

Sustainable & Responsible Private Equity in Southern Africa: Evolutionary strides in a revolution?

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ABSTRACT

The study primarily explores whether private equity (PE) and venture capital (VC) firms in the Southern African Development Community (SADC) integrate sustainable and responsible investment (SRI) practices in their investment processes. Also examined were the influences, opportunities and challenges associated with Southern African PE and VC firms adopting and implementing SRI towards sustainable growth and development in the SADC region.

A field study conducted with 41 PE & VC firms as well as 6 DFI's operating in the SADC region found that PE & VC firms integrated ESG factors in their investment management processes despite the majority having no formal SRI policies. ESG integration was integrated mainly for risk management and as part of the overall business strategy. Corporate governance was top of agenda followed by social and environmental aspects. Awareness for Codes for Responsible Investing in South Africa (CRISA) was very poor amongst the PE & VC firms. PE & VC firms also found little value in becoming signatories of the UNPRI. The PE & VC firms anticipated minimal or no impact to their respective businesses if ESG were to be integrated formally and consistently.

PE & VC firms agreed that ESG risks should be actively managed and that the investment holding periods enable them to manage ESG effectively, however, a number of challenges hinder the integration of ESG in SADC such as difficulty in sourcing standard ESG information, translation of the information into quantitative measures, insufficient skills among professionals to assess or link ESG factors to investment performance and the lack of clear regulatory & legislative guidance in effective ESG integration.

A recommendation is for PE & VC firms to formalise SRI policies as the first steps towards consistent integration of ESG in investment making processes. Further recommendations are for remuneration of PE & VC professionals to be aligned directly to ESG performance and for investors such as DFI's to be more proactive in monitoring their appointed PE & VC managers (particularly in auditing of ESG performance reports compiled by the PE & VC firms).

KEY WORDS: Private Equity, Venture Capital, SRI, Sustainable and responsible investing, ESG, CRISA, UNPRI, SADC.

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GLOSSARY OF TERMS

BBBEE	Broad-Based Black Economic Empowerment as defined in the Financial Sector Charter referring to the economic empowerment of all black people, including women, workers, youth, people with disabilities and people living in rural areas, through diverse but integrated socio-economic strategies.
Buy-out Funding:	Funding to enable a management team or empowerment partner, either existing or new, and their backers to acquire a business from the existing owners, whether a family, conglomerate or other business.
CA (SA) :	Chartered Account (South Africa)
CAIA :	Chartered Alternative Investments Analyst
Captives:	Those private equity companies or funds investing mainly on behalf of a parent or group, typically an insurance company, bank or institutional asset manager, often from an indeterminate pool of money.
CFA :	Certified Chartered Analyst
CIMA:	Chartered Institute of Management Accountants
CRISA:	Code for Responsible Investing in South Africa (CRISA)
DFI	Development Finance Institution
ESG	Environmental, Social and Governance factors
Expansion & development :	Funding for growth and expansion
FRM :	Financial Risk Manager
Government aid agencies:	Organisations aimed at helping countries to achieve long-term sustainable economic growth, with the aim of achieving poverty reduction but investment not aimed specifically for developmental objectives.
GP	General Partner
Independents:	Those private equity companies, managers or funds raising and disbursing capital which has been sourced mainly from third party investors.
LP	Limited Partner
MBA :	Master of Business Administration

Replacement Capital:	Funding for the purchase of existing shares in a company from other shareholders, whether individuals, other venture-backers or the public through the stock market.
RISDP	SADC's Regional Indicative Strategic Development Plan
SADC :	The Southern African Development Community
SAVCA	Southern African Venture Capital Association
Seed Capital:	Funding for research, evaluation and development of a concept or business before the business starts trading.
Semi-captives :	Semi-captives can be subsidiaries of: a financial institution, an insurance company or an industrial company, that operate as independent companies. They manage funds in which, although their main shareholder contributes a large part of the capital, a significant share of the capital is raised from third parties.
SRI:	The consideration of extra-financial factors in the investment process, decision making and ownership practices with the view to give appropriate consideration to factors (such environmental, social and governance factors) which may materially affect the sustainable long-term performance of investments.
Start-up & early stage:	Funding for new companies being set up or for the development of those which have been in business for a short time (one to three years).
UNPRI	United Nations Principles for Responsible Investing

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1 INTRODUCTION

The title of this study is Sustainable & Responsible Private Equity in Southern Africa: Evolutionary strides in a revolution?

Chapter 1 provides an introduction to the study, the problem statement and the significance of this study. The research questions posed to address the research problem are detailed together with some of the assumptions behind the research. Chapter 2 continues with the literature review which presents the relevant theoretical framework upon which the research problem is based.

The research methodology that was used for the study is discussed in chapter 3. The chapter begins with the research approach and strategy based underpinning the study. Sampling is discussed in detail and followed by the discussion of data gathering and analysis processes. Validity, reliability and other limitations are discussed briefly in this chapter.

Chapter 4 presents the findings and analysis and discussion thereof and chapter 5 provides the research conclusion based on the findings presented in chapter 4. The study is concluded with chapter 6 which provides recommendations for further research.

1.1 Research area

The study was conducted in the area of development finance, specifically to gain a better understanding of sustainable and responsible investing (SRI) in private equity (PE) and venture capital (VC) given their importance as sources development finance for the Southern African Development Community (SADC). The primary objective of the study was to examine the whether Southern African PE & VC firms incorporated SRI practices in their investment processed as well as to examine the associated influences opportunities and challenges faced by the PE & VC firms in do so. The secondary objective was to examine the influence of development financial institutions in the adoption of SRI practices by PE & VC firms given that DFI's provide development finance to PE & VC firms fin order to fulfil their development goals in Southern Africa.

1.2 Problem Statement

The study explored whether PE & VC firms in SADC integrate SRI practices in their investment processes and examines whether limited partners (LP's), particularly DFI's have a significant influence on Southern African PE and VC firms (the general partners) adopting and implementing SRI towards sustainable growth and development in the SADC region. The study was an exploratory study investigating how general partners (GP's) in the Southern African PE & VC industry integrate environmental, social and governance (ESG) factors in their investment management processes as well as the challenges and opportunities experienced by GP's in integration ESG in their investments.

The study was also conducted with the secondary objective of investigating whether the implementation of SRI practices by GP's is driven by the GP's themselves (as a normal part of conducting business) or whether it was a result of pressure from LP's, especially DFI's given that DFI's are a large source of 3rd party assets managed in the Southern African Private Equity industry (KPMG & SAVCA 2012:29).

1.3 Purpose and significance of the research

The Southern African Development Community has the following as its mission statement:

To promote sustainable and equitable economic growth and socio-economic development through efficient productive systems, deeper co-operation and integration, good governance, and durable peace and security, so that the region emerges as a competitive and effective player in international relations and the world economy ¹

The Southern African PE & VC industry has the potential to provide important channel for equity funding for investments in the SADC region. SADC's Regional Indicative Strategic Development Plan (RISDP) lists PE & VC as sources of capital to fund development in the region. PE & VC are therefore important tools that can complement other forms of funding (e.g. public finance and listed equity) to contribute to the achievement of SADC's developmental plans. Presently, South Africa is the largest economy in the SADC region with an advanced banking industry, liquid stock market

¹ <http://www.sadc.int/about-sadc/overview/sadc-mission/>

and relatively deep capital market². The stock markets in the rest of the region are not as developed as South Africa's stock market, therefore unlisted equity in the form of PE & VC is especially important for allocating risk capital for investing into the region.

PE & VC transactions allow capital to be allocated in order for innovative ideas to be realised into commercially viable projects contributing to economic growth and development. The growth and development, however, needs to be sustainable in order for developing nations such as SADC member states to alleviate poverty. Sustainability of growth and development may be achieved through responsible investment practices in the PE & VC industry in Southern Africa.

Much of the existing literature and research of ESG integration in Southern Africa has focused on fund managers in mainstream investments and socially responsible portfolios in South Africa specifically (Viviers 2007, Viviers et al 2008, Giamporcaro 2010, and Giamporcaro 2011). Sustainable and responsible PE & VC in Southern Africa is under-researched, as a result of the infancy of SRI and ESG integration in general and the infancy of Southern African PE & VC industry. Literature and research examining ESG integration in Southern African PE & VC is a limited and relatively new field of research making the study a significant contribution. Given the increased focus of integrating ESG factors in investments globally and its infancy in developing economies such as the SADC region, the findings contribute to the establishment of base data from which future analyses of progress and effectiveness of ESG integration in the Southern African context can be examined in future.

The PE & VC investments activity in Southern Africa has grown significantly in the past decade with DFI's placing a lot of capital in the industry (KPMG & SAVCA 2012:29-32). Additionally, ESG integration in PE & VC globally has been driven mainly by development agencies and DFI's through their ESG policy-driven mandates. This study contributes to the body of literature examining the role Southern African PE & VC in development finance and contributes to data from which further research may be

²U.S. Department of Commerce 2011: Doing Business in South Africa - 2011 Country Commercial Guide for U.S. Companies

conducted in examining the impact of SRI in PE & VC on sustainable growth and development in SADC.

1.4 Research questions and scope

This field study focused on the primary research objective which was to gain a deeper understanding of whether Southern African PE & VC firms incorporated SRI practices in investments as well as to examine the associated opportunities and challenges faced by the PE & VC firms in doing so. Secondary to the research, was the analysis of the influence of DFI's in the incorporation of SRI practices by PE & VC firms investing in Southern Africa.

In order to address the problem statement above, research questions posed for the study were as follows:

1. Do PE & VC firms in Southern Africa integrate ESG factors in their investment decision-making process and how so?

2. What is driving ESG integration in Southern African private equity?

Do DFI's influence the extent to ESG Integration by PE & VC firms in SADC?

Do PE & VC firms and DFI's have conflicting views or potential friction regarding ESG integration in in the SADC region?

3. What are enablers and hindrances experienced by PE & VC firms in integrating ESG factors in the SADC region?

Main factors considered were internal policies, operations and regulatory factors affecting the fund managers.

To answer the research questions and address the research problem, PE & VC firms as well as DFI's investing in Southern Africa were identified as the appropriate subjects for the study.

1.5 Research assumptions and ethics

Assumptions

It was also assumed that the PE and VC industry in Southern Africa was sufficiently represented by members of the Southern African Venture Capital Association (SAVCA). It

was assumed that SAVCA members were an appropriate and representative population of PE & VC firms investing in the SADC region.

It was assumed that the respondents may have differing understanding of what constitutes SRI; therefore SRI was defined for the purposes of the study in order to avoid misunderstanding of the concept. For the purposes of this study SRI was described as the consideration of extra-financial factors in the investment process, decision making and ownership practices with the view to give appropriate consideration to factors (such as environmental, social and governance factors) which may materially affect the sustainable long-term performance of investments.

Ethical concerns

The respondents were investment professionals in their respective organisations who shared their personal views in the responses to the field questions. It was important that the presentation of the findings did not harm or jeopardise the professional and personal reputations of the respondents. It was also important that privacy is maintained. It was important that the respondents provide informed consent to participate in the study.

In order to address the ethical concerns, the research proposal received the university's ethical clearance. All respondents were sent the question-guidelines with an explanation of the research prior to scheduling appointments and conducting the interviews. The respondents were also requested for permission to record the responses during the interviews. The respondents were guaranteed anonymity in instances where verbatim quotations would be used in the presentation of the findings. Only information pertaining to the research was used in compiling these research findings.

2 LITERATURE REVIEW

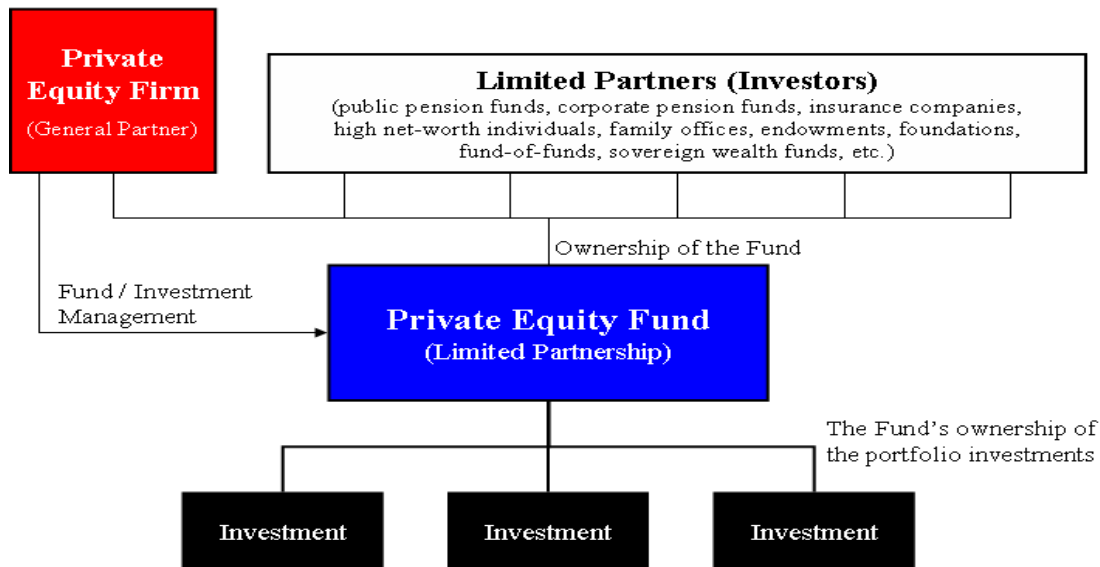
2.1 Private sector and development

Various literature linking the private sector and economic development have found financial market development to have a positive effect on economic development (Demirguc-Kunt and Maksimovic, 1998; King and Levine, 1993; and Rajan and Zingales, 1998). A thriving private sector is considered the engine driving economic growth as it not only generates income, but also contributes to general economic and social development (Dalberg Report 2010). It has been argued that the private sector is more efficient at mobilising savings and allocating capital than the public sector, thereby contributing to economic growth and development. As part of their development mandates DFI's participate in the private sector in various ways: often with the goal of deepening financial markets to create an enabling environment for economic growth. The DFI's participation has been in the form of technical assistance, guarantees, providing equity capital through direct equity holdings or investment in equity funds (Massa I. and te Velde D.W. 2011). Investments by DFI's in PE & VC have increased over the years in an attempt to promote growth and development of the private sector.

2.2 Role of Private equity and venture capital for DFI's

PE & VC are private sector vehicles that provide access to capital for entrepreneurs and are also a means of developing financial markets in developing economies by providing additional source of equity capital in the private sector. Additionally, the PE & VC investors are actively involved in the management of the business in order to create economic value within the portfolio companies (i.e. investee companies).

A typical PE & VC structure entails general partners (PE & VC firms) and limited partners (providers of equity capital for investments) entering into a contract known as a limited partnership agreement (Cumming & Johan 2009.) The partners form a limited partnership which invests in companies (also known portfolio companies) in order to achieve investment returns. This structure is illustrated below (Krüger 2007).



The limited partnership agreement aligns the incentives of investors (LP's) who provide capital, and those responsible for investing the capital, the GP's in the limited partnership (Covits and Liang 2002). LP's have limited power to bind the partnership. Should the LP's participate in the management of the business of the limited partnership, they effectively become a GP and will be liable for all debts as well as obligations incurred while acting as a GP. An investment in a portfolio company, by a GP is typically held between 5 and 7 years before it is sold or refinanced at the end of the holding period. The DFI's are typically the LP's if they invest in a fund or portfolio managed by a PE or VC firm.

Private equity is considered "one of the most important tools in the DFIs' toolboxes. (Sutton 2012). It is therefore not surprising DFI's are large source of 3rd party assets for the Southern African Private Equity industry (KPMG & SAVCA 2012:29). The DFIs' contribution to development is the provision of capital for LP's and management support to portfolio companies where they are directly invested. They close the funding gap for young, innovative firms (Engel 2004) by providing equity capital and funds for small enterprises in the private sector (directly and indirectly through intermediaries such as GP's in the PE & VC industry).

2.3 SRI and sustainable growth & development

Achieving sustainable growth and development is an important part of SADC's objectives as articulated in its mission statement. There is a growing body of literature debating the concept of sustainability in investing as well as the role of SRI in achieving sustainable

growth and development in financial markets (Ambachtsheer et al 2006, Peeters 2003, van Dam & van Trijp 2011). The growth in literature and research has also been accompanied by growing confusion about definitions, terminology and methods of measuring sustainable development³. The Brundtland Report defined sustainable development as development that meets the needs of the present without compromising the ability of future generations to meet their own (Brundtland, 1987:54). This definition has also been used by the World council for sustainable development (Porter and Kramer 2006). Dyllick and Hockerts define sustainability as meeting the needs of a firm's direct and indirect stakeholders (such as shareholders, employees, clients, pressure groups, communities etc.), without compromising its ability to meet the needs of future stakeholders as well. Sustainability is seen a necessary societal evolution towards a more equitable and wealthy world in which the natural environment and cultural achievements are preserved for future generations (Dyllick and Hockerts 2002.) The business case for SRI has broadened the view of SRI viewing it not only as a philanthropic/moral obligation by corporations, but also as an important business imperative towards sustainability (Dyllick and Hockerts 2002). Issues of sustainability continue to be topical in achieving development in the investment of capital. In his keynote address at the launch of the Code of Responsible Investing in South Africa, the principal officer of the Government Employees Pension Fund stated that it is the responsibility of long-term investors and fiduciaries to invest in ways that promote long term sustainability⁴

2.4 SRI and ESG integration

SRI has been widely described as relating to an intricate process of integrating personal values as well as environmental, social, and governance (ESG) concerns with investment decisions (Social Investment Forum 2006). Viviers describes SRI as a set of approaches which include moral and ESG considerations along with conventional financial criteria in decisions regarding the, retention and realisation of particular investments (Viviers 2007:3). Giamporcaro and Pretorius define SRI broadly as a generic term covering any type of investment process that combines investors' financial objectives with their concerns for ESG issues (Giamporcaro & Pretorius 2012:3). Financial instruments and markets are viewed to have the power to affect social, economic, and environmental outcomes (Giamporcaro & Pretorius 2012:3) and empirical evidence by the likes of (Knoll 2002;

³ Parris TM and Kates RW 2003 ; characterizing and measuring sustainable development: Annual Review of Environment and Resources

⁴ John Oliphant CRISA Launch speech 19 July 2011

Scheuth 2003) has shown that SRI in developed economies is slowly moving from a fringe investment strategy to a mainstream consideration in decision-making. Van Schoot (2011) expresses a practitioner's view stating that applying ESG principles may avoid embarrassing situations that can harm a company's reputation and brand value, as well as potentially adversely affecting the reputation of general and limited partners. Institutional investors are recognising their fiduciary duty is to achieve financial performance and returns for clients as well as to take long-term ESG risks and opportunities into account (Freshfield Brukhaus Deringer 2005; UNEP-FI 2009.)

