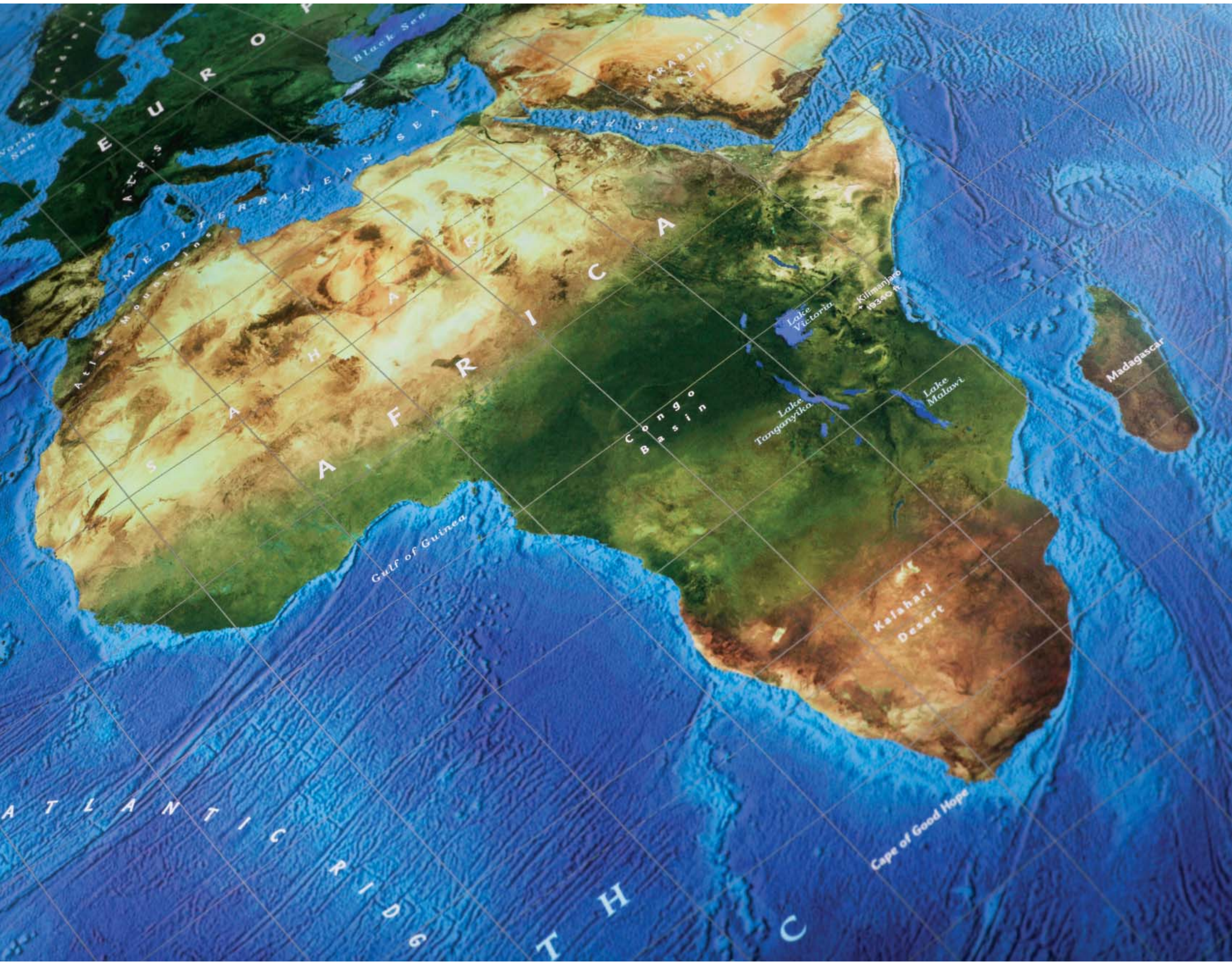
Preqin Special Report:

