments	Challenging regulatory/tax issues	Political risk
China	7%	7%	45%	14%	31%	24%
India	14%	0%	58%	14%	8%	11%
Other Emerging Asia	38%	19%	4%	35%	12%	19%
Russia/CIS	25%	12%	2%	17%	30%	63%
Turkey	28%	23%	5%	12%	7%	12%
Central & Eastern Europe	19%	16%	5%	27%	11%	16%
Brazil	11%	3%	31%	11%	11%	3%
Latin America (ex Brazil)	32%	19%	16%	10%	10%	23%
MENA	39%	33%	2%	14%	12%	32%
Sub-Saharan Africa (inc S. Africa)	47%	24%	2%	14%	12%	39%

Source: Coller Capital

Pension funds as investors in African private equity funds

“Pensions funds are uniquely positioned to manage the long investment term and limited liquidity of private equity investment to capture what appears to be significant performance premium and diversification benefits”

Source: EMPEA

- Public equity cannot be for Nigerians, and private equity for foreigners
- PE is more stable than capital markets, therefore a good diversification tool (shareholder activism)
- Private equity offers a diversified access to the local economy where pension funds are based
- Pension funds are THE long term asset manager
- It is imperative to have the capacity to evaluate funds properly. The strength of the pension fund processes and knowledge of the PE market are key
- DFIs are keen to push see more participation from pension funds
- Regulators are right to stress that capital conservation is key but risk perceptions on PE in Africa are not justified.
- Africa offers some of the best returns, thanks to both growth and increased sophistication of the players