Over and above the business case of considering environmental and social aspects, Dyllick and Hockert argue that fund managers must consider 2 additional cases. The first is the natural case for corporate sustainability: arguing that as long as a firm is operating close to or beyond the environment's carrying capacity, it can never become truly sustainable. The second case is the societal case for sustainability. Six criteria identified by Dyllick and Hockerts (2002) for fund managers aiming for corporate sustainability are to satisfy: eco-efficiency, socio-efficiency, eco-effectiveness, socio-effectiveness, sufficiency and ecological equity. The integration of ESG in investment practices is therefore considered a necessary tool in achieving sustainable growth.

2.5 SRI and ESG buy-in

A number of initiatives have been put in place to promote the movement towards responsible investment practice. These include the Global Impact Investing Network (GIIN), United Nations Environment Programme Finance Initiative (UNEPFI), the United Nations Global Compact and the Extractive Industries Transparency Initiative (EITI). These initiatives have led to the development of principles and best practice standards to support the initiatives. The UN Principles of Responsible Investing (UNPRI) have been developed by the partnership between UNEP and UN Global Impact. GIIN which is aimed at increasing the scale and effectiveness of impact investing has established IRIS as part of its infrastructure development initiative. Other voluntary standards include CERES principles, Global Sullivan Principles, London Principles of Sustainable Finance, UN Statement by Financial Institutions on the Environment and Sustainable Development (Richardson 2008)

South Africa saw the launch of the Codes for responsible investing in South Africa in July 2011.

DFI's have also promoted sustainability initiatives aimed at supporting their respective developmental mandates which have also seen the development of standards and guidelines for their investment activities and those of their service providers. The International Finance Corporation (IFC) which is the private sector division of the World Bank has been influential in the standards formulated by the DFI's evident in European DFI's incorporating the IFC performance standards in their sustainable investment policies.

Brazil, South Korea and South Africa are considered three countries where the responsible investment momentum and investor interest in the UNPRI has been the strongest. The Swedish International Development Agency and the UNEP FI have partnered in a two-year project to promote the PRI in emerging markets and developing countries (PRI in EM)⁵. The formulation of SRI and ESG-driven policies by DFI's from developed markets such as CDC from the United Kingdom, PROPARCO from France and the IFC shows the importance with which SRI is viewed by DFI's in the context of sustainable development. With particular reference to private sector investment, SRI is considered to have the potential to contribute to social development by benefiting broader local communities through potential environmental gains, new physical infrastructure and improved social infrastructure, including better ESG practices (Dalberg Report 2010). The CDC believes that given their long-term investment horizon, PE & VC fund managers are ideally placed to implement improvements in ESG management over time in their portfolio companies, which add value to their investments (CDC and Rosencrantz & Co. 2010).

There is no shortage of principles and guidelines for SRI in investments for all asset classes. There have been guidelines, principles and toolkits developed by initiatives such as UNPRI⁶, and DFI's such as the IFC⁷ CDC⁸. In South Africa, there is CRISA which was

⁵ UNPRI : Emerging markets and developing countries: <http://www.unpri.org/networks/EMDP.php> retrieved 10 December 2012

⁶ UNPRI 2011: Responsible investment in private equity: A guide for limited partners. Second edition June 2011

⁷ IFC 2012 : Performance Standards on Environmental and Social Sustainability: January 2012

⁸ CDC and Rosencrantz & Co 2010: Toolkit on ESG for Fund managers: Adding value through effective environmental, social and governance (ESG) management.

adapted from the voluntary UNPRI which are meant to guide investors in applying SRI principles in decision-making. Internationally, DFI's have broadened measures of development impact to include ESG performance measurement. European DFI's, for instance, have adopted CDC's impact measurement approach which captures financial, economic, ESG performance and private sector development. In the context of private equity investing, the UNPRI published guidelines in 2009 which were compiled for asset owners in the form of the UNPRI Guide for Limited Partners on Responsible Investment in Private Equity. The guidelines serve a secondary objective of providing GP's with insight into investing responsibly in private equity. The movement towards ESG continues to grow in the developing economies such as South Africa, Brazil, China, and South Korea, which have also begun to embrace the consideration of ESG factors (Birgden, Guyatt, and Xinting 2009). South Africa was the second country, after the United Kingdom, to launch its own guidelines for institutional investors in the form of the Codes of Responsible investing in South Africa (CRISA) in 2011. Viviers argues, however, that outside of South Africa, no SRI takes place on the African continent (Viviers 2007:147)

Transparency and disclosure play an integral part in the movement towards SRI. Initiatives and guidelines have also been developed in order to promote reporting of economic, environmental and social sustainability. These include the Global Reporting Initiative (GRI), Enhanced Business Reporting Consortium (EBRC), Impact Reporting & Investment Standards (IRIS) and the integrated company reporting initiative spearheaded by the Integrated Reporting Committee (IRC) in South Africa. The GRI is not limited to listed companies and aims to provide a generally accepted reporting framework for reporting on an organization's economic, environmental, and social performance regardless of its size or sector. The IRIS were also developed to provide standards by which organizations can report their social and environmental performance.

Although SRI is generally deemed to be a good thing, the "intricacy" of SRI and ESG integration poses many challenges for investors and fund managers alike (Giamporcaro 2006, Amaeshi & Grayson 2008). For instance, a study by Novethic (an SRI research centre in France) found that private equity managers already had a strong grasp of the topic and that they believed the integration of ESG criteria could offer added financial value, but that the lack of ESG expertise and assessment tools were hindrances to the process (Blanc et

al 2011). The reporting and disclosure of ESG performance is also a continuous challenge for the private equity firms given the evolution of SRI and the lack of a clearly established link between ESG performance and financial or economic value (Watson & Monterio 2011). This “intricacy” has highlighted the barriers and challenges of practically integrating ESG matters on a continuous and sustainable basis. To this end DFI’s such as CDC and IFC have developed guidelines and tools to assist private equity firms in bridging this gap. The CDC in particular, has compiled a toolkit for PE & VC fund managers investing in the emerging markets (CDC and Rosencrantz & Co. 2010.). The IFC has set of standards by which environmental and social matters are to be handled known as the IFC Performance Standards. In emerging markets such as the SADC region DFIs are considered the driving force behind much of the SRI private equity activity as they often insist on responsible investing as a requirement. (Sutton 2012:20)

2.6 Conclusion

Covered in the review was literature discussing the theoretical basis of sustainable development and how it can be achieved through responsible investment practices, particularly the integration of ESG factors in investment decision-making. The review concludes with literature on ESG and the movement towards its global acceptance and adoption as a revolutionary approach mobilising capital. The theoretical framework upon which the study is based comes from finance theory that links the private sector to economic development. Financial market development has been found to have a positive effect on economic development. Financial market development is a key mechanism by which development institutions such DFI’s meet their development goals. PE and VC are important tools for DFI’s in developing financial markets because they are instruments by which capital can be allocated and mobilised towards sustainable development. The literature review is therefore appropriate for the study which examined how ESG is integrated in PE & VC to achieve sustainable development in SADC.

3 RESEARCH METHODOLOGY

Chapter 3 begins with a discussion about the approach and strategy followed in conducting the research and followed by a detailed explanation of the sampling of the study population including a detailed description of the study sample. The gathering of data and analysis thereof is discussed briefly before the validity and reliability of the research is discussed in concluding the research methodology chapter.

3.1 Research Approach and Strategy

The study has a phenomenological underpin which seeks to describe rather than explain, and to start from a perspective free from hypotheses or preconceptions (Husserl 1970). Phenomenological methods allow for the experiences and perceptions of individuals to be expressed from their own perspectives. This makes it possible to challenge structural or normative assumptions (Lester 1999). The study sought the views and experiences of PE & VC firms about how SRI and ESG factors were integrated in management of their investments in Southern Africa. Given the limited literature available on SRI in Southern African PE & VC industry and its growing significance in the development community, the strategy was to conduct qualitative and exploratory research with the particular focus on sustainable and responsible PE & VC in Southern Africa. Qualitative research is best suited for this particular study as it allows for detailed and in-depth examination of issues pertaining to subject matter. In this instance, the subject matter is how the private equity and venture capital industry firms integrate non-financial factors (i.e. ESG factors) in their investments in SADC. Qualitative research was appropriate in order to find patterns and ideas as well as to gain familiarity with the subject area (Collis and Hussey 2003) by allowing me to gain knowledge of the experiences of the private equity investment professionals as they incorporate ESG factors in their investment processes.

The study was inductive as it sought to undertake research in a relatively under-researched area of Development Finance in Southern Africa (i.e. SRI practices in Southern African PE & VC). Inductive research was done with view to develop test theory and hypotheses pertaining to SRI in the management of PE & VC investments in the Southern African (Lancaster 2005) and make generalisations out of observations (Bryman & Bell, 2007:14).

The intention of the study is to use the observed data and facts to reach tentative hypotheses and thereby give inductive arguments (Mertens 2008). The research was conducted to improve the understanding of the integration of ESG in PE & VC without emphasising immediate application in the entire investment industry in Southern Africa. The exploratory and basic nature of this research is intended to expand the boundaries of knowledge in the field of study (Zikmund 2003).

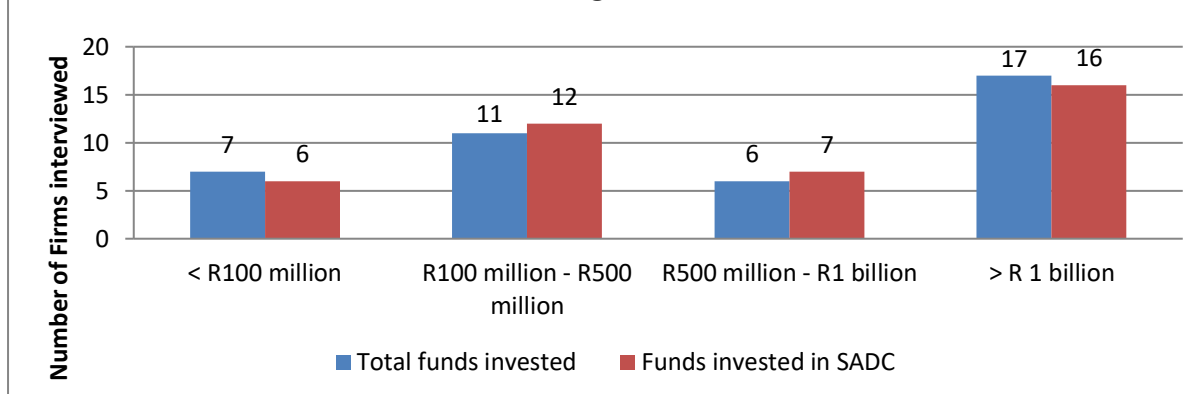
3.2 Sampling

Convenience sampling was conducted for the study. This was appropriate for the study as it was a qualitative and exploratory study with intention of non-probability presentation of the findings. The interview sample was sourced from members of the Southern African Venture Capital Association (SAVCA). At the start of the research project in March 2012, SAVCA had 87 full members consisting mainly of private equity firms and a relatively smaller amount of venture capital firms. The majority of the SAVCA members are based in Gauteng which was convenient as I was based in Johannesburg Gauteng. In order to interview a sample that was representative of the Southern African industry, information on the asset sizes, and the types of the firms were sourced from the SAVCA matrix of 2011 (appendix 2) in order to identify firms that were of varying asset size and varying organisational structures of private equity firms (e.g. captives, independent etc.)

3.2.1 Description of PE & VC firms

The Southern African PE & VC industry is represented by the Southern African Venture Capital Association membership and comprises of firms with varying sizes of funds. As at the end of December 2011, the amount of assets invested by SAVCA members was R81.5 billion (KPMG & SAVCA 2011). Ideally, a field study with all SAVCA members participating would have been preferred, however a sampling of the membership was most efficient manner to conduct the study given the time and accessibility constraints. The interview sample had fair distribution of respondents with varying size of funds under management as well varying investment time horizon.

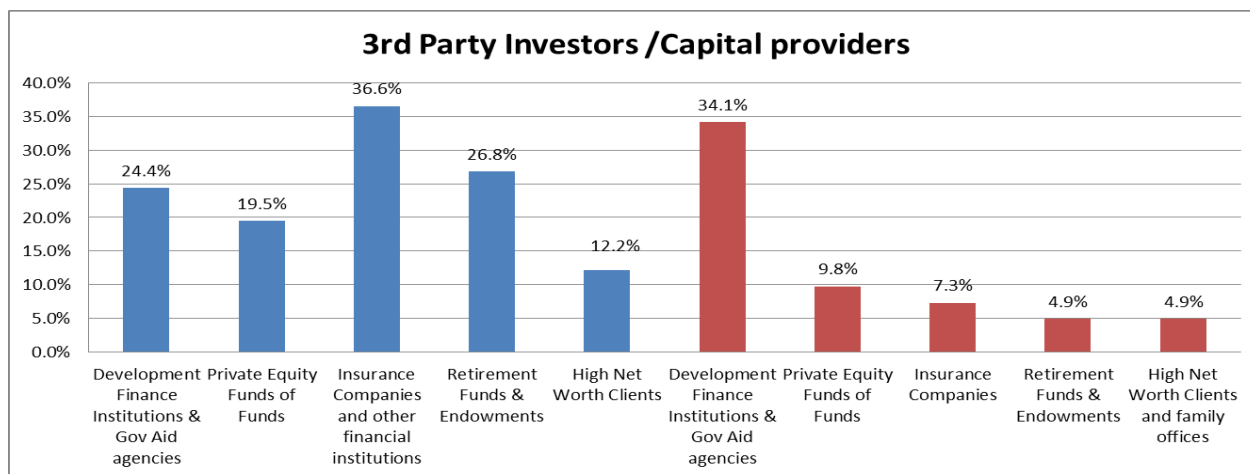
Funds invested by the firms as 31 December 2012



Within the SADC region, more than 85% of the firms had invested capital ranging between R100 million and R1 billion. Thirty-five percent of the firms had investments in excess of R1 billion. More than 70% of the firms have holding periods greater than 5 years once invested. This is normally defined in their investment mandates/policies. Five percent of the firms had no defined holding period in the mandates preferring to hold until the right exit price presents itself. Twenty-two percent of the firms held their investments for a period of 3 to 5 years. Most of the firms indicated that they were more familiar with South African investment environment, hence the bulk of transactions involving South African portfolio companies. It was interesting to note from a large amount of the firms that the preferred strategy to gain investment exposure in the rest of the SADC region was through the expansion of their South African portfolio companies into the rest of the region.

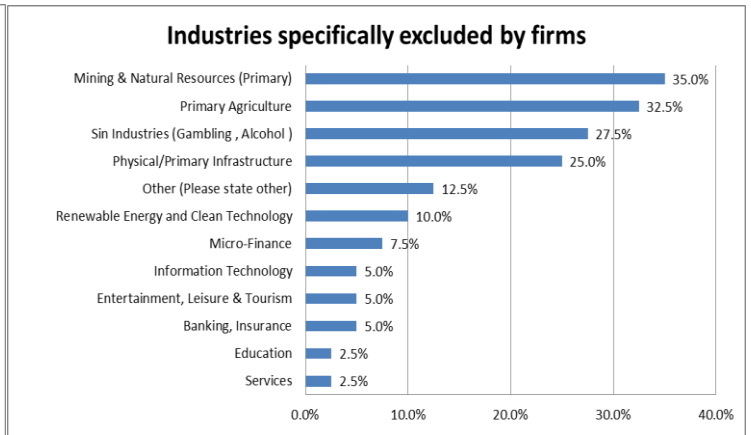
Sixty-one percent of the participating firms manage funds on behalf of 3rd party investors and 68.3% indicated that plan to manage 3rd party assets in the foreseeable future (including 3 of the firms who co-invest with 3rd party funders instead of managing specific funds. Thirty-one percent of the firms are not planning to manage 3rd-party funds and invest only from their balance sheets, for example the captives in other financial institutions (Absa, Nedbank Capital, Standard Chartered, Sanlam) and the holding companies investing only their shareholder's capital. The respondents' 3rd party funders ranged from DFI's to retirement funds and insurance companies. SADC based clients were mostly insurance

companies and other financial institutions as indicated in blue. The non-SADC funders were mostly DFI's as indicated in maroon.