The Private Equity Market in Africa
October 2010



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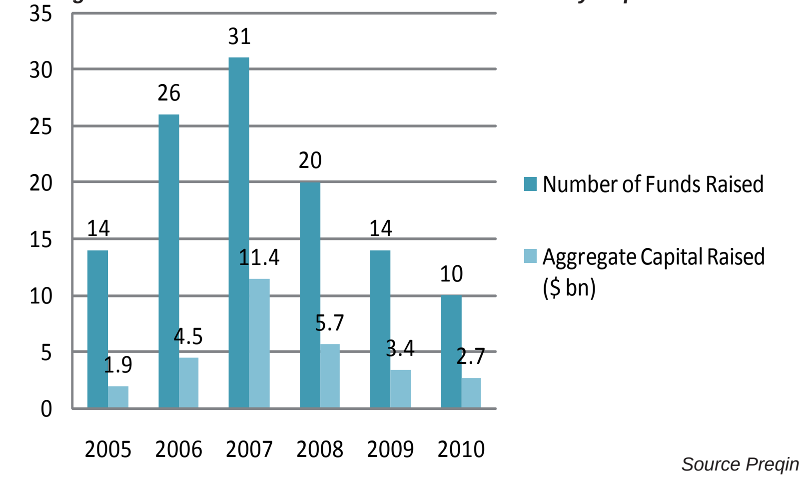
The Private Equity Market in Africa

While the African private equity market is yet to achieve landmark status on the global alternatives map, evidence suggests that the sector is expanding and new funds are rapidly increasing in both size and reach.

Average economic growth in the region reached 5.8% per annum between 2000 and 2008, exceeding the global average of 4%. As the fastest growing region in the world, the benefits of investing in Africa-focused funds cannot be ignored, especially as traditional barriers to entry, such as poorly developed financial markets, political instability and the fragmentation of the economy are gradually being broken down. In South Africa in particular, financial markets have blossomed to near global standards.

Fig. 1: Breakdown of Funds Raised 2005 - Present by Capital Raised



Source Preqin

At present, 172 fund managers worldwide include Africa in their regional focus, with just over 20% of these firms being headquartered in the region. Of these regionally-based firms, 59% operate out of South Africa, while Egypt, Mauritius and Morocco are home to 9%, 7% and 6% respectively. Preqin data shows that there are currently 71 Africa-focused funds are on the road, seeking a combined aggregate of USD 24.9 billion in capital commitments.

Fundraising in Africa.

Fundraising in Africa peaked in 2007 when 31 funds raised aggregate capital of USD 11.4 billion (see Fig. 1). Although the market was affected by the global economic slump in 2008, it proved to be relatively robust as 20 funds still raised an aggregate capital of USD 5.65 billion in the year, a little more than the combined total raised by the 40 funds that closed between 2005 and 2006. 2009 figures also illustrate the market's resilience; although only 14 funds were raised, they accumulated aggregate capital of USD 3.41 billion, almost double the amount raised by the same number of funds in 2005.

Africa's largest fund to date is the Pamodzi Resources Fund, a USD 1.3 billion fund that closed in August 2007 (See Fig. 2). Managed by South African-based Pamodzi Investment, the fund is targeting the resources and mine-to-market infrastructure sectors in sub-Saharan Africa.

Fig. 2: Top 10 Africa-Focused Funds Closed 2009 - 2010 YTD

Fund Name	Fund Manager	Fund Type	Fund Size ($mn)
InfraMed Infrastructure	InfraMed Management	Infrastructure	1258
8 Miles Fund I	8 Miles	Buyout	1000
African Global Capital II	Och-Ziff Capital Management	Balanced	1000
African Infrastructure Investment Fund II	African Infrastructure Investment Managers	Infrastructure	1000
Ethos Private Equity Fund VI	Ethos Private Equity	Buyout	750
Helios Investors 2	Helios Investment Partners	Buyout	650
EVI Capital Buyout Fund	EVI Capital	Buyout	400
EVI Capital Mezzanine Fund	EVI Capital	Mezzanine	400
EVI Capital Partners Real Estate Fund	EVI Capital	Real Estate	400
Vantage Capital Mezzanine II	Vantage Risk Capital	Mezzanine	400

