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Where excellence prevails

BPS 2016 Annual Conference –

Private equity, retirement funds and job creation

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Structure of Presentation

- Unemployment Stats
- The role of Private Equity for retirement funds
- The role of Private Equity for economic development
- Private Equity in Southern Africa
- Asset allocation in Botswana
- Trends for Private Equity investments
- Considerations for retirement funds and other key stakeholders
- Developing economically targeted investment strategies
- Case Studies

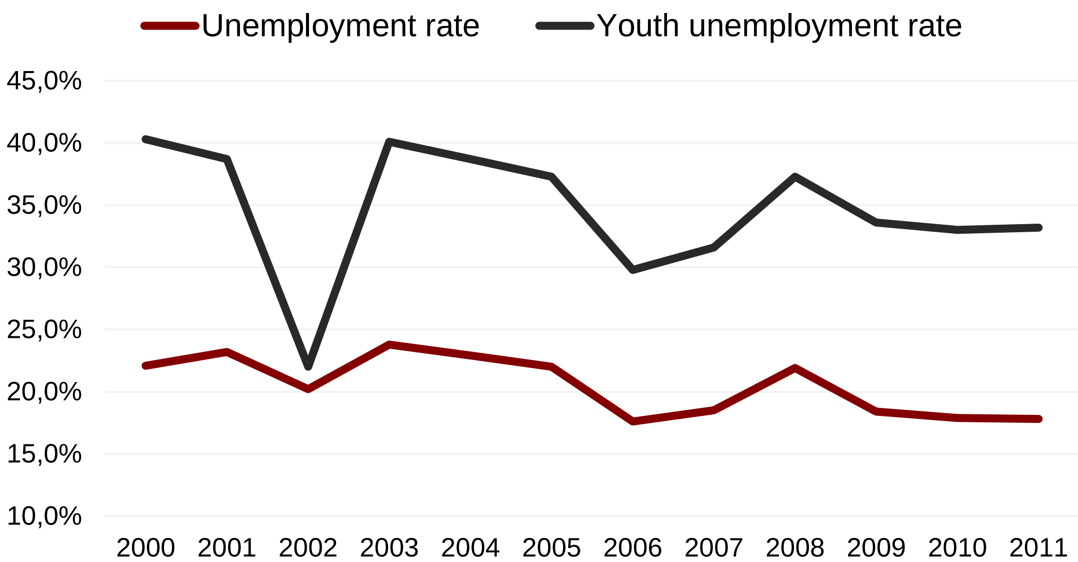
Executive Summary

- Retirement savers have a clear interest in stable and sustainable economic growth.
- The health of the economy has a double impact on savers' prospects of a decent and secure retirement, affecting both long-term investment returns and their general quality of life as jobholders and taxpayers.
- Our economy is approaching a period of transition and structural changes.
- The challenge for retirement funds, regulators, service providers, and Government is to reassess how to best achieve the investment objectives of our long-term savings with a consideration for the long-term development objectives of the country.
- Considering what range of investments would be needed to improve the economic environment for job creation and deliver attractive risk adjusted returns for long-term savings.
- Private equity and other alternative investments offer opportunities for retirement funds to expand their investment portfolios to include specific job-creating investments.

How can we mobilise domestic saving resources to support private sector development, as well as the investment in infrastructure and social services that we so desperately need to drive economic growth and job creation?

Unemployment - Brief Stats

- Latest unemployment rate is 20% according to the BAIS IV 2013.
- Over the past few years there has been a rapid increase in youth unemployment.
- Botswana's youth unemployment is second highest in middle income countries at 24%.



Source: Botswana Aids Impact Survey

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Private Equity as an asset class

- **Equity**
  - **Real Estate**
    - Real Estate (individual investments)
    - Real Estate Fund
  - **Public Equity**
    - Public Equity Fund
    - Direct Public Equity (individual companies)
  - **Private Equity**
    - Direct Private Equity (individual companies)
    - Private Equity Fund
    - Venture Capital Fund

The role of Private Equity for retirement funds

Long-term investment horizon	With an average fund life cycle of 8-10 years, it is the long-term nature that makes it a particularly well-suited investment for retirement funds
Larger investment universe	The potential shopping list of investments is magnitudes greater than local public markets
Lower volatility	Valuations are based on detailed quarterly assessments of business performance and less on temporary market sentiment
Performance	Potential for outperformance to compensate for illiquidity premium
Transparency and accountability	Investors can usually dictate terms much more easily, and hold management accountable to performance targets and milestones