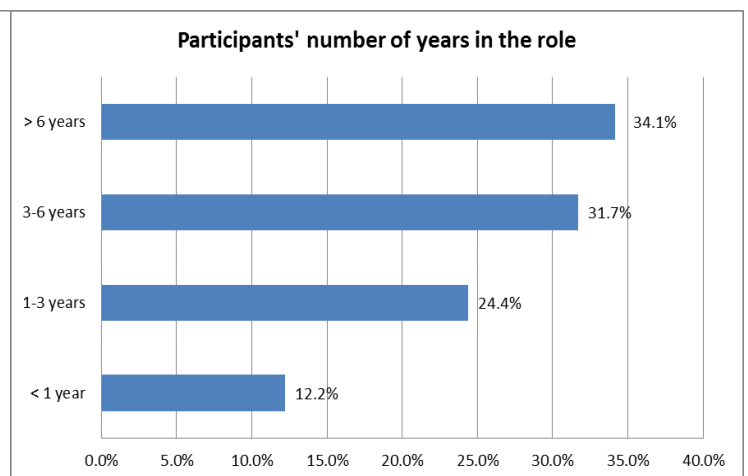
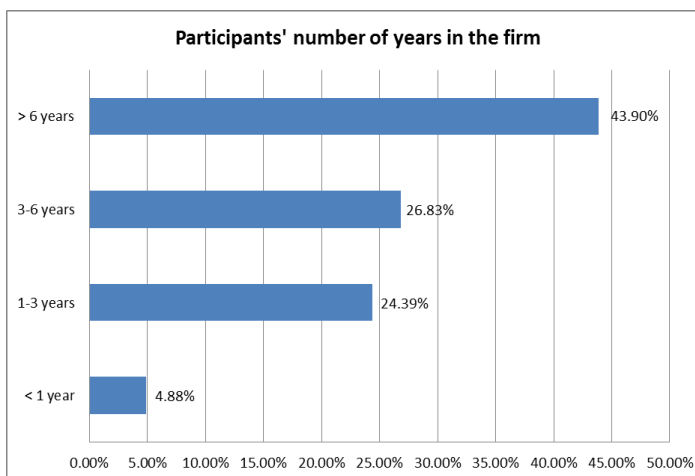
Ninety-two percent of the firms invest directly in the portfolio companies and 7.5% of them invest directly in portfolio companies as well as in funds managed by other PE & VC FIRMS. These 7.5% comprised of the PIC (A state-owned investment firm with a PE fund named Isibaya Fund which invests directly and also uses Fund-of-Fund approach), Aureos Capital, Old Mutual Investment Group South Africa Alternative Investments.

Most of the respondents were invested in the manufacturing industry mainly focused on the manufacturing of fast moving consumer goods (FMCG). They also have a large exposure to service-oriented businesses (general services to construction/infrastructure companies as well as logistics). One of the respondents mentioned that such businesses lend themselves better to leveraged buy-outs. Banking & Insurance are also popular amongst the firms and there's a preference for mining services and agribusiness rather than primary mining & primary agriculture. Many of the respondents expressed interest in Renewable Energy and Clean Technology although they considered it very niche and specialised). Primary mining and primary agriculture are the 2 most common exclusions in the respondents' mandates/policies followed by Sin sectors (arms/alcohol/gaming etc.). Those who have excluded Renewable Energy and Technology in their mandates excluded greenfield investments. The rationale is that renewable technology is considered too niche of a market and required expertise beyond their scope/capacity.



3.2.2 Description of Private Equity and Venture Capital respondents

Forty-one different PE & VC institutions participated in the study. The respondents were investment professionals who partook in the investment process and were familiar with the investment process. Seventy percent of the respondents were in the organisation/firms in excess of 3 years which including CEO's, partners, directors and portfolio managers. Additionally 65% of the respondents have been in their respective roles for 3 years or more. The 10% with less than 1 year comprised of professionals of newly-found firms/funds and those who had recently joined the firm. These professionals, however, have previous PE experience from previous organisations.



3.2.3 Description of PE & VC respondents

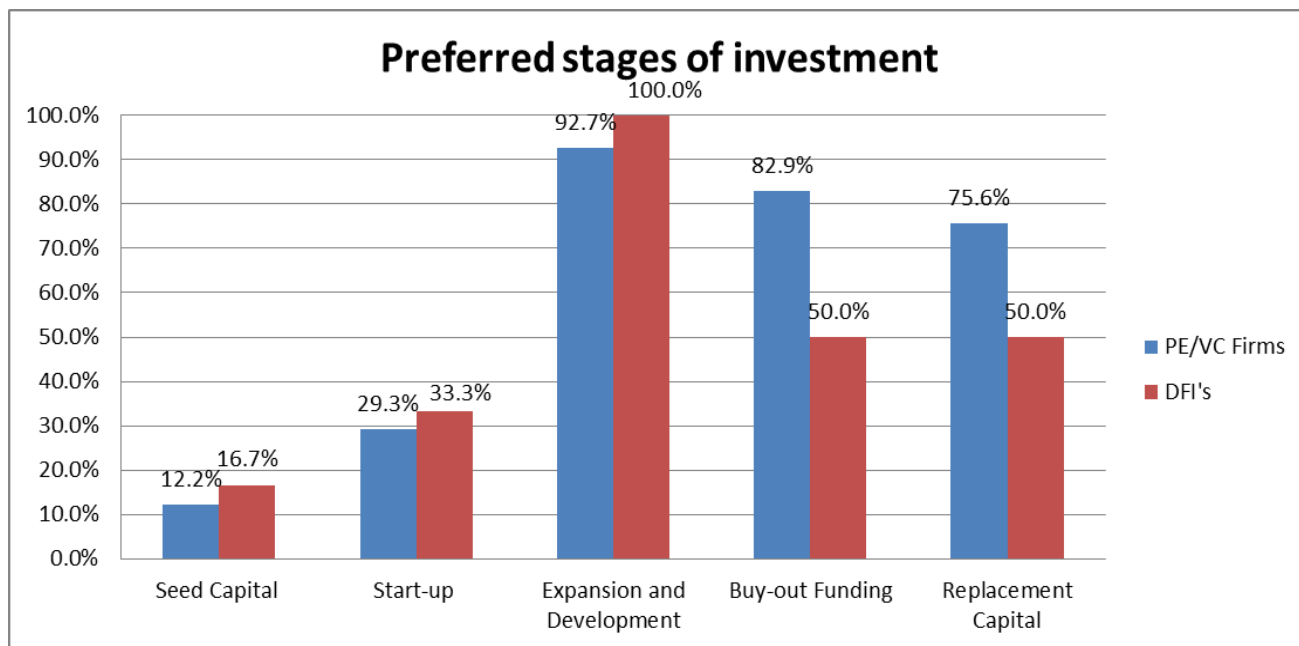
PE & VC firms usually comprise of small teams where team-members have multiple roles within the firm therefore the respondents perform the multiple duties in the investment process. Ninety-five percent were involved in research (inclusive of due-diligence), 93% in valuation, 90% were involved in monitoring and reporting as part of their duties. Eighty-five percent of the respondents were involved in the investment decision-making, however, it should be noted that investment decision-making involves a committee comprising of other members. I believe this makes the responses and the findings more credible as they are from respondents who are informed about most of the investment processes. I also believe the respondents used and the diverse organisations that participated were a good sample of the population and were a best positioned to provide the insight that was needed to produce credible findings.

3.2.4 Description of the Development Finance Institutions

The DFI's were included in the study in order to provide some insight from the perspective of limited partners, but were not the focus of the study. Therefore, the number of DFI's participating and the sampling criteria were not stringent. The sample was sourced from 2 associations for development finance institutions namely; The African Association of Development Finance Institutions (AADFI) and the Association of European Development Finance Institutions. DFI's sought were those whose invested in private equity across all SADC member states (i.e. not limited to 1 country within the SADC region). DFI's meeting this criteria were the Development Bank of Southern Africa as well as the European DFI's belonging to the EDFI. Of the 16 DFI's meeting these criteria, interviews were scheduled and conducted with 6 DFI's all of which were invested in private equity.

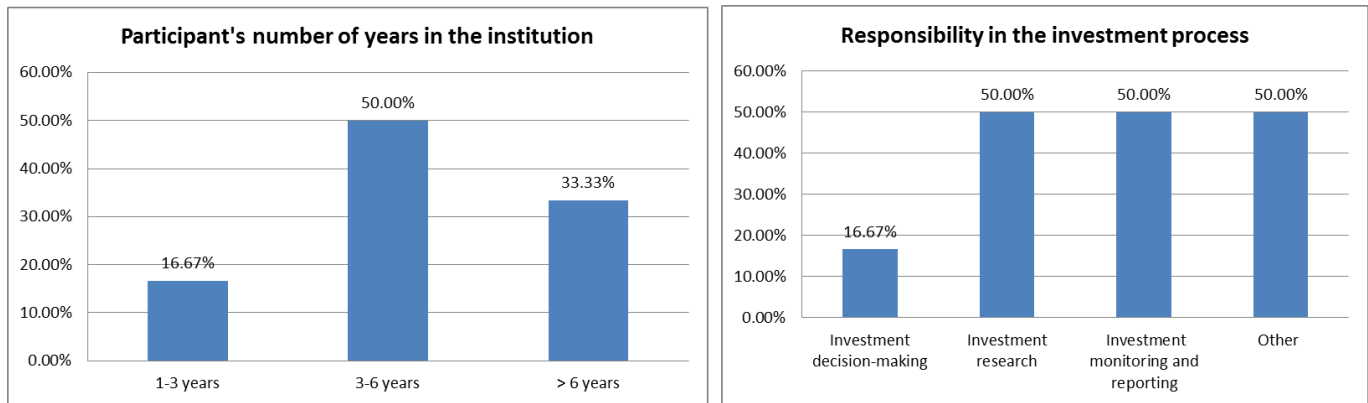
Five of the surveyed DFI's were European and have indicated that part of their mandate includes providing funding for new PE & VC firms or teams who are raising investment capital. The DBSA was the SADC DFI surveyed and the only one which also provides capital to other regional DFI's. Eighty-three percent of the DFI's invested through PE & VC funds and the rest invested directly with the portfolio companies over-and-above their investments through PE & VC funds. South Africa, Zambia and Madagascar were the most popular countries in the SADC in which DFI's were invested. None had specific countries excluded

however it was indicated that certain countries may not have ideal conditions for investment (e.g., Madagascar given the political uncertainties from 2010). One of the DFI's mandates restricts it from investing in countries with a per capita GDP higher than \$6725. The DFI's interviewed had similar preferred stage of investments to those expressed by the PE & VC firms therefore were a good sample to analyse against responses of the PE & VC respondents.



3.2.5 Description of DFI respondents

The respondents from the DFI's were investment professionals who took part in the investment process and were familiar with the investment process of their respective institutions. Eighty-three percent of the respondents have been employed in the organisation for more than 3 years therefore they were familiar enough to respond to questions. Half of the respondents were involved in research (inclusive of manager due-diligence) and 50% were part of the monitoring and reporting process. One respondent was involved in the investment decision-making. Similar to PE & VC firms, investment decision-making involves a committee comprising of other members. The "other" responsibilities included putting together of policies and systems for the organisation as well as sourcing and structuring of deals for direct investments.



The DFI sample was relatively small but sufficient for the purpose of the study since the main focus of the study was on the experiences and views of the PE & VC respondents.

3.3 Data gathering and recording

The responses from the respondents were written whilst the interview was conducted and also recorded on a digital recorder and played back during the transcription in order to ensure accuracy of the field data. The 3 of the 6 telephonic interviews were recorded digitally. The remaining 3 interviews were conducted prior to the installation of software which allows Skype calls to be recorded and stored digitally.

Given the number of respondents and number of individual questions (49 for PE firms and 43 for DFI's) it was important that the data be captured in an organised manner to allow for proper analysis without losing the essence of the respondents' views which can be a problem when coding or breaking information up into segments (Wiseman, 1979: 278). The responses from each of the respondents were captured onto excel from the hand-written notes that were taken during each interview. The recordings from the interviews were played back in order to capture responses to open-ended question. This helped in ensuring that that the responses are reflected accurately and enable meaningful analysis of the respondents' responses. The question guideline for the interviews was structured as a questionnaire, there most of the coding was done as the questions were being answered. Responses to open-ended questions required coding, which was developed inductively to record the responses, and the capturing the expansion/elaboration for each response given. These were captured in the adjacent columns of the coded responses on the excel spread sheet used to collate the data.

3.4 Data Analysis Methods

A 5 step analysis framework (Pope et al 200) was used analysing the data which entailed the following

1. Familiarisation with the raw data by playing back audio recordings of the interviews and reading notes taken in during the interviews.
2. Identifying a thematic framework (with research questions in mind).
3. Indexing—by coding and capturing further comments qualifying the responses
4. Charting—to get visual representation of the findings
5. Mapping and interpretation—to make sense of the findings and link them to the research problem as well existing literature

The data was analysed using excel and graphical representations of the findings. The analysis was done in conjunction with existing literature to identify patterns and commonalities with private equity and SRI findings from other regions.

3.5 Research Reliability and Validity

Reliability refers to the ability of a study to yield the same results when repeated. (Collis & Hussey 2003) and validity refers to the extent to which the findings of a study accurately reflect what really happened in a specific situation (Collis & Hussey 2003).

Given the phenomenological and qualitative approach to the study reliability was addressed by ensuring the interviews were conducted standardised set of identical questions. Additionally the respondents were chosen from SAVCA, an appropriate database of PE & VC firms in Southern Africa from whom expert opinions could be sought. The question of reliability of the findings was addressed by interviewing practitioners who were senior, familiar with their respective firms and involved in the investment process who could provide reliable information;

The validity of the findings in exploratory and qualitative such as this study is very challenging especially given that the responses based on opinion and experience of the individuals. As a researcher the best way to ensure validity was to assure respondents of

anonymity in order to encourage truthful responses and also analysing responses for signs of contradictions by respondents.

3.6 Limitations of the study

The study is a focused and qualitative field study which is exploratory; therefore the findings may be limited in accurately representing the general state of SRI in Southern African PE & VC. This also limits recommendations about regulations/policies to private equity asset class in Southern Africa and not the broader investment industry.

The study was limited to Southern African Private Equity and Venture Capital firms who are members of SAVCA. This may have excluded existing firms who are operating and investing in SADC but not members of SAVCA. Additionally, in conducting the study, it was found that a majority of the PE & VC in SAVCA invested mainly in South Africa and had very little direct investments in other parts of the region. Therefore, views may exhibit a bias towards the South Africa amongst SADC member states.

The study was conducted in order to contribute to development finance literature and therefore limited general partners' views to DFI's Other significant institutional investors who are limited partners in the South African Private Equity industry such Pension Funds, Insurance Companies and Family offices have not been included in the research. This may exclude factors unique to other types of general partners that may have an influence on ESG integration by Private Equity firms in SADC.

The concept of ESG integration in SADC is relatively new; therefore prior research in the Southern African private equity context is limited. This has limited a comprehensive literature review and has necessitated an exploratory research design. However, this limitation has presented an opportunity to expand the body of knowledge on the subject matter.

Accessibility and time-constraint have resulted in a limited number of respondents in the study. The sampling for the study (42 PE & VC firms out of 87 SAVCA members) was done using the convenience sampling. As a researcher, I was constrained by time as I was

conducting the research on a part-time basis while in full-time employment as well the limitation resulting from the submission deadline for the research report.

4 RESEARCH FINDINGS, ANALYSIS AND DISCUSSION

The first of the research questions asked whether PE & VC firms in the SADC region integrated SRI practices in their investment decision-making processes. The question guideline was designed to determine whether ESG factors were integrated and to identify common enablers and constraints as expressed by PE & VC fund managers in integrating ESG aspects within SADC. The questions were compiled in order to probe on the firms' policies, operational and sector specific factors that may be unique to private equity industry. Limitations that were anticipated were 1) The understanding about what was meant by SRI may be differ vastly amongst the respondents and 2) The responses to the questions may not be reliable if based on perceptions rather than experience especially for respondents that have not incorporated ESG integration in their investment process. In order to manage these possible limitations, the respondents were given a definition of SRI for the purpose of the study asked from the onset whether not they agreed or not. Based on that, the respondents were asked if they included SRI practices in their investments.