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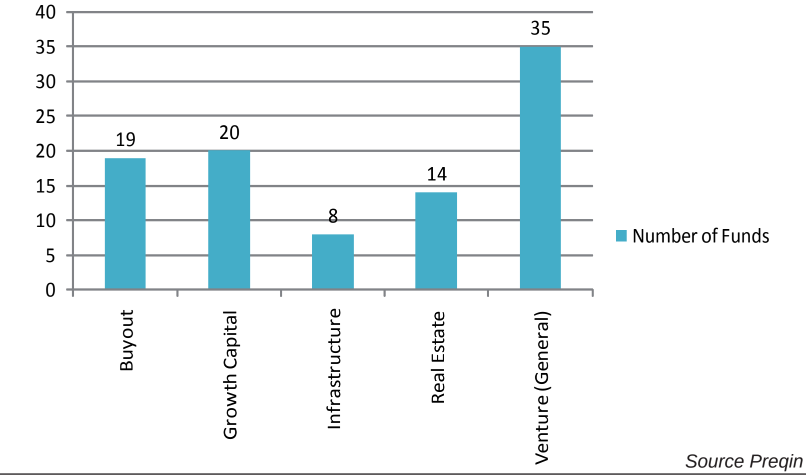
The largest fund to close between 2009 and 2010 year-to-date was the Pan African Infrastructure Development Fund, managed by South Africa-based Harith, which reached a final close of USD 630 million. However, along with a further five of the top ten largest funds to have closed in the period, the fund failed to reach its original target of USD 1 billion. Just four of the top ten funds closed between 2009 and 2010 year-to-date reached initial targets.

GroFin Africa Fund bucked the trend, closing in August 2009 at USD 170 million, USD 20 million over target. The venture fund, managed by South Africa-based GroFin, seeks to invest in small and mid-sized companies in Africa and targets most industries except primary agriculture. Notable investors in the fund include Shell Foundation and Norfund, a Norwegian government agency.

Fig. 3: Breakdown of Funds Raised 2005 - Present by Fund Type



Source Preqin

Venture funds have traditionally been the most abundant of Africa-focused funds raised, followed by growth capital and then buyout funds (see Fig. 3). However, growth capital funds are the most numerous of funds currently on the road, 16 of the 71 fall into this category, while buyout funds are targeting the most capital; 13 such funds are targeting USD 6.97 billion, 28% of the total capital being sought.

Future Africa Fundraising

The aggregate capital sought by Africa-focused funds currently on the road eclipses targets set by funds closing 2009-2010 year-to-date, suggesting that the private equity market in the region is fast expanding (see Fig. 4).

Seeking USD 1 billion, a joint-second largest target, Africa Infrastructure Investment Fund II focuses on projects in sub-Saharan Africa and is managed by African Infrastructure Investment Managers. The aim is to deliver moderate capital growth and sustainable long-term returns and the fund invests in toll roads, thermal power generation projects, wind power farms, ports and social infrastructure.

Fig. 4: Top 10 Africa-Focused Funds Currently Raising by Fund Size

Fund Name	Fund Manager	Fund Type	Fund Size ($mn)
Pan African Infrastructure Development Fund	Harith	Infrastructure	630
ECP Africa Fund III	Emerging Capital Partners	Expansion	613
Pan African Investment Partners II	Kingdom Zephyr	Expansion	492
African Development Partners I	Development Partners International	Expansion	405
Aureos Africa Fund	Aureos Capital	Balanced	381
South Africa Workforce Housing Fund	International Housing Solutions	Real Estate	240
AfricInvest II	Tuninvest – Africinvest Group	Balanced	189
GroFin Africa Fund	GroFin	Venture (General)	170
Capital Alliance Property Investment Company	African Capital Alliance	Real Estate	165
EuroMena II	Capital Trust Group	Expansion	150