The role of Private Equity for economic development

PE provides growth capital to private companies, creating jobs, sustaining economic growth and stability to an expanding and youthful population

PE is helping the continent's economies to diversify away from resource-driven growth

Sectors such as financial services, fast-moving consumer goods, retail, education and health care continuing to benefit from the bulk of PE investment

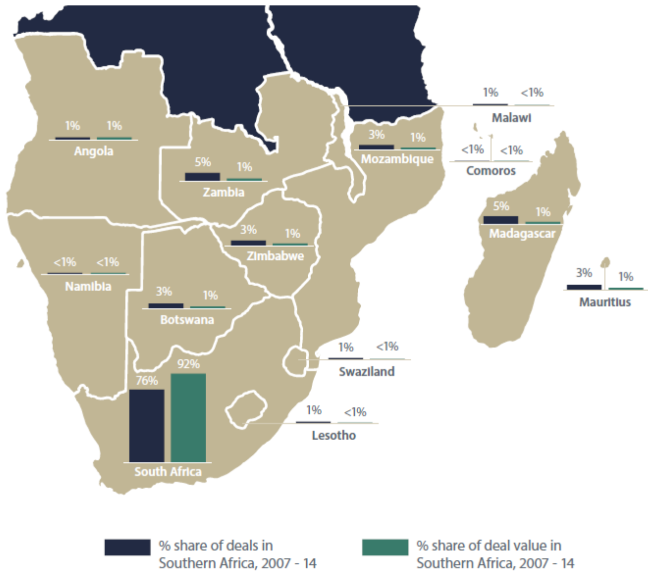
PE is moving out of its infancy to become a well-established part of the region's investment landscape

Emergence of niche PE strategies, such as funds focused on infrastructure and impact investing

Spotlight on Private Equity in Southern Africa

- Between 2007 - 2014, there were 341 reported PE deals in Southern Africa totalling US$6.7bn.
- South Africa has the most mature and sophisticated market for PE on the continent, accounting for 76% of the deal volume.
- Botswana accounted for 3% deal volume.
- There were 127 PE exits in Southern Africa from 2007 – 2014.
- Given the relative nascence of many of the region's economies, smaller deals tend to dominate the African PE landscape.