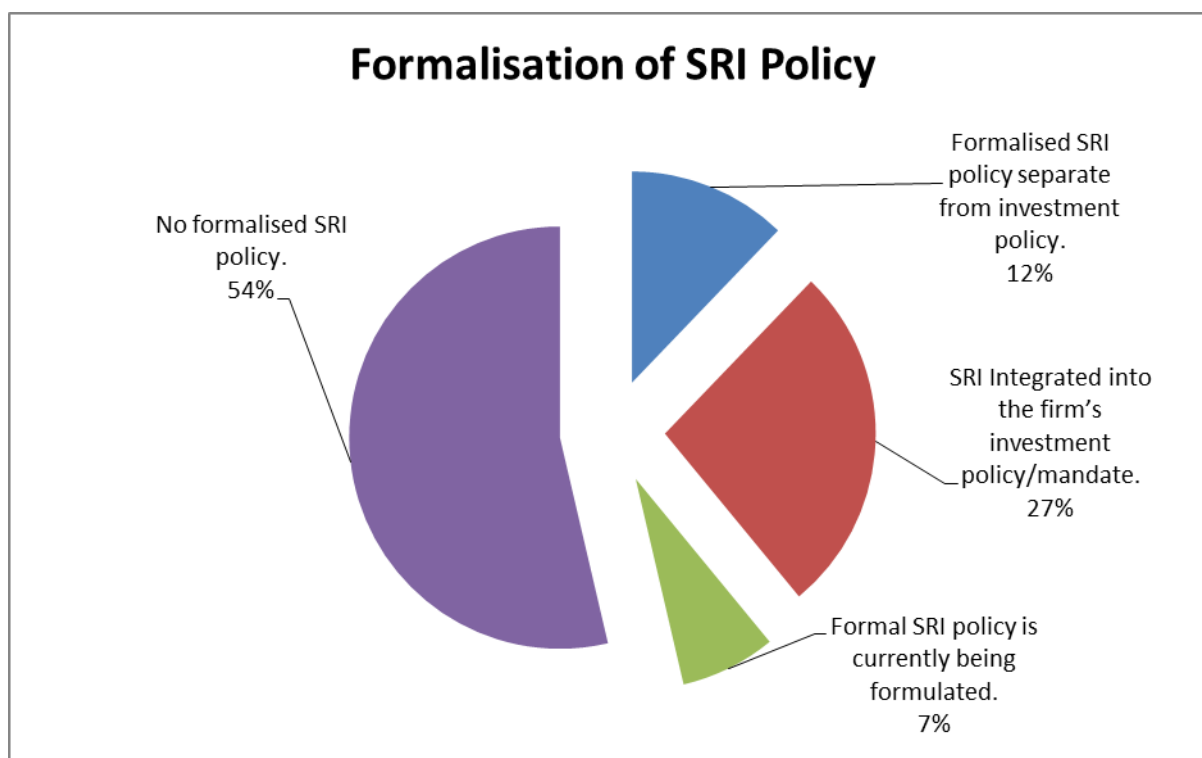
For the study, SRI was described as *the consideration of extra-financial factors in the investment process, decision making and ownership practices with the view to give appropriate consideration to factors (such as environmental, social and governance factors) which may materially affect the sustainable long-term performance of investments.*

4.1 PE & VC views on SRI

Overall, the respondents agreed with the description of SRI (in principle). They had varying views about the subject matter. One of the respondents (a VC company) believed corporate governance was very important but one needed avoid being too inflexible for small business. The respondent also felt that the portfolio companies that they are invested in are too early-stage to consider ESG strongly. Another VC respondent echoed a similar sentiment commenting that corporate governance and bureaucracy could be hindrances for the start-ups/early stage and must be relaxed for small businesses. One respondent focused on the word *sustainability*, expressing the belief that it was the "right" word encompassing many things. He expressed the view that sustainability is a newer concept but it is something responsible businesses have been doing for a long time. The respondent felt it

was imperative that when investing in any business, that the business be a going concern and operated in a sustainable way (mentioning how a number of owner-run businesses may not have paid that much attention to labour/employment/governance factors.) An interesting response was from the CEO of a captive firm who largely agreed with the definition but was of the view that ESG can be viewed as financial factors (not extra-financial factors). One respondent agreed with the definition, but felt that for both local and international investors, responsible investment terms (i.e. considering non-financial factors) go out the window when it comes to (achieving investment) returns saying: "They (the investors) don't give a s**t". The respondent expressed disillusionment commenting that he thought that they (the investors) did (consider non-financial factors), but they did not. One of the more sceptical respondents felt that ESG and SRI were a fad. He expressed the view that SRI had not added value in the South African context because South Africa was highly regulated and that regulations ensured responsible investment. From the responses I got the sense that SRI was seen as an aspirational ideal (hence I highlighted that they agreed in principle). No other "non-financial" factor was included or excluded from the definition. The respondents agreed that ESG factors were encompassing of all non-financial factors that should be considered.

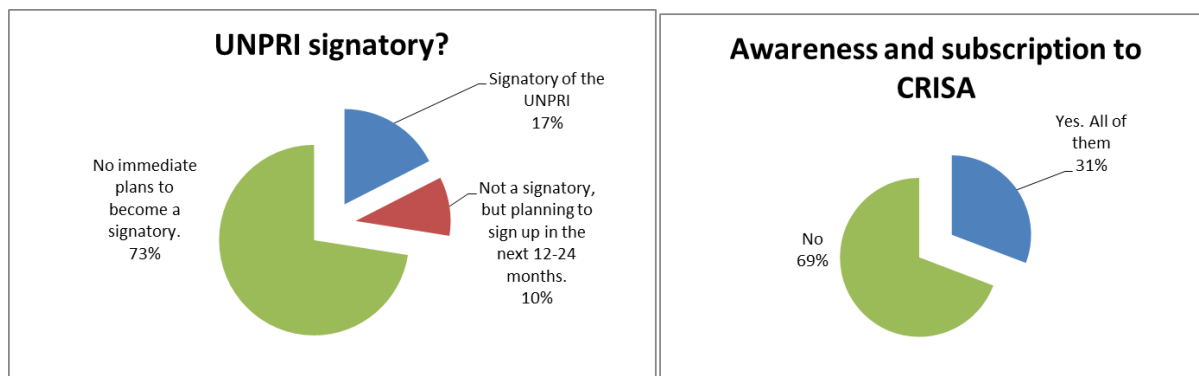
When asked whether their respective firms had formal investment policies and specifically SRI policy in place, 90% of the respondents indicated that their firms had formal investment policies (also known as mandates) with varying details of investment strategies, industries and stages of businesses that they could invest in. The policies/mandates were mainly influenced by the firm's shareholders and investment committees within the firms. There is very little direct influence on the firm's overall strategy by 3rd party investors. The mandates are normally either accepted or declined by 3rd party investors in the capital raising process. The 10% that had no formal/written policy considered themselves opportunistic investors and had no immediate intentions of investing on behalf of 3rd party funders. The picture was quite different when the firms were asked whether a formal SRI policy was in place.



Less than 50% had formal SRI policies and 12% had formal SRI policies which were separate documents from the firm's investment policy/mandate. Twenty-seven percent had their SRI policy integrated in the firm's investment policy/mandate and 8% have no policy but are currently formulating one. Fifty-four percent had no formal SRI policy but indicated that SRI was entrenched in their teams' approach to investments. It was interesting to note that 8 of the 41 respondents that managed DFI assets or co-invested with DFI's had no formal SRI policies in place either.

Although all the PE & VC firms understood the concept of SRI, the majority (62%) had not formalised it within their investment process suggesting that there is a long way to go as far as fully incorporating sustainability practices in PE & VC industry. The PE & VC's claims of having SRI practices entrenched in their teams (even in the absence of an SRI policy) leads one to question whether there is complete buy-in amongst the practitioners in the firms and whether there is consistency in ESG integration considering the informal approach taken by the firms. Seemingly, a formal SRI policy may not be a non-negotiable pre-requisite for DFI's since some of the PE & VC are managing DFI assets and co-investing with DFI's despite having no formal SRI policy in place.

Each of the PE & VC respondents was asked whether their respective firms were signatories of the UNPRI or whether they had any intentions of being signatories in the following 12 to 24 months. Additionally, they were also asked of their awareness of CRISA and whether they adhered to the principles therein.



An underwhelming 17 % of the respondents were signatories of the UNPRI which presented a smaller minority than what was expected given the assertions by the firms that ESG factors were considered and factored into their investment-decision processes. Those who were signatories included firms which have had a strong DFI influence in their history such as ECP and Aureos. Some of the captive PE & VC such as those in the insurance industry were not direct signatories; however, their respective holding companies were signatories. These included Absa Capital Private Equity, OMIGSA and, to an extent, the PIC which is a state-owned investment firm that has been a signatory to the UNPRI since 2007. A smaller percentage (10%) of the firms were not signatories of UNPRI, but indicated that their firms would be signing the UNPRI in the following 12-24 months. One respondent of the opinion that the signing of the UNPRI was not particularly applicable to his fund as its SRI policy covered all the principles. Seventy-three percent of the firms had not signed up to the UNPRI and had no immediate plans of becoming signatories.

It was interesting to note some of the reasons provided by those who were not signatories. One response respondent from a firm that was once a signatory but later took the decision not to re-sign on as they felt it added no value to be signatory. Another respondent echoed a similar sentiment stating that they felt that there was no compelling reason to become a signatory and another felt the UNPRI was a “*name and shame*” initiative. In 2008, an article revealed the UN’s intention to expel fund managers over their failure to meet

disclosure requirements⁹, and in 2009 a news article revealed that the UN had expelled 2 South African fund managers from the UNPRI, one of which was a PE firm.¹⁰ This kind of name and shaming may be one contributor to a lack of interest among PE & VC firms to sign UNPRI. It seems the UNPRI presents no compelling reasons for these firms to sign on. A number of the firms had indicated that they already integrate ESG despite not knowing of UNPRI to begin with. Thirty-one percent of the respondents were aware of CRISA and subscribed broadly to the code and 69 % of the respondents were not aware of CRISA at the time of the interview and requested a broad explanation of the codes.

Those who were either unaware of the UNPRI and/or CRISA or not intending to sign on for UNPRI were asked whether the principles were applied regardless of being signatories. A high-level explanation of the principles was provided for the respondents. One out of the 35 respondents in this category was unable to answer as he was unsure if the principles were applied at all. The rest of the respondents declared that their firms did apply the principles broadly albeit informally. One respondent further elaborated that they (the firm) were bound by clients and their responsibility as corporate citizens. Another respondent stated that the principles were applied in "principle or spirit" and also believed that a principles based-approach was much better compared to legislated rules.

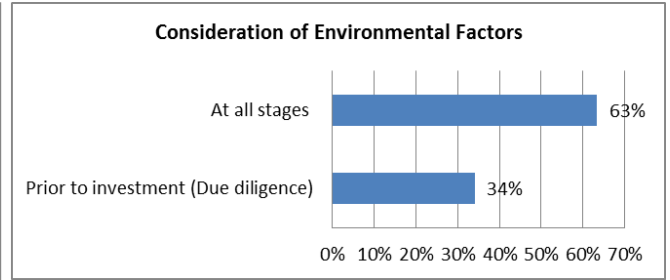
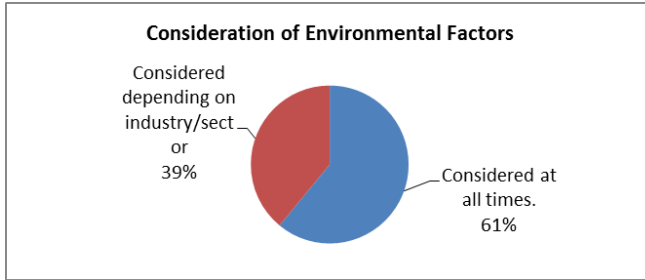
4.2 ESG Integration by PE & VC firms

The respondents were asked whether ESG factors were integrated in their investment processes. The respondents were asked about each factor separately in order to get in depth detail about each factor. The findings suggest that despite the majority of the PE & VC firms not having formal SRI policies in place, they do consider ESG factors in their investment processes. Notably, even those firms that do not manage DFI or other 3rd party assets indicated that ESG was integrated in their investment processes suggesting other reasons may be driving the firms to integrate the factors apart from the DFIs' influence.

⁹ Molony J 2008: UN PRI prepares to expel fund managers over disclosure failures. Global Compact Critics <http://globalcompactcritics.blogspot.com/2008/07/un-pri-prepares-to-expel-fund-managers.html> June 27, 2008 Retrieved 12 December 2012

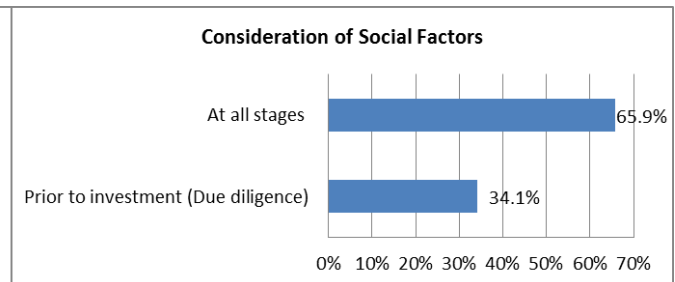
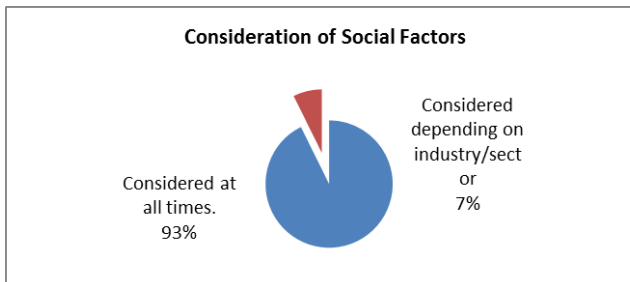
¹⁰ Crotty A. 2009. UN expels two SA fund managers. *Business Report*, online edition, August 24, 2009.

Environmental factors



All the respondents indicated that environmental factors were considered in their investments process with 61% indicating that environmental factors were considered at all times, regardless of industry/sector invested in. The other 39% considered environmental issues depending on industry invested in. One respondent highlighted that his firm had a dedicated resource that was responsible for environmental assessments. Sixty-five percent indicated that they consider environmental aspects at all stages of the investment whilst 34.1% indicated that environment aspects are considered during the due-diligence stage in order to assess the potential environmental risks associated with the investment opportunity. Many of the firms are invested in service-oriented industries such as media, IT, services, banking & insurance which have a low environmental risk rating¹¹. One respondent (VC firm investing in IT) had not deal with environmental issues and felt that they were not in a position to respond on environmental issues.

Social factors



All the respondents indicated that social factors were considered in their investments processes with 93% of the respondents indicating that social factors were considered at all times in their investment process and 7% of the respondents indicating that social

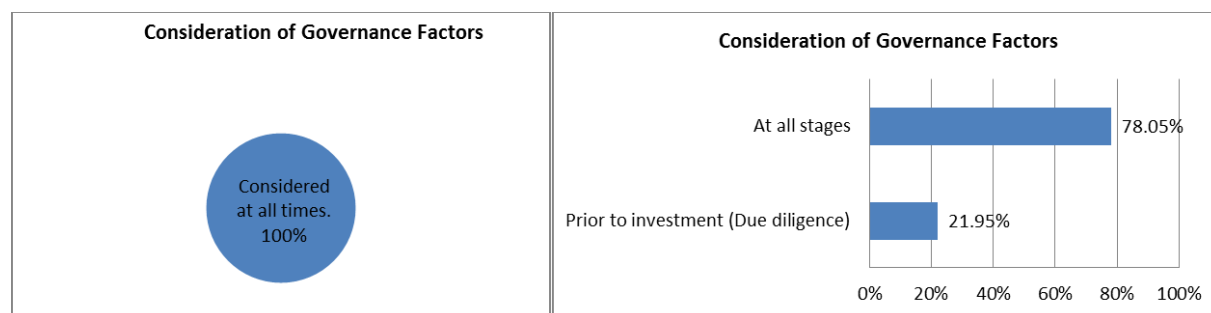
¹¹ CDC Toolkit 2010-Tool 5 Rating ESG risks: The Environment

considerations were mainly industry/sector driven considerations as they have different potential social impact. Close to 66 % of respondents indicated that the social factors are considered at all stages of the investment process and 34% focused on assessing social impact mainly at due-diligence One respondent elaborated that social impacts of their portfolio companies are particularly important in enabling the sale of the businesses at exit because it made the business more attractive to potential buyers. Another respondent highlighted the importance of social impact assessment as part of corporate governance; adding that social and risk committees were put in place in their portfolio companies as recommended in King II.

The respondents mentioned the DTI codes on transformation and BBBEE as important considerations which form part of their formal policies/mandates. This is consistent with literature on Private Equity in South Africa which has found that BEE continued to play an important role in South African Private Equity activity (Dada & Thayser, 2007). According to a survey conducted by Deloitte, the majority (83%) of PE investment professionals expected their funds to have some form of BBBEE ranging from black influence to black control and 80% expected BBBEE to generate more opportunities for their Private Equity businesses in future (Deloitte 2007:5).

The respondents made regular mention of employees in their consideration of stakeholders especially on issues of labour legislation, labour rights and working conditions. One of the firms declared that one of the KPI for its portfolio companies relates to the management of injuries and incidences in the workplace. There was some mention of the broader communities affected by the portfolio companies.

