



KEYS TO THRIVING WHEN ECONOMIES TURN DOWN

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ABOUT THE AUTHOR

Paul's entire career has been in investment and capital markets. He is responsible for the teams that originate and manage Old Mutual's investments in infrastructure, private equity, impact investment (housing and schools) and mezzanine debt.

While the recent positive GDP growth numbers were widely welcomed – officially taking us out of a recession – the South African economy remains weak. The data shows that private fixed investment continues to shrink, reflecting the extremely low business confidence as well as the policy and political uncertainty. This makes for a tough environment for private equity investors – both in terms of generating returns and unearthing new opportunities.

The deteriorating economic environment requires a breed of private equity managers that are both adaptable and innovative – the proof of which is reflected in the performance of private equity funds. 2016 was a challenging year in which to find investment opportunities that showed the potential to deliver attractive returns and create the houses, schools, roads, power plants, thriving new businesses and, of course, the jobs that are so vital for the country's future prosperity. 2017 is proving to be equally challenging, but is by no means without prospects.

The Southern African Venture Capital and Private Equity Association (SAVCA)'s 17th annual Private Equity Report included many positive findings. In 2016, private equity funds under management grew by 7.7% to R171.8 billion, up from R158.8 billion in 2015. And there was also a marked increase in capital returned to investors, up a phenomenal 123%, at R18.3 billion.

However, there was a 63% fall in capital raised (R10.2 billion versus R27.5 billion in 2015) – indicating a more difficult investment backdrop. Compared with what was admittedly

a record year for funds raised in 2015, this fall is a clear demonstration of the headwinds faced by the country and the private equity industry.

EXPERIENCE MATTERS

Old Mutual Alternative Investments is fortunately well positioned to meet these challenges. Our experienced investment teams have built strong partnerships with companies and advisors across the industries in which we invest. Moreover, being SA based means that we know our local markets and have built strong relationships on the ground that provide us with access to opportunities not always available to foreign-based private equity firms.

And because our investment ethos is to leave absolutely nothing to chance, with no proverbial stone unturned, we have been able to back many projects that continue to provide solid and sustainable returns to investors.

By its very nature, private equity is a longer-term financial commitment, usually of five to seven years or more, which enables our industry to deal with the economic and industry cycles, including downturns that are inevitably part of any investing programme. And despite sluggish growth in the overall economy, we remain focused on identifying investment opportunities that show potential to deliver appropriate returns over the longer term.

We are therefore optimistic and remain firmly focused on finding and investing in opportunities that are beyond the obvious to bring prosperity to investors and South Africa.



KEY TAKEOUTS:

- PRIVATE EQUITY ADAPTS TO A LOW-GROWTH WORLD
- LACK OF FIXED INVESTMENT LIMITS OPPORTUNITIES
- ON-THE-GROUND EXPERTISE IS KEY