Number and value of PE deals in Southern Africa, by country, 2007 - 2014

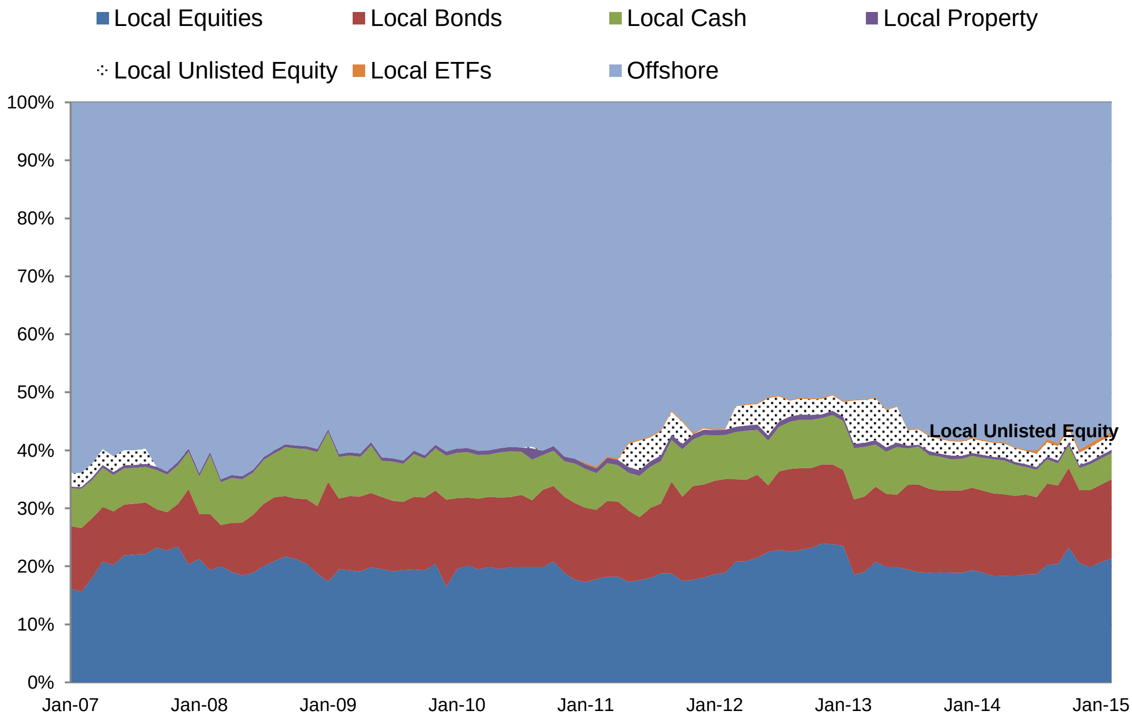


Southern Africa includes Angola, Botswana, Comoros, Lesotho, Namibia, Madagascar, Malawi, Mauritius, Mozambique, South Africa, Swaziland, Zambia and Zimbabwe

Source: African Private Equity and Venture Capital Association

Distribution of retirement fund assets in Botswana

- **Development finance institutions (DFIs) have led the way in local PE market development**



Local unlisted investments contribute 2.5% of total pension fund assets of P58bn

Source: Ministry of Finance and Development Planning, NBFIRA

Retirement assets available for private equity

Country	AUM (BWP m)	Allocation to PE (limit)	Available for PE (BWP m)*
Botswana	**58,000**	**20%****	**11,600**
Ghana	24,700	unclear	1,235
Kenya	69,160	10%	6,916
Namibia	94,620	1.75%-3.5%	3,310
Nigeria	237,500	5%	11,875
Rwanda	4,580	10%	458
South Africa	3,060,000	10%	306,000
Tanzania	30,000	5%	1,500
Uganda	14,250	unclear	713
Zambia	17,100	unclear	855

*Where limits are unclear, assumed 5%; **Prudential limit for unlisted local equity
Source: Pension Funds and Private Equity Report

Retirement funds participation in Private Equity

Drivers of Greater Local Pension Fund Participation

Regulatory Environment
- Evolution of pension funds
- Mandatory retirement contributions
- Permitted pension fund allocations to private equity

Macroeconomics
- Compelling growth story, expansion of middle class
- Prudent fiscal policies reduce bond spreads
- Low interest rates fuel search for yield

Demographics
- Young, rapidly growing population...
- ...fuels steady increases in pension fund AUM
- Younger population has greater risk appetite

Private Equity
- Greater awareness and understanding of private equity
- Demand for access to unlisted SMME companies
- Emergence of proven track records of fund managers

A number of trends are converging forcing retirement funds to reconsider allocation to PE

Source: Pension Funds and Private Equity Report

Considerations for retirement funds and key stakeholders

- Re-thinking investment strategies towards local investments, to provide a significant economic contribution to Botswana while providing **attractive long-term risk adjusted return profiles.**
- Implementing Developmental Investment Policies (“**Economically Targeted Investment Strategies**”)
  - Investments in economic infrastructure
  - Investments in social infrastructure (including healthcare, education, and affordable housing)
  - Investments in sustainability projects
  - Investments in enterprise development (SMMEs) / citizen economic empowerment

Definition	An investment which has collateral intent to assist in the improvement of the national economy and in the economic well being of its residents

Economically Targeted Investment Strategy

The primary objective is to…

Sustainably invest In assets more intrinsically linked to the growth of the Botswana economy

…collateral benefits are measured in **greater employment**, opportunities for women and youth-owned businesses, increased affordable housing, **improved infrastructure**, and stronger and healthier communities

…to discover and invest in opportunities that may have been bypassed or not reviewed by other traditional sources of investment capital

…consider only ETIs which when evaluated solely on the basis of economic value, would be **financially comparable to alternatively available traditional investments**

Financing of innovations that improve economies' competitiveness and generate growth for long-term investment

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Economically Targeted Investment Strategy