Governance factors



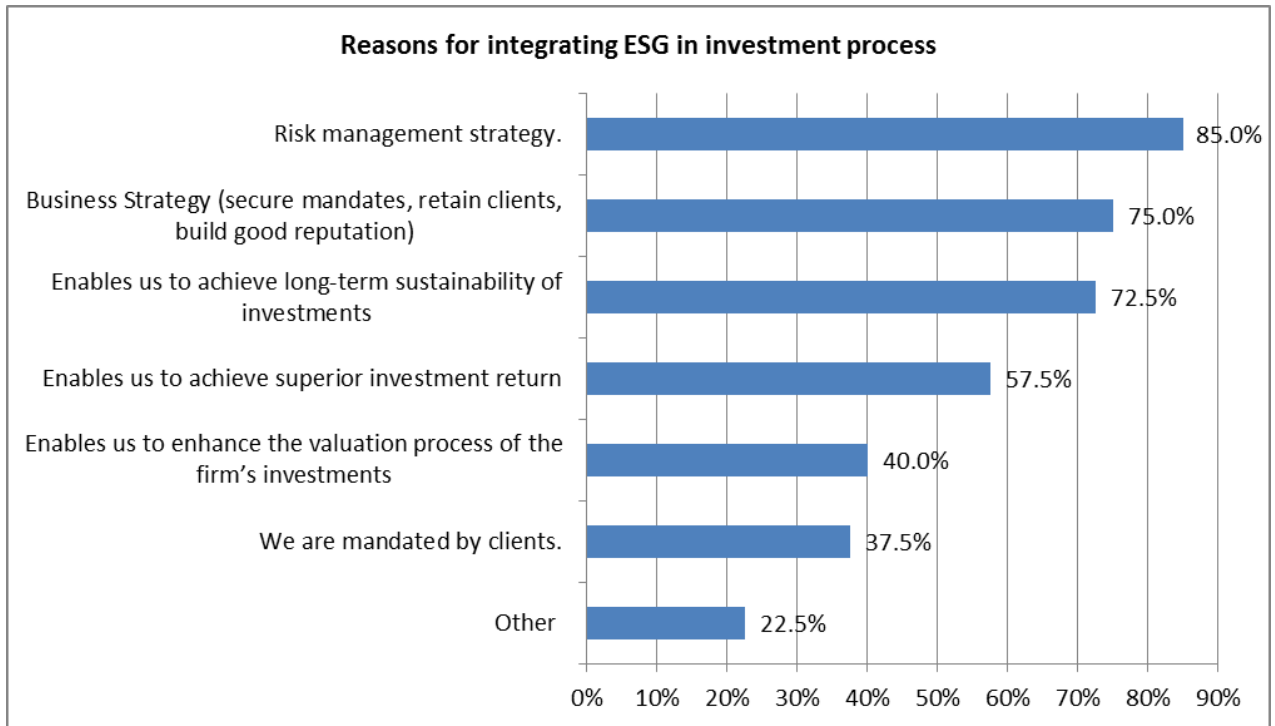
All respondents indicated that corporate governance is considered at all times regardless of industry or sector. Seventy-eight percent of respondents indicated that corporate governance factors were considered at all stages of the investment process and 22% focus their assessment of governance factors mainly at due-diligence continuing to manage these once invested. A number of the respondents mentioned that governance structures were the first to be put in place once invested in a portfolio company. Although there is a corporate governance framework to support emerging markets investors which was developed by DFI Corporate Governance Working Group and adopted by over 25 DFI's (including all 6 of the DFI's interviewed in the study), the PE & VC respondents seemed to take their guidance from the King II and King III guidelines on corporate governance. The latest guidelines (King III) integrate governance, strategy and sustainability guidelines. Interestingly, the King Commission is chaired by Judge Mervyn King who also chaired the Global Reporting Initiative¹² which provides guidelines for sustainability reporting globally.

Overall, environmental issues do not seem to be top of agenda compared to governance and social issues. The respondents placed a lot more emphasis on corporate governance and their responses to questions about governance were very resolute compared to responses given for environmental and social factors: suggesting greater confidence in addressing governance factors

4.3 Why PE & VC firms integrate ESG

The respondents were asked to indicate applicable reasons for integrating ESG factors in their investment decision-making. The most common reason indicated by the respondents was that ESG integration formed an important part of the firm's risk management strategy. The following graph illustrates the responses in more detail:

¹² (Stewart 2010, <https://www.globalreporting.org/network/network-structure/board-of-directors/Pages/default.aspx>).



Seventy-five percent of the respondents indicated that it forms part of their overall business strategy in terms of securing funding during fund-raising, retention of investors and building a good reputation for the firm as a business. Less than 60% of the respondents indicated that ESG was integrated in order superior investment returns or a means of achieving long-term sustainability of investments. 22.5% indicated other reasons such as ESG integration being the sensible and right thing to do.

The respondents' responses suggest that integrating ESG is approached largely as a risk management strategy rather than a means to enhance the investment valuation process. Dowse argues from a practitioner's point of view that it would be rare for ESG issues to stop an acquisition cold and that it is more a question of identifying risks that may, alone or collectively, be taken to the negotiating table (Dowse 2009:660).

The valuation process is important in investments because it is the means to determine the value of the investment and hence, financial performance investments. Forty percent of the respondents indicated that ESG integration enhanced their investment valuation process. This was surprising since risk plays a role in determining the value and financial performance adjusted for risks. Given that the respondents had indicated that ESG was mostly integrated for risk management, it was expected that a similar percentage of

respondents would indicate that ESG enhanced the valuation process since they would have a better handle on risks associated with the particular investment. This observation raises questions of whether the PE & VC firms consider the impact of the ESG risk in the valuation of the investment, or whether barriers exist that prevent them from linking ESG risk to the valuation process?

One possible barrier could be the lack of guidance in linking ESG risk to determining the value of the investments. Global private equity and venture capital associations (including SAVCA) endorse the international private equity and venture capital (IPEV) valuation guidelines which recommend best practice in the valuation of private equity investments. The current valuation guidelines (August 2010 edition) do not give recommendations on incorporating non-financial factors such as ESG factors in private equity investment valuation. IPEV also has reporting guidelines in the form of the IPEV investor reporting guidelines which, at present, also do not address ESG reporting and disclosure sufficiently. The informal and ad-hoc manner in which SRI is practiced by the private equity investors in SADC may also be influenced by the fact that ESG factors seem divorced from determining investment returns (i.e. the valuation process).

Relatively few respondents indicated that their clients had explicitly mandated them to integrating ESG in their investment decision-making. The responses suggest that LP's have limited direct influence on the GPs' SRI policies because only 37.5% of the respondents indicated that ESG was integrated as a result of being mandated by clients/investors (particularly the DFI's). When looking at a typical limited partnership agreement, one questions whether traditional manner in which LP's and GP's form a business relationship makes it practical for LP's such as DFI's to have a greater influence in the integration ESG. LP's can only buy into the GP's pre-determined mandate/policies once they decide to appoint them to manage capital. The LP's have little or no direct influence on the GP's overall mandates/policies or how they are implemented, more-so if they co-invest with the PE & VC. Practically, it seems LP's are limited in the amount of influence that they have on PE & VC firms adopting the formal integration of ESG in their investment process. LP's can 1) "vote with their feet" (i.e. not invest in any PE & VC firm have no formalised SRI policy in place, 2) make a formalised SRI policy and its implementation a non-negotiable condition before contracting with PE & VC firms and continued commitment of capital

and/or 3) monitor the appointed firms for ESG implementation and verify/audit the reports provided by the firms more rigorously. The 3 options are dependent on all LP's (not DFI's only) applying these conditions strictly.

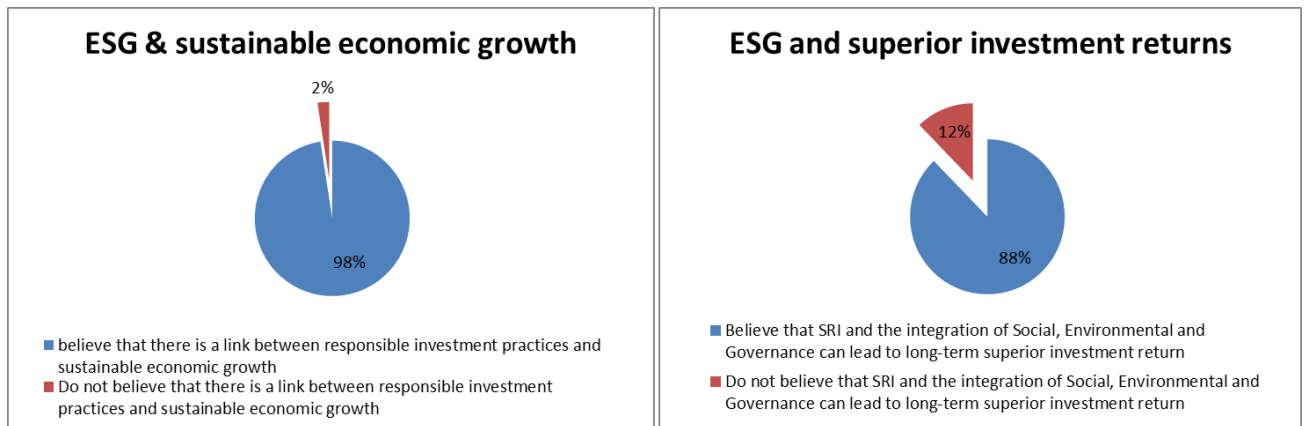
GP's globally seem to share similar reasons for integrating ESG and also realise the influence that LP's such as DFI's do have on their businesses. A practitioner and editor of the PEI Responsible Investing Handbook, James Taylor wrote: *"From a practical point of view, trying to mitigate environmental, social and governance risks is just a sensible way to protect the brand value of a particular investment. Perhaps more significantly, this is now such an important issue to LPs, that managers would be unwise to ignore it – particularly if they're looking to raise new funds this year. If you can't demonstrate a genuine commitment to responsible investing, good luck trying to raise money from some of the big institutional investors."*¹³

4.4 Views on ESG integration and sustainability

Although, risk management and business strategy are top of mind for ESG integration by the PE & VC firms, there is a growing view that ESG integration can add value. When asked whether they believed there was a link between responsible investment practices and sustainable economic growth, 98% of the PE & VC firms respondents believed that there was a link between responsible investment practices and sustainable growth, albeit the insufficient history to prove it. One respondent's said; "it is difficult to say but I certainly hope so". One respondent agreed and went on to say that if one is acting responsibly and doing the right thing over time they would be in a position to reap financial returns. One respondent felt that it was quite a high level question but believed that there was a link because responsible investment practices lend themselves to things that continue in perpetuity or improve upon themselves all the time. The respondent provided an example of how skills development of employees can allow the employees to do other things even after they leave the business which has a positive effect on the economy. Another respondent believed that there was a link, further elaborating that it would be irresponsible to make an investment purely on financial fundamentals without taking into account non-financial consequences. This respondent felt that we are living in a world where the intangibles are

¹³Taylor J 2012 : Editor's letter The: Responsible Investment Handbook 2012 A PEI supplement February 2012 page 1

becoming quite significant. He did, however, also express the view that investment returns could be stumped by inappropriate guidelines such as conditions from "DFI funding". This respondent's firm has explicitly avoided DFI funding because of the perception that DFI's had restrictive condition tied to their provision of capital for investments.



The respondents were asked whether they believed the SRI (as defined for the study) and the integration of ESG could lead to long-term superior returns (as opposed to not integrating ESG). Some of the respondents felt that it was an emotive question of personal beliefs and not an easy one to answer because there is very little empirical evidence of ESG integration leading to superior investment returns compared to not integrating ESG. Eighty-eight percent of the respondents, however, do believe that integrating ESG can lead to long-term superior investment returns. Some of the respondents expressed the view that it could lead to attractive valuations at exit/harvesting. Two respondents specifically expressed the view that the G in ESG plays an important role in achieving superior returns. Another respondent agreed that it could lead to superior returns in an ideal world suggesting some scepticism as far the reality of achieving superior returns in the practical sense. Another expressed the view that ESG integration could potentially lead to superior investment returns; further commenting that some of it was at a cost. The 13% who did not agree were of the view that integrating ESG would not necessarily lead to superior returns but could minimise the risk of investment losses. The Boston College Centre for Corporate Citizenship and McKinsey & Company (2009) are of the belief that ESG programmes can generate substantial direct financial returns¹⁴. Witlin and Carnemark (2006) argue that

¹⁴ How virtue creates value for business and society: investigating the value of ESG activities, Boston College Center for Corporate Citizenship and McKinsey & Company, (2009.)

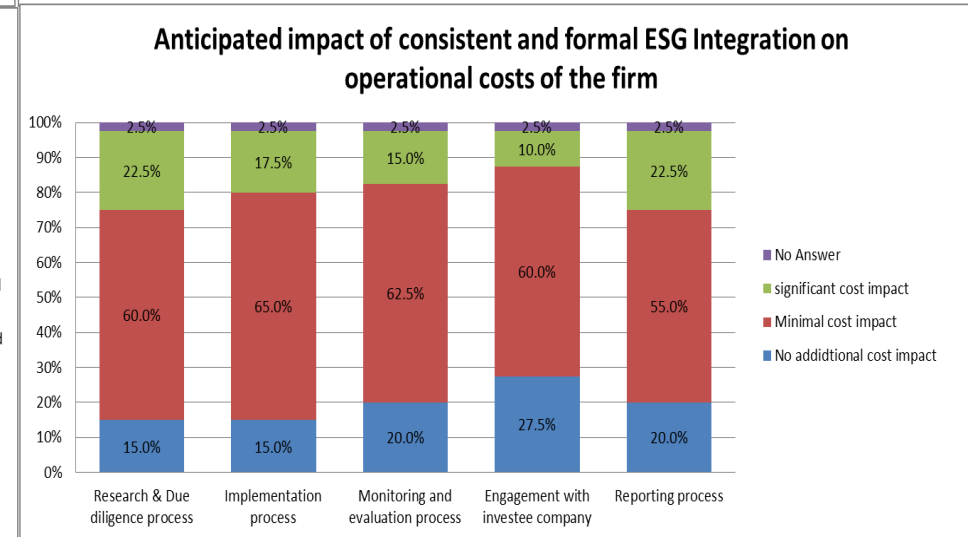
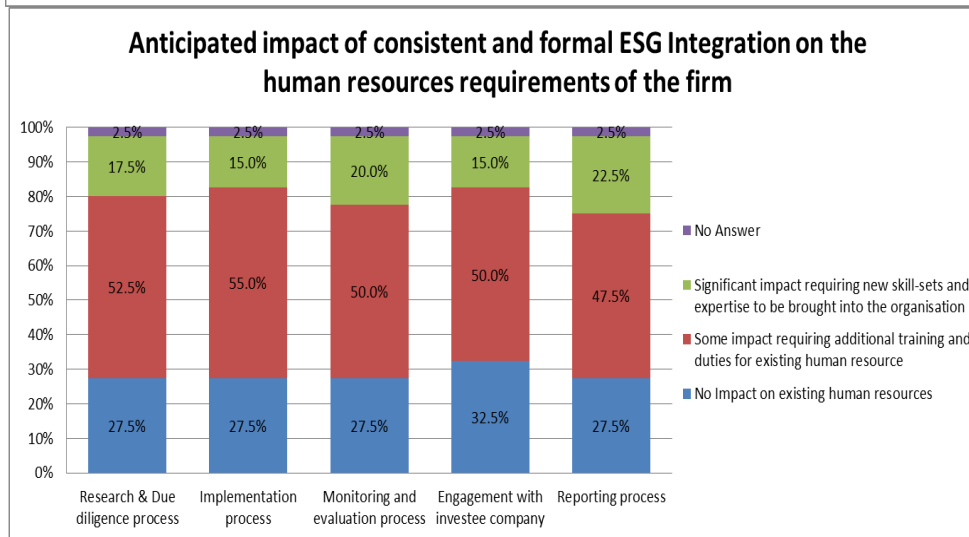
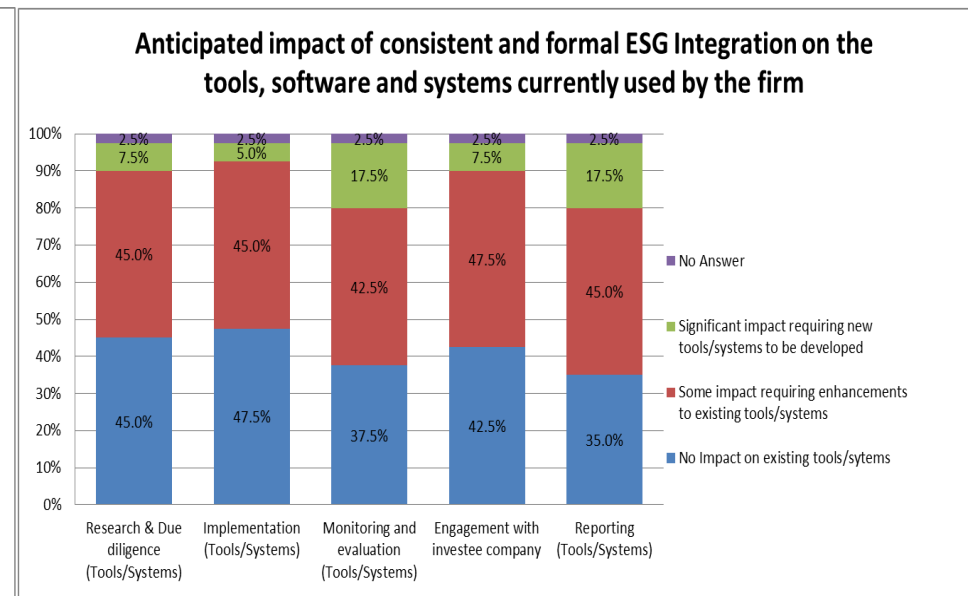
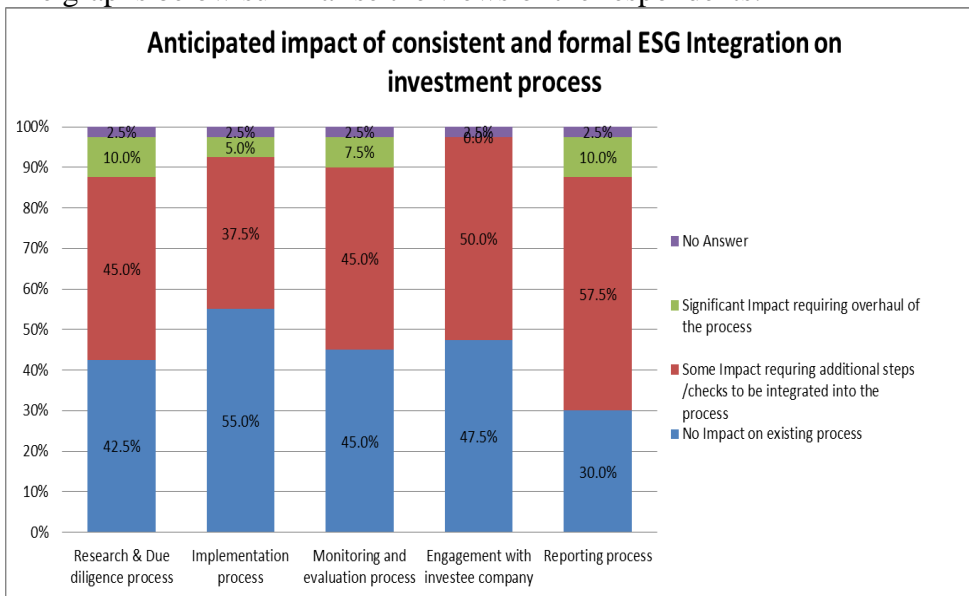
investors who make an effort to understand the impact of ESG issues (particularly in emerging markets) stand a better opportunity to reduce risk and boost returns. The proof thereof, however, is dependent on the formal and consistent integration of ESG in investment processes as well as the measurement of the impact of integrating ESG on returns and socio-economic development.