Source Preqin

Johannesburg-based EVI Capital are currently raising four Africa-focused funds, one buyout, one real estate, one mezzanine and one infrastructure. The funds are each targeting USD 400 million, which will be invested in projects in sub-Saharan and North Africa. Investors in African Private Equity

Preqin's Investor Intelligence database shows that there are 981 LPs currently expressing an active interest in investing in private equity in the emerging markets, a category in which Africa is included. More specifically, the database reveals that 176 fund managers state Africa as a particular geographical investment preference. 37 of these firms are Africa-based and the remainder are headquartered elsewhere.

Sub-Saharan Africa is a key geographical preference for CDC Group, a UK government-owned funds of funds manager that invests in private equity focused on developing markets. CDC Group is about to invest in Africa Forestry Fund, a vehicle raised by Global Environment Fund whose aim it is to invest in companies that make a positive environmental impact on human health and strive for sustainable management of natural resources. The fund is expected to raise USD 462 million by June 2011.

Norfund, a Norwegian government agency, has already made commitments to Africa-focused funds with a vintage year of 2008 and 59% of its primary investments are currently based in Africa. The firm, which has opened offices in South Africa and Kenya, intends to commit to between five and 10 private equity funds during 2010, with Africa remaining a preferred region.

Other notable institutions based outside of the region that have voiced intentions to invest in African private equity include French firm Proparco, which expects to commit up to EUR 30 million to private equity funds focused in Africa over the next 12 months and Export Development Canada, which is currently finalising a commitment to a mid-market Africa-focused buyout fund.

African asset management firm Metropolitan Asset Managers believes that the African private equity market is growing and seeks to access the market through both primary and direct investments. The firm is preparing to commit up to ZAR 200 million to one or two South Africa-focused private equity funds this year. Fellow South African based asset manager Old Mutual Investment Group will invest a minimum of ZAR 184 million in at least two Africa-focused private equity funds between now and February 2011, while private equity fund of funds manager FirstRand Alternative Asset Managemet intend to invest ZAR 200 to 300 million in two or three South African-based late stage venture or buy out private equity vehicles in 2010.

Outlook

African private equity is yet to magnetize the investment that other emerging private equity markets attract, but the sector is most definitely growing, with expansion taking place at a quick pace.

Although not immune to the impact, the market proved its resilience between 2008 and 2009, performing relatively well against the backdrop of a global economic crisis. Targets for funds now on the road transcend those set for funds that closed between 2009 and 2010 year-to-date, while aggregate capital raised as of October 2010 has already reached USD 2.76 billion, 80% of the total raised in all of 2009, suggesting that growth is set to continue throughout 2010 and beyond.

Increased disposable income has led to growth in the consumer sector and this, along with greater political stability, has helped to improve macroeconomic conditions in Africa, something that can only raise the region's profile as an attractive investment option. Global firms are already investing in, or exhibiting an interest in investing in, the region and there has been growth in the domestic industry in recent years.

Africa needs a strong infrastructure if the economy is to continue to grow, a need which presents an excellent opportunity for private equity infrastructure investment in the region, while the recent oil discoveries off the coasts of Senegal and Ghana present further opportunities for investment.

Regional development is heavily dependent on institutional investors from the developed world, meaning growth in the short-term is likely to be steady rather than rapid. However, as cash flow and general investor sentiment continues to improve, investors will enter the market, making strong expansion within the industry likely in the medium to long term.

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info@preqin.com

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London:

Equitable House
47 King William Street
London, EC4R 9AF
Tel: +44 (0)20 7645 8888
Fax +44 (0)87 0330 5892

New York:

230 Park Avenue
10th Floor
New York
NY 10169

Fax: +1 212 808 3008
Tel: +1 440 445 9595

Email: info@preqin.com
Web: www.preqin.com