Benefits	Can achieve competitive returns Can provide diversification to overall investment program May create jobs May provide infrastructure improvements May create affordable housing May produce safer, healthier communities
Challenges	May be difficult to identify investments expected to provide market return Investment opportunities may be too small (big) for large (small) institutional investors May not be able to achieve reasonable diversification May be difficult and costly to identify and evaluate potentially viable investment opportunities Time and resource intensive depending upon implementation Shortage of data and benchmarks Negative perceptions for private equity

Economically Targeted Investment Strategy - Case Study 1

South Africa – Government Employee Pension Fund (GEPF)

- GEPF established a development investment fund (Isibaya Fund) in 1999.
- The Isibaya Fund is managed by the Public Investment Corporation (PIC) with the objective of investing in projects that will have a positive social impact on the citizens of SA.
- It is targeted at providing finance for projects that support the long-term economic, social and environmental growth of SA and the rest of the African continent.
- Isibaya Fund focuses on three types of investments, namely private equity/direct investment, fund of funds and infrastructure.
- In 2010 GEPF committed that 5% of assets under management must be made in developmental investments.

Economically Targeted Investment Strategy - Case Study 1

South Africa – Government Employee Pension Fund

- In 2013, PIC allocated an additional R13-billion to Isibaya for investment in various sectors of the economy to create 10,000 new jobs.
- Isibaya created 3 new funds:

Environmental Sustainability Fund (R5bn)

Investing in renewable-energy projects, energy efficiency, energy storage, clean energy and recycling projects.

Target – 3,000 new jobs

Priority Sectors Investment Fund (R3bn)

Investing in manufacturing, agriculture, tourism, mining beneficiation and agro-processing sectors.

Target – 3,000 new jobs (25% in rural areas)

South African Private Equity Fund (R5bn)

Investing in medium to large capital buy-outs, as well as mergers and acquisitions

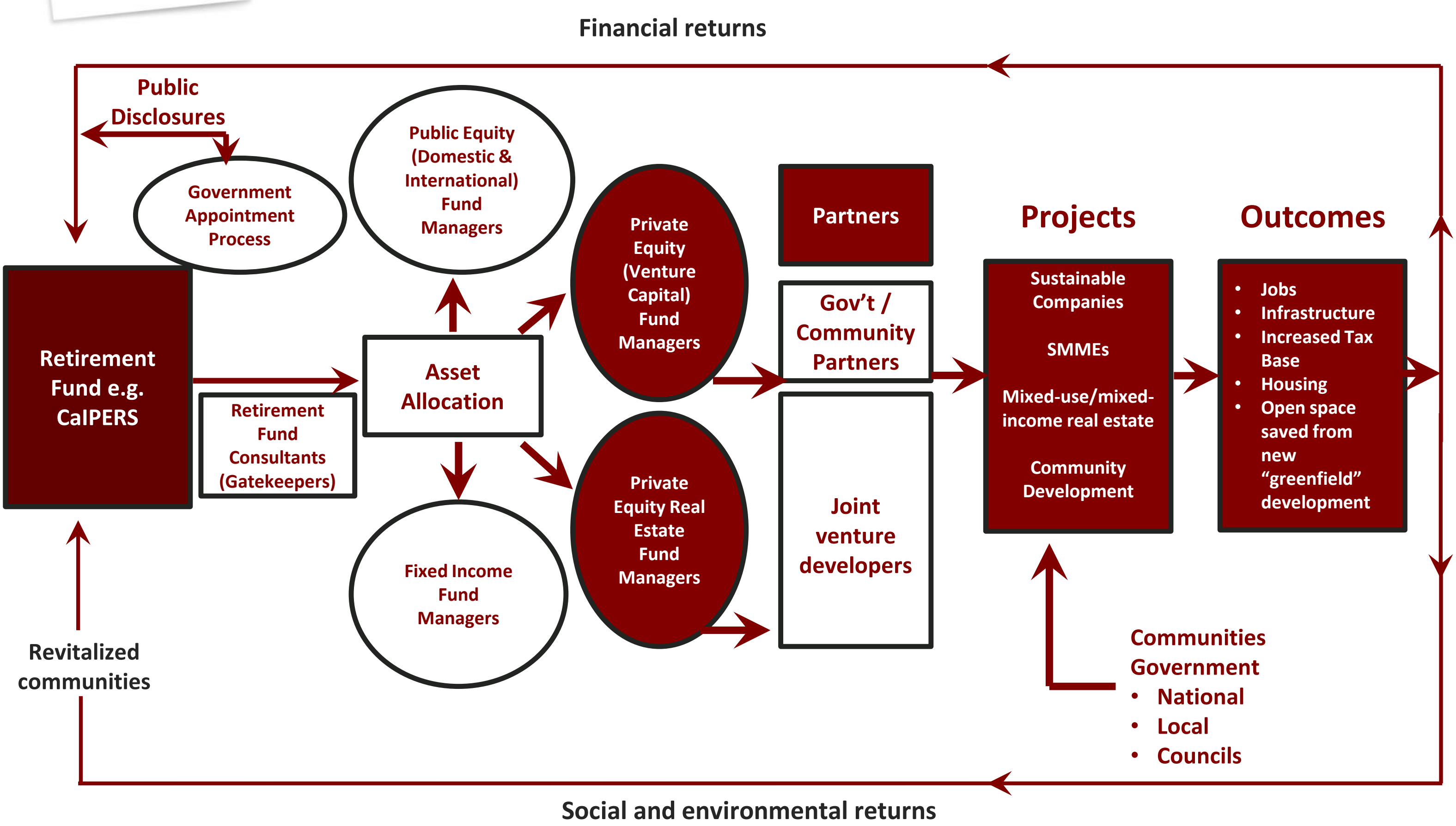
Economically Targeted Investment Strategy - Case Study 2