One way of ensuring consistency amongst the private equity professionals may be to incentivise them to incorporate ESG consistently and to have their performance against ESG performance assessed and rewarded. When asked whether portfolio managers' remuneration incentives were directly linked to their performance in implementing ESG in only 10% claimed to have ESG performance directly linked to the remuneration. The rest of the respondents had no direct link between the portfolio managers' ESG performance and their remuneration. The respondents viewed the link between ESG performance and remuneration as an indirect one because incentives are linked to investment returns achieved by the portfolios; which are influenced by the portfolio managers' active management of ESG-related risks that may have financial impact on their investments.

4.5 Formalisation of ESG integration

It is evident from previous responses that ESG integration has been done mostly in an informal way. It was established that the majority of the PE & VC participating in the study had no formal SRI policy in place with a few declaring that SRI policy were being formulated. Formal SRI policies are the first step towards consistent integration of ESG in the investment process. The implementation of the policies is the next logical step requiring supporting processes, systems and people to adhere to the policies. It was of interest to obtain the views of the PE & VC firms regarding the anticipated impact of formalising SRI policies and consistent implementation would have on their investment processes. The respondents were asked to indicate the anticipated impact on processes, human resources, systems/tools used and overall operational costs relative to their current ESG integration activities. The graphs in the following page illustrate the responses from the PE & VC firms.

The graphs below summarise the views of the respondents:



Seventy-five percent of the respondents indicated that formal and consistent ESG integration would either have no impact on their investment activities or minimal impact requiring enhancement/changes to how investment activities are carried out. The majority did not anticipate significant impacts operationally or cost-wise. This was also the case as far as human resources. A number of the firms have indicated that they make use of expert consultants in areas where they feel they lack the necessary expertise to assess or address the factors. The greatest impact is anticipated in the reporting of ESG performance specifically with respect to the human resource required and the associated costs thereof.

The commonly cited constraints expressed by the respondents in reporting ESG matters were the lack of standardised ESG data and the lack of standardised reporting requirements by the LP's. The KPMG International Survey of Corporate Responsibility Reporting for 2011 found that although an increasing number of private equity firms were considering responsible aspects in managing and reporting on their portfolio of companies, privately owned companies (that had PE & VC firms as investors) were by far the least likely to report on Corporate Responsible activity with just 46% and 36%, respectively, disclosing information in the 2011 Survey (KPMG 2011:15). This suggests that PE & VC firms face challenges with the supply of reporting information (from their portfolio companies) and the non-standard demand of reporting information (from LP's). Although some of the firms had knowledge of guidelines such as the IFC performance standards, there was hardly any mention of using toolkits provided to aid in the reporting of ESG.

As mentioned in the literature review, transparency and disclosure play an integral part in sustainability and responsible business practices. The Global Reporting Initiative (GRI) aims to provide a generally accepted reporting framework for reporting on an organization's economic, environmental, and social performance regardless of an organisation's size or sector. The Impact Reporting & Investment Standards (IRIS) were also developed to provide standards by which organizations can report their social and environmental performance. The GRI framework, for instance, has 127 indicators for sustainability reporting¹⁵. The sheer magnitude of the administration of reporting of such indicators for multiple clients/funders may be too cumbersome for private equity firms which typically comprise of small teams. Whilst ESG issues do play a particular role within SRI, it is argued

¹⁵ GRI Sustainability Reporting Guidelines: <https://www.globalreporting.org/resourcelibrary/G3.1-Guidelines-Incl-Technical-Protocol.pdf>

that the methods for gathering, evaluating and comparing of the ESG information are time consuming, laborious and sometimes costly (Bassen A & Kovács 2008, Boston College 2008), it is therefore not surprising that PE & VC firms have kept ESG integration largely informal considering the administrative burden of collecting information and reporting on it regularly.

Although DFI's have been at the forefront as far as the requirement for ESG performance reporting from their appointed PE & VC firms, it was quite interesting to find from the interviews with the DFI's that none of them performed formal audit to verify the accuracy of ESG performance reported by PE & VC firms. The DFI's rely on the view that it would not be in the best interest of the PE & VC firms to misrepresent their progress in driving ESG in portfolio companies. There seems to be a lack of follow-through from DFI's as far as actively encouraging the PE & VC to integrate ESG in all investment activities. Given the developmental mandate of DFI's, one would expect an audit of the ESG reports in order to be certain of the developmental impact of the capital that they invest. One therefore, questions whether there is any real incentive for PE & VC firms to put a concerted effort in reporting comprehensively on ESG performance given that there is no link to their remuneration nor is there no audit on the ESG performance reports produced.

4.6 Challenges and Opportunities of ESG integration

SRI and ESG integration in PE & VC are in their infancy in Southern Africa. As previously noted, a number of the ESG-driven initiatives, standards and guidelines have been by DFI's from developed economies. Viviers' argument was also noted stating that outside of South Africa; no SRI took place on the African continent (Viviers 2007:147). It was therefore, of interest to examine not only the challenges and opportunities faced by Southern African PE & VC firms in embracing SRI but also the views of the PE & VC firms vs. those of DFI's as far as integration of ESG in Southern Africa.

The study sought to identify enablers and hindrances affecting the PE & VC firms' ability to integrate ESG in SADC. Additionally it sought to identify any conflicting views between DFI's & PE & VC firms with regard to investing in the SADC region. A common set of questions were asked of the DFI's and PE & VC respondents about their views on the relevance of each of the ESG factors in the various industries in SADC. Additionally, the

set of the following illustrative quotes was provided to both the DFI's and PE & VC respondents for which they need to express their view for each of the ESG factors.

It is easy to source information on these issues from portfolio companies and ESG information providers.

ESG information is standardised across industries, regions and countries and enables comparative analyses.

ESG information is easily translatable into quantitative measures and indicators therefore factoring these issues in investment and valuation models is possible.

The integration of this factor does have a significant effect on the profitability of the portfolio company.

It is possible to attribute the value added/destroyed by the factor on investment performance.

The industry investment professionals have the required skills/qualifications in assessing the factor.

The portfolio manager should manage risks associated with this factor through active engagement with the management in portfolio companies.

The typical time-horizon/holding period of investments enables the portfolio manager to manage risks associated with this factor effectively.

The time-horizon of the investment and the time-horizon of realising the benefit/costs of integrating this factor are similar therefore the factor can be linked to the investment performance.

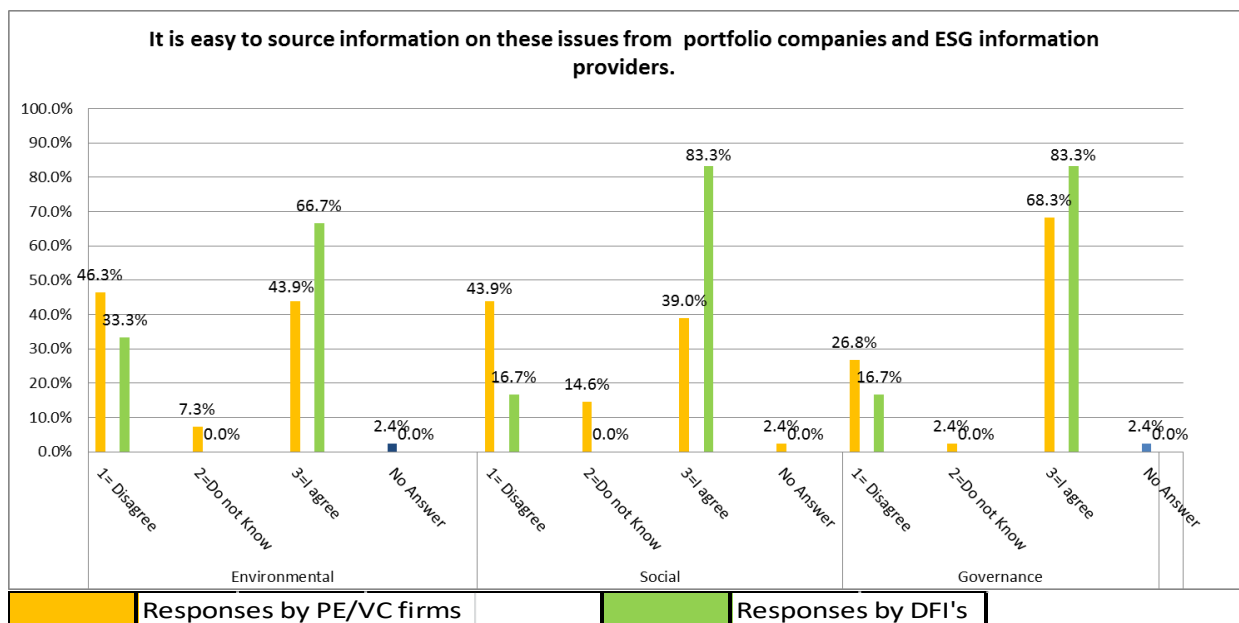
Regulations and legislation provide clear guidance for portfolio managers to integrate this factor in the investment process.

The responses to the illustrative quotes have been illustrated graphically and give some insight into the challenges and opportunities as viewed by the DFI's and the PE & VC firms.

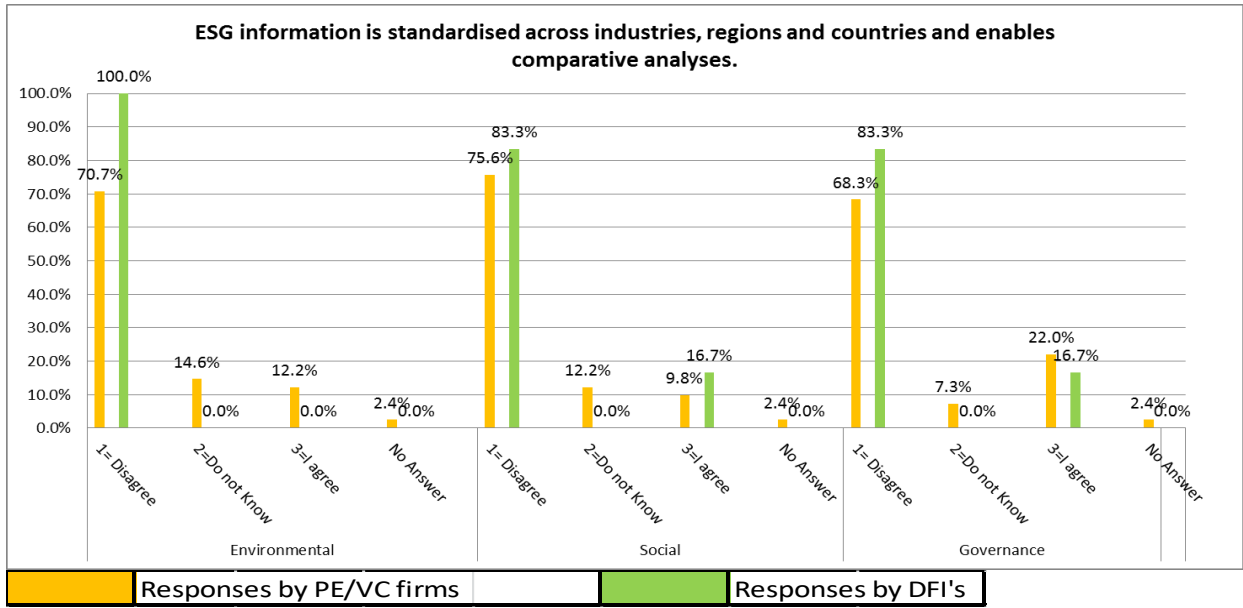
4.6.1 ESG information

Richardson BJ argued that financial institutions do not have the same ability to gather information about corporate sustainability further stating that environmental activities of privately-owned firms, with less exacting reporting standards, can be a problem for financiers (Richardson 2008:320). A similar challenge is mentioned in literature specific to private equity particularly from portfolio companies (Herring et al 2009, Visser, 2005,

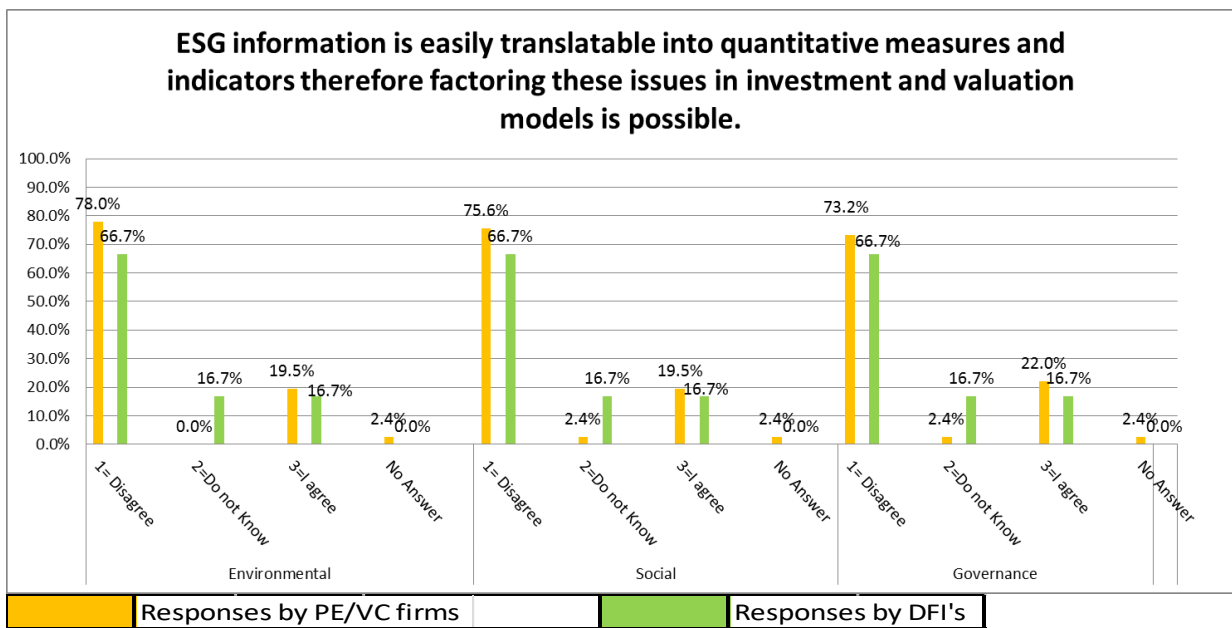
Boston College 2008). An interesting view from Actis (a private equity firm also operating in SADC) highlights that *"to date most responsible investment measurement systems have focused on the investment management and reporting areas. As a result, they have not usually obtained the buy-in from the Executive management of the portfolio company, who may incorrectly view the responsible measurement system as a negative "compliance" tool.*" (PEI Responsible Investing Handbook 2012:8). Based on these challenges expressed by academics and practitioners above, the study examined whether these challenges apply in the Southern African context PE & VC firms by their responses to quotes pertaining to issues of ESG information.



A smaller percentage of PE & VC firms agree that ESG is easy to source, compared to the views of the participating DFI's. The responses from the PE & VC firms seem to point to information about corporate governance being relatively easier to source compared to information pertaining to environmental and social factors. 68.3% of the PE & VC firms believed governance factors were easy to source, compared to 43.9% and 39% for environmental and social information respectively. The majority of the DFI's agree that it is easy to source the information (especially social and governance information). It seems as the respondents generally find environmental information more challenging to source compared to social and governance information.



The PE & VC firms and the DFI's generally disagreed with the statement "ESG information is standardised and enables comparative analyses and (especially so for environmental factors)". This is expected considering findings from the *KPMG International Survey of Corporate Responsibility Reporting* (2011) which points the low levels of ESG reporting by privately-owned companies such as those held by PE & VC firms (KPMG 2011:14). ESG information from companies has been found to lack consistency and standardisation therefore resulting in difficulty in comparing with data from other companies or across periods (Bassen A & Kovács 2008).



The respondents also share a similar view for all 3 factors regarding the ease with which ESG information is quantifiable and factored in valuation models. They mostly disagreed with the statement which is consistent with existing literature which points to that the lack of universally accepted methods for quantifying extra-financial information as one of the major impediments against the integration of ESG information (Guyatt, 2006, Jaworski 2007, BSR 2008, Kossovsky 2007). As mentioned previously, PE & VC associations including SAVCA have endorsed IPEV valuation guideline which lacks the guidance on ESG integration in private equity valuation. The amount of ESG information needing to be analysed and assessed can be overwhelming and this information overload has been argued to be a serious challenge especially when it's not clear how to link it to investment decision-making¹⁶.