United States – California Public Employees' Retirement System (CalPERS)

- CalPERS adopted an Economic Targeted Investment policy in 1993 to invest in projects that will have a positive social impact.
- The geographic area of focus was the state of California.
- CalPERS is widely recognised as the global benchmark for ETIs.
- Successfully invested in over 500 emerging companies since inception with more than 50 going public.

Economically Targeted Investment Strategy - Case Study 2

United States – California Public Employees' Retirement System (CalPERS)



Economically Targeted Investment Strategy

Successes and Failures

Successes

Contra Costa retirement fund:

On $15 million investment, Contra Costa has earned since inception (2005) Private Equity IRR of 29.2% versus benchmark (S&P 500 + 4%) return of 8.3%

New York City Employee Retirement System:

Earned 10-year return on program of real estate debt-oriented investments of 6.4% versus a custom benchmark return of 5.7%. Currently has $500M invested

Failures

Connecticut public employees' state pension fund:

Invested directly in failing company to save jobs. Company folded and over 80% of investment was lost

Alaska public employees' state pension fund:

In-state mortgage loans comprised 35% of fund assets. Oil price collapse in 1987 caused 40% of those loans to become delinquent or to foreclose

Important factors to consider when evaluating PE investing

- Understanding and evaluating the risks involved and an assessment of how PE fits in with your investment policy and strategy.
- Regulation
  - Investment rules and restrictions for the asset class
  - Limit of 20% for domestic unlisted investments and 2.5% for offshore Private Equity as per PFR2
- Identify managers that you are willing to back:
  - Track record of previous investments through to exit
  - Quality of network to source, manage and support target companies
  - Operational expertise in target sectors
  - Length of working relationship among senior investment team (General Partner)
  - Active management & reporting of ESG risks
  - Participation by known LPs and amount of GP commitment to fund
  - Distribution of carry among team

Conclusion

- Government alone cannot carry the burden of economic development and job creation.
- Retirement funds serve as vehicles for capital formation and, thus, as potential sources of economic development by pooling domestic resources that can be mobilized for long-term investment.
- Sustainability of the retirement funds investment portfolio should be more intrinsically linked to the growth of the Botswana economy.
- Retirement funds can get involved as an enabler, provider and activator to ensure more high profile companies are built by locals to which tomorrow's young people can look to and be motivated and inspired to venture in to business.

Our Promise

As stewards of our clients' capital, we will act with integrity and honesty at all times.

We will always be consistent with our greatest asset – our investment philosophy and process.

We will run our firm with excellence, professionalism, dedication and innovation and will always respect the individual, be transparent and offer clear reward.

We will be cognisant of the needs and requirements of society and endeavour to play an active role in the upliftment and development of the community.

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Thank You