Nineteen percent of the respondents agreed with the statement for E&S, and slightly more for the G factor. If it is indeed easy to quantify these ESG factors (as expressed by the minority of the respondents) , the question that comes to mind is raises there is an inertia on the part of the PE & VC professionals to move from conventional wisdom and valuation techniques given the infancy of the SRI movement. For instance, in the December 2012 draft edition of the IPEV guidelines, readers are advised that *these Valuation Guidelines address financial valuation issues only. The IPEV Board, after thorough discussion and consultation, has concluded that matters relating to the reporting and valuation of non-financial factors or inputs in the context of a Fund's responsible investment practices, including environmental, social and governance factors, are conceptually included in these guidelines where their impact is financial, but are otherwise outside the scope of this document.*¹⁷

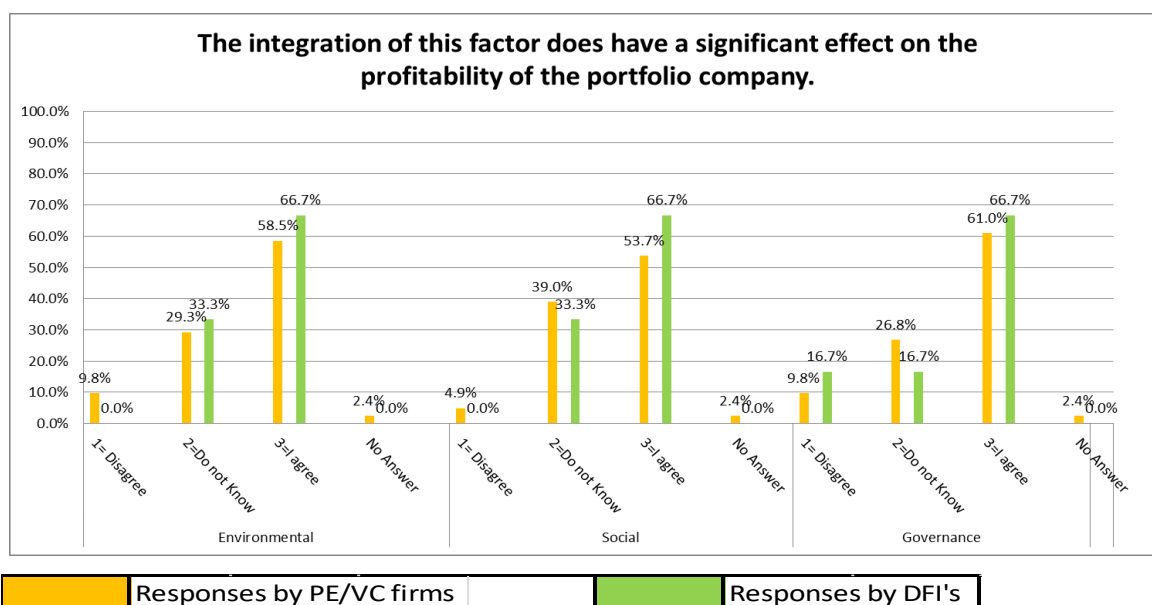
The “conceptual” inclusion of ESG factors in the guideline may be the beginning of evolutionary step towards a seemingly revolutionary ideal that is SRI. It is sensible and reasonable that ESG factors would be included in valuations where their impact is financial. It does, however, dependent on whether the investors (LP's and GP's) are able to recognise

¹⁶ Boston College, White Paper: Report on Project Findings Corporate Reporting of Social, Environmental, and Governance Information: What Investors Want, 2008:4

¹⁷http://www.privateequityvaluation.com/fileadmin/user_upload/pdfs/news/121105_IPEV_Valuation_Guidelines_Revision_2012_Final_Consultation_Draft.pdf

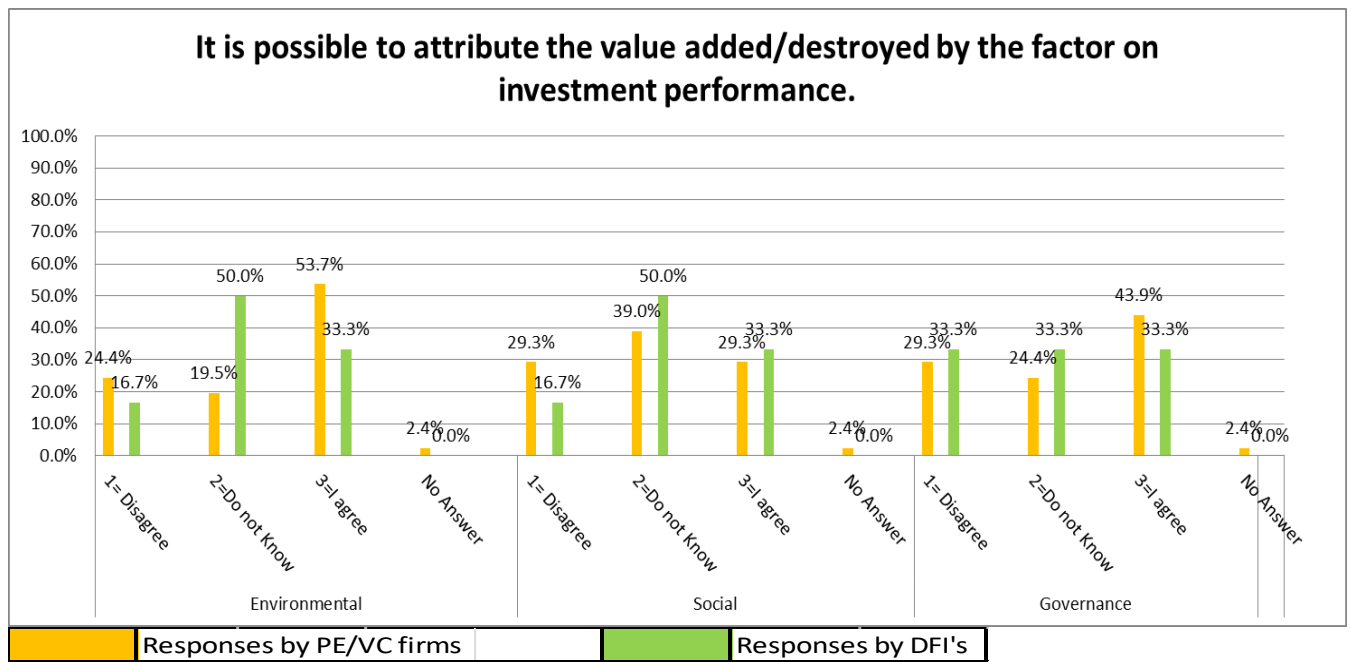
whether the factors have a financial impact and above all are willing to build the professional calculation tools that will make it possible to measure that financial impact.

As seen below only a slight majority of the respondents agree with the statement regarding the effect of ESG factors on the profitability of the firm. More than 25 % of the respondents (especially the PE & VC firms) indicated that they did not know whether ESG factors had a significant effect on the profitability of the portfolio companies (which is a financial impact which affects valuations).



The responses were less positive when the respondents were asked to indicate their view on the statement: *“It is possible to attribute the value added/destroyed by the factor on investment performance”*

An additional challenge that was apparent in the study was the attribution of ESG performance on investment performance. As seen below, the majority of the respondents either did not know whether it was possible to do performance attribution of ESG factors or simply disagreed. It was interesting to note that some of the DFI respondents also did not know whether performance attribution was possible (50% for E&S)

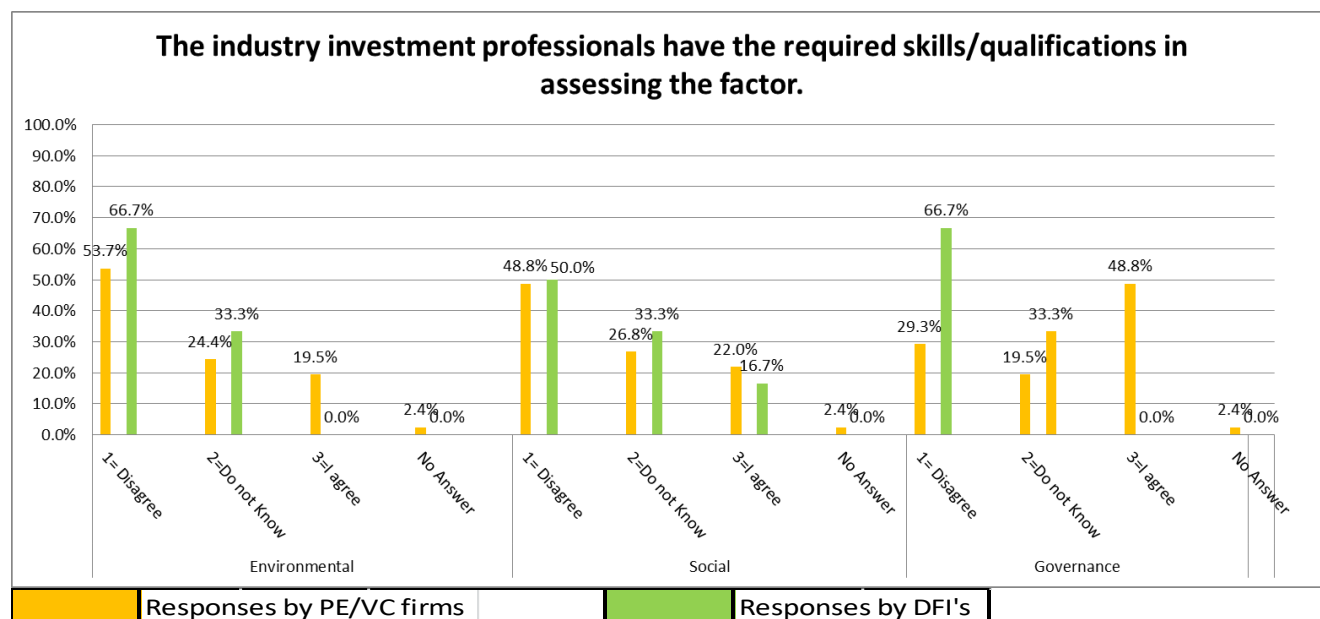


Bassen A & Kovács argued that extra-financials were not explicitly financial in nature but have direct and indirect financial consequences for an enterprise as well as its investors further arguing that they were not necessarily a direct source of future benefits, but rather constitute the foundation for the business' viability and determine the company's performance over the long run (Bassen A & Kovács 2008). If, however, the investment industry does not agree that ESG can be attributed to investment performance or does not know whether it can be done, there may be a need for a change of mind-sets and more education and training for those who do not know.

4.6.2 Skills and expertise for ESG integration

It is argued that investors trained in financial analysis are not fully equipped to evaluate ESG criteria (BSR, 2008). In the context of the South African investment industry it is argued that one of the major obstacles in promoting SRI in South Africa relates to the lack of skills among the investment analysts and asset managers (Viviers, 2007). The PE & VC respondents in this study had various qualifications up to honours level (4 year degree) mostly in the field of Accounting/Finance. A quarter of the respondents have studied to Masters level and one respondent to PhD level. Sixty percent of the respondents were chartered accounts and 15% were either CFA charter holders or CFA candidates. Surprisingly, there were no CAIA charter holders or candidates considering that private

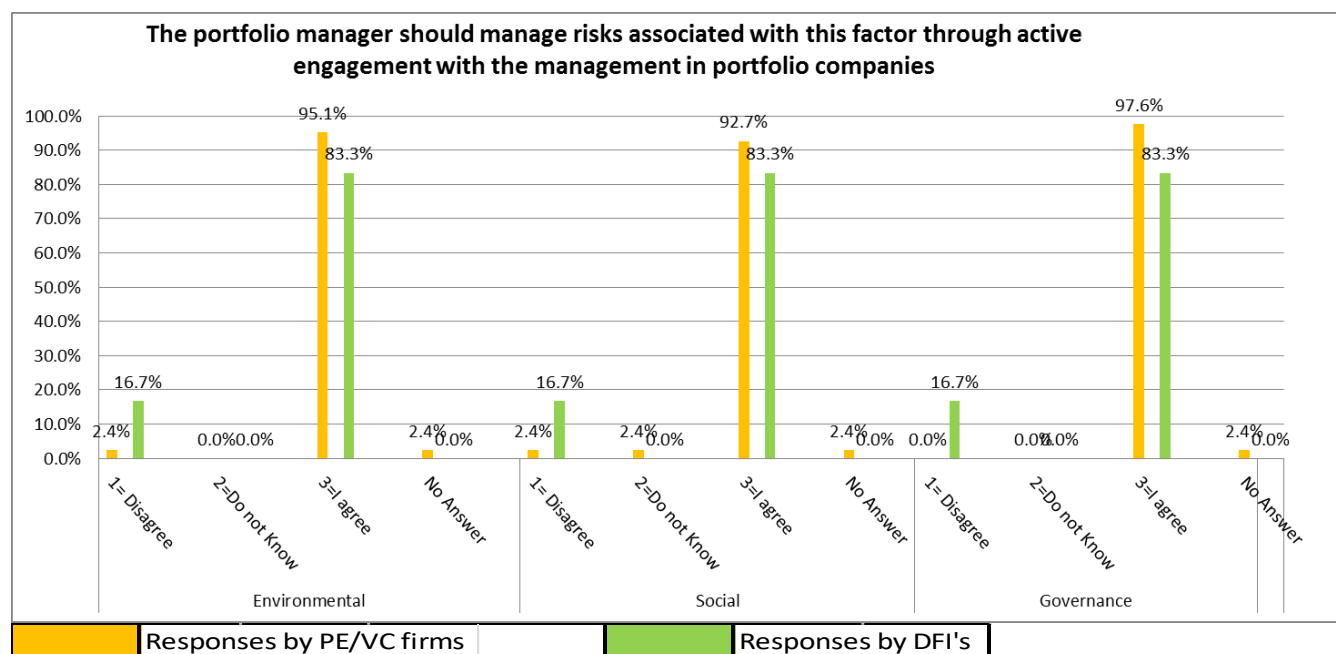
equity and venture capital are considered alternative asset classes. I was therefore curious to examine what the PE & VC respondents thought of their skills and those of their peers in integrating ESG in SADC. The PE & VC firms as well as the DFI's appointing them were asked to give their view regarding the statement: *“The industry investment professionals have the required skills/qualifications in assessing the factor.”*



The PE & VC firms and the DFI's disagree with this statement especially as far as environmental issues are concerned. The DFI's disagree with this statement as far as governance and environmental factors. Notably the PE & VC investment professionals are more confident about their abilities to assess governance aspects, whilst the DFI's seem to be sceptical about the PE & VC'S abilities to assess governance aspects.

The DFI's views are similar except in governance where they indicated that they disagree that PE & VC managers have the skills to assess governance. From the responses it seems the respondents concede that they do not have the necessary skills despite the levels of education and training. There is therefore, a compelling reason to look at whether the training programmes that prepare professionals for the Southern African PE & VC industry can include training and development in the area of assessing and managing ESG factors in the investment process. According to (BSR, 2008) several investment companies have begun training their investment professionals on ESG criteria, some financial institutions have hired specialists to work solely on these issues, and some educational institutions have

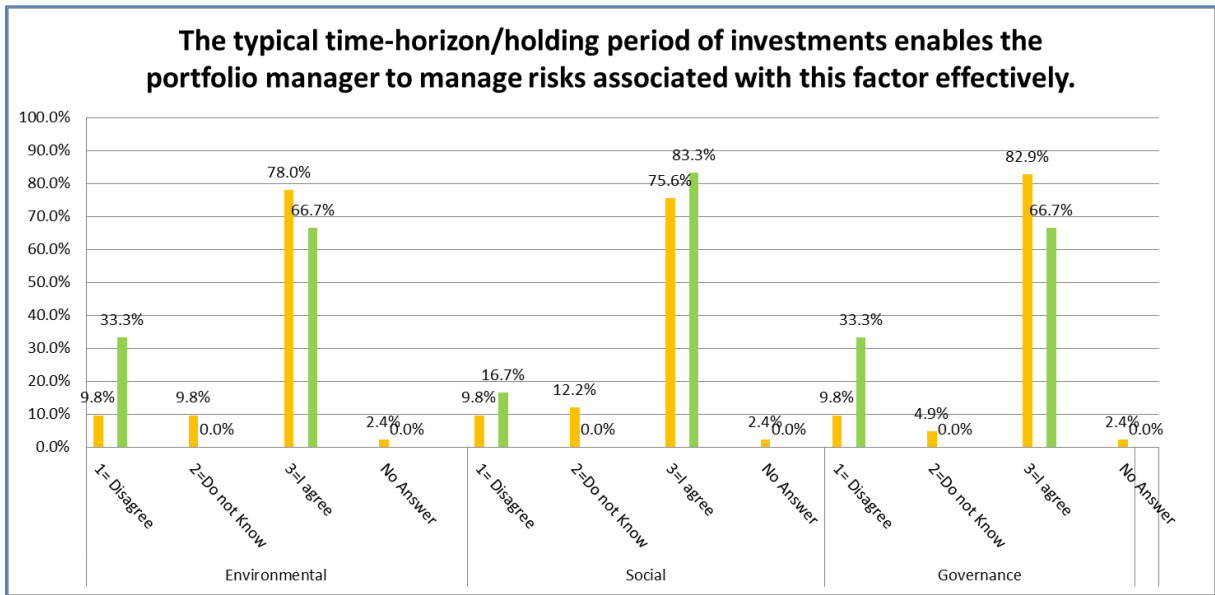
begun incorporating ESG issues into MBA and CFA programs. Despite the concession about the lack of the skills, there seems to be consensus among the PE & VC firms and the DFI's that risks associated with ESG factors should be managed by the portfolio managers through active engagement with the portfolio companies:



4.6.3 ESG and investment horizons

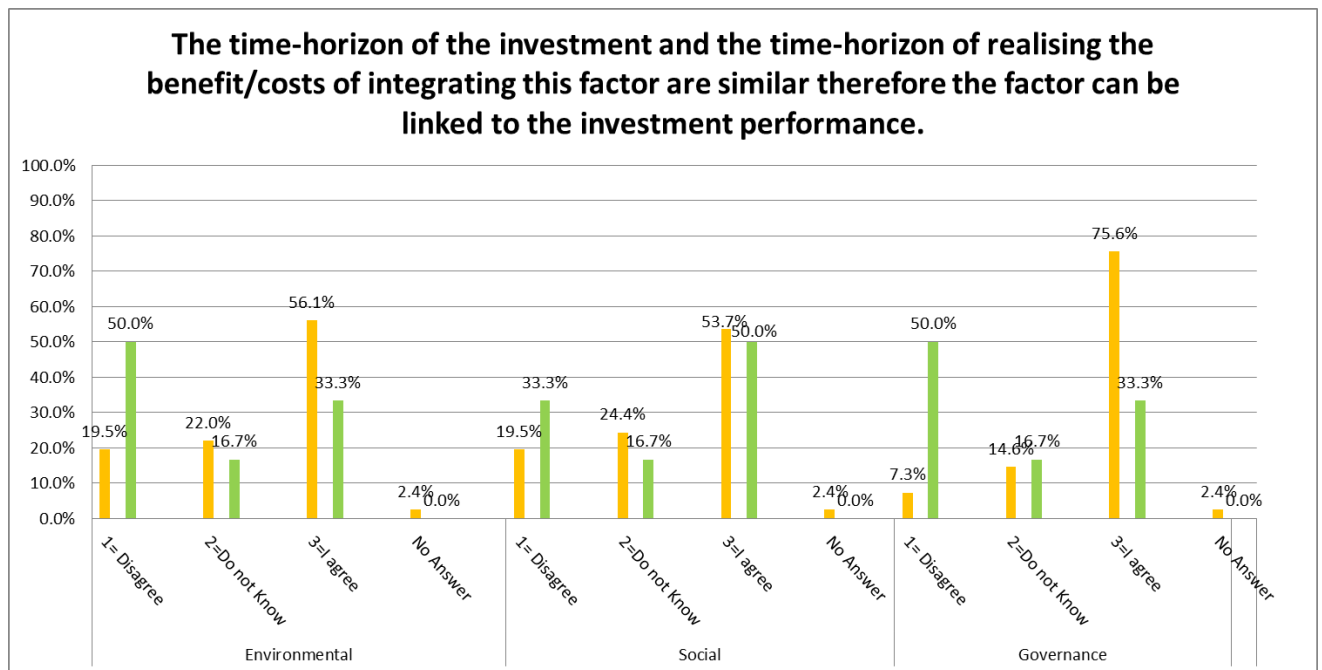
SRI places emphasis on long-term investment horizon, however, perceptions of long-term can be quite subjective and will differ from one investor to another even though there are general measures of long term (Shen 2005, World Economic Forum 2012). Due to the varying views on long-term and also considering that there are varying holding-periods for investments in PE & VC, the respondents were requested to indicate whether their respective holding periods enabled them to manage each ESG risks effectively.

It was evident from the findings that the long term nature of PE & VC investments presents the firms with the time to manage the ESG risks effectively.



The majority of the PE firms agreed that their holding periods enabled them to manage ESG risks effectively, more especially for governance factors. Many of the PE & VC respondents further added that governance aspects were the quickest to address upon investment in a portfolio company. One respondent's comment was; "Time is a friend" as far as dealing with ESG factors.

The views were mixed when it came to the statement *The time-horizon of the investment and the time-horizon of realising the benefit/costs of integrating this factor are similar therefore the factor can be linked to the investment performance.*

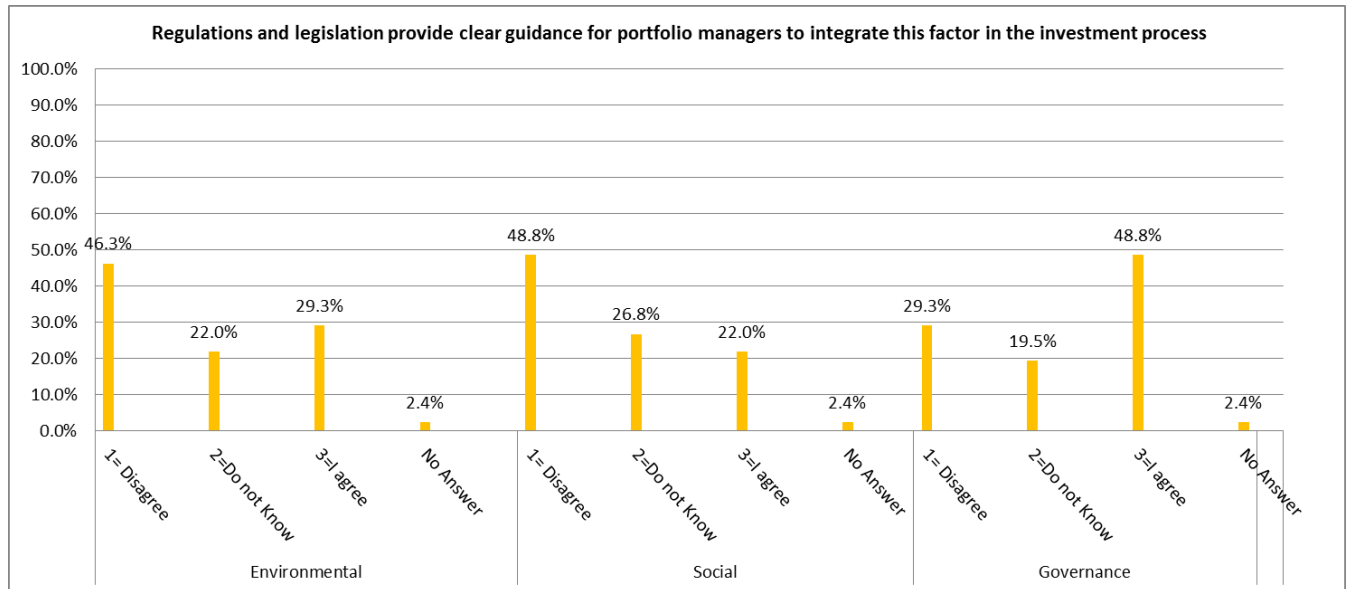


Once again, the responses from the PE & VC firms were more positive for governance with 75.6% of the respondents agreeing that the benefits of integrating governance could be realised within the holding periods of the investments compared to the 56.1% and 53.7% for environmental and social aspects respectively. Those who did not know or were in disagreement, disagreed mostly with the second part of the statement commenting that whilst the time-horizons allowed them to realise the benefits and costs, but linking them to investment performance was not always possible. This re-iterates the difficulty of attributing ESG performance to investment performance despite the results of ESG integration being apparent within the holding period of the investments. The DFI's responses were also pointing to the difficulty of linking benefits and costs of ESG integration to investment performance with most of them either disagreeing with the statement or not knowing whether to agree or disagree.

4.6.4 ESG and Regulation and legislation

A contentious debate regarding SRI and ESG integration is whether it should be rules-based instead of voluntary and principle-based. Presently, SRI and integration of ESG remain largely voluntary and principle-based in Southern Africa. Certain aspects of ESG are regulated or legislated such as labour laws, environmental law and regulations etc. The PE & VC respondents were presented with a slightly different angle as far as legislation and SRI. Given that SRI and ESG integration remain largely principle-based, the intention was

to determine whether the legislations in place provide enough guidance for the PE & VC firms to integrate ESG in their investment process. The respondents were asked to share their view regarding the statement: *Regulations and legislation provide clear guidance for portfolio managers to integrate this factor in the investment process.*



The views were mixed for each of the ESG factors. More of the respondents agreed with the statement for the governance and social factors compared to the environmental factor. Ironically, corporate governance principles remain largely best-practice codes rather than legislated or regulated. Environmental and Social factors (human rights, labour rights BBBEE etc.) are far more legislated in comparison, yet the respondents felt there's more clarity for governance factors. This observation raises the question of whether the awareness and understanding of regulations and legislation is minimal amongst the investment professionals, or whether the laws & regulations in place are only good on paper but impractical for the integration of ESG in the investment community.

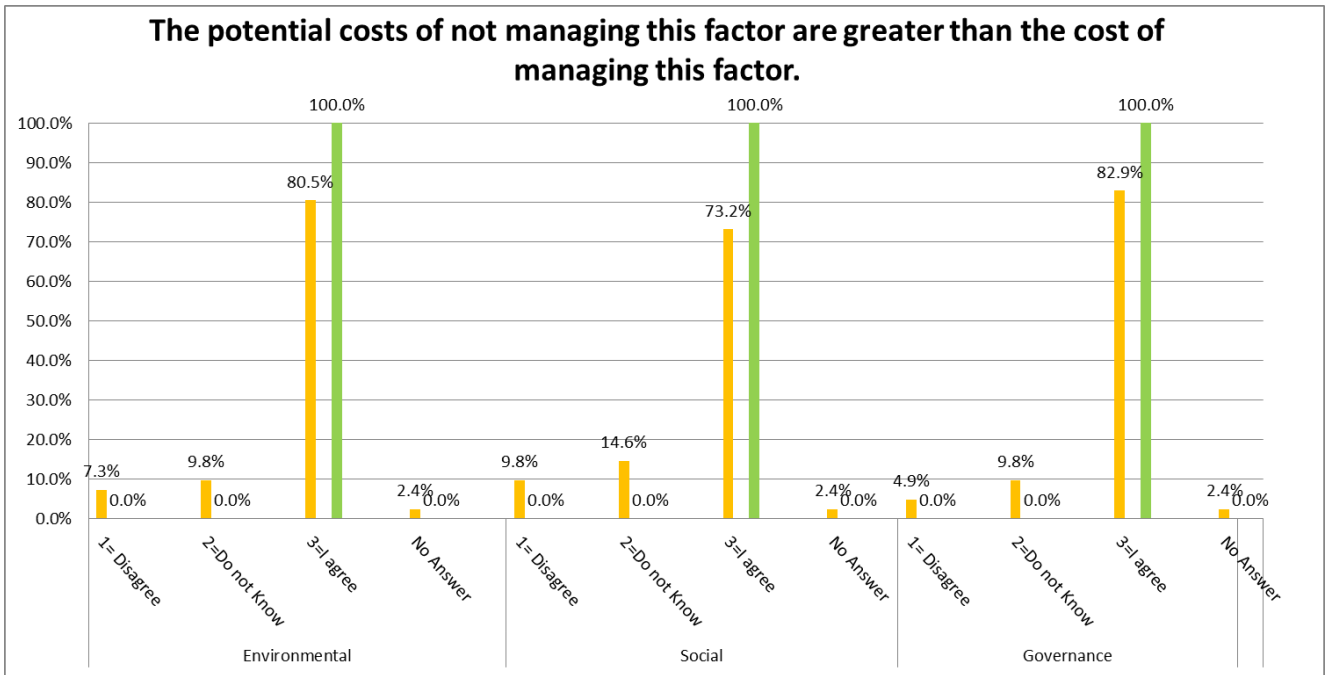
One respondent raised the point that concepts of SRI and ESG integration were evolving making it difficult for regulatory frameworks to provide clear guidance. Existing literature lists the lack of legislative clarity as one of the challenges hindering the integrating SRI principles in both listed and unlisted investments (Healing 2005, Amaeshi & Gray 2008). Each of the member states of the SADC have a dedicated environmental act in force. Since 1996, SADC member states have sought for the region to pursue "a single agenda and strategy" to achieve the consistent integration of environmental impact assessment (EIA) in

decision making and thereby, move away from the fragmented sectorial approaches to environmental management (Walmsley & Patel 2011). Since then, considerable progress has been made to formalise EIA into legal frameworks in SADC and all SADC countries have promulgated laws in this regard. The handbook on environmental assessment legislation in the SADC region was first published in 2007 with the intention of providing information about EIA legislation and the administrative arrangements for EIA within each SADC state. The book provides information about the EIA procedural framework, inclusive of the steps to be followed through screening, scoping, EIA and environmental management plans, as well as the review process followed by the authorities and the appeal procedures, amongst other pieces of information. The ultimate goal of the handbook is to ensure full compliance with the environmental assessment and related statutory requirements in support of sustainable development.

On issues of integrated governance and social frameworks, the SADC does not seem to have the same level of co-ordination apart from the Regional Indicative Strategic Development Plan (RISDP) which is premised on good political and economic governance. The plan seeks to provide SADC states with a coherent and comprehensive development agenda on social and economic policies (Chapter 1: The SADC Framework for Integration). It is argued that SADC member states are still reluctant to give the new governance arrangements the necessary policy sovereignty and technical competence they need (Zondi S 2009). Zondi further argues that improvements in governance remain largely cosmetic at SADC and national level. At corporate level, it seems the case is similar and evident in the poor statistics shown in measures such as Transparency International's Corruption Index¹⁸.

It seems the legislation may not be providing enough guidance for the SADC PE & VC firms to integrate ESG or it could be that the SADC region's lack of co-ordination in regulatory framework leaves the investors too overwhelmed when faced with the laws of the each of SADC member states. It is, however, clear from the responses illustrated below that the PE & VC and DFI respondents are in agreement that the potential costs of not managing each of the ESG Factors are greater than the cost of managing them.

¹⁸ The Corruption Perceptions Index 2011, The Global Corruption Index-Private Sector Global Corruption Report published 14 September 2009)



The lack of legislative clarity coupled with the minimal skills in ESG integration highlights the need for ESG expertise being part of the essential resources for PE & VC firms if they are to integrate ESG in their process and evolve with the changing investment landscape.

The findings from the study suggest that PE & VC firms do consider ESG factors in their investment performance but largely in an informal way. The study also shows that there PE & VC firms face a number of challenges in integrating ESG in SADC.

5 RESEARCH CONCLUSIONS

From the findings the PE & VC firms agreed in principle with the study's description of SRI which was the consideration of extra-financial factors in the investment process, decision making and ownership practices with the view to give appropriate consideration to factors (such environmental, social and governance factors) which may materially affect the sustainable long-term performance of investments. The study revealed that SRI was seen as an aspirational ideal.

The questions of whether ESG factors were considered by PE & VC firms in their investment processes and factors influencing the integration of ESG by PE & VC were answered in the study. Despite the majority of the firms not having formal SRI policies in place, it was found that ESG factors were considered in the firms' investment processes. This was the case even for firms that did not manage 3rd party assets. It was found that PE & VC firms expected minimal or no impact to their businesses if they were to integrate ESG factors formally and consistently. The firms were most confident with addressing governance factors which was evident in the emphasis placed on corporate governance. Risk management is the most important factor that influences the firms to integrate ESG, implying that pressure from DFI's was not the main driving factor for firms integrating ESG. The informal integration of ESG suggests either a limited willingness by the firms to commit to formal ESG integration or certain barriers hindering the firms from formal and consistent ESG integration in investment processes.

An additional question posed in the study was whether there were enablers and hindrances experienced by PE & VC firms in integrating ESG factors when investing in SADC. A notable enabler for PE & VC firms is the favourable time-horizon of their investments. A number of challenges remain hindrances in PE & VC integrating ESG. The challenges found in the study included difficulty in sourcing ESG information, translation of information into quantitative measures, the lack of standard ESG information from source, insufficient skills to assess ESG factors or to conduct performance attribution for value added or destroyed by factors as well as the lack of clarity in regulatory and legislative guidance for effective ESG integration.

The study has shown that PE & VC firms were taking evolutionary steps towards an arguably revolutionary goal of sustainable and responsible investing in their investment activities in Southern Africa. In light of the findings, the following recommendations are put forward as far as improving upon sustainable and responsible investing in Southern Africa.

It is recommended PE & VC firms work towards formalising SRI policies as the first steps towards consistent integration of ESG factors in investment making processes. The remuneration of professionals in the PE & VC industry should be aligned directly to ESG performance to incentivise them to integrate ESG more consistently. Additionally, it is recommended that LP's such as DFI's be more proactive in the monitoring of their appointed PE & VC managers including the auditing of ESG performance reports compiled by the PE & VC firms.

It is recommended that SRI networks and PE & VC associations improve their efforts to provide clear guidance on implementation of ESG in PE & VC. First it will require Southern African SRI networks such as the UNPRI networks and AfricaSIF to increase their visibility among the PE & VC firms and make themselves more relevant for practitioners in PE & VC industry.

6 RECOMMENDATIONS FOR FUTURE RESEARCH

This study was truly exploratory experience which revealed interesting observations that may warrant further studies in future. Considering the findings and the question that from the discussions I believe the future research can be conducted as detailed below.

Research needs to be undertaken on the impact of ESG in private equity and venture capital on the sustainability of development in SADC since the responses from PE & VC were based on beliefs rather than empirical evidence.

A study may be undertaken to examine impact of ESG integration on the returns achieved in private equity and venture capital. Specifically, the research should examine whether ESG leads to superior returns in PE & VC investments.

Research needs to be undertaken to determine whether the contracting mechanism in private equity are appropriate for both parties (LG's and GP'S) to integrate ESG effectively. The study should determine whether the partnership agreements enable or hinder LP's and GP''s in integrating ESG effectively and meaningfully.

A study may be undertaken on the effectiveness of initiatives such as CRISA, UNPRI and local SRI networks in influencing and educating PE & VC investors about SRI. The responses from the respondents revealed poor awareness and buy-in as far as CRISA and UNPRI respectively.

Research can be undertaken to determine the extent to which ESG guidelines such CDC toolkits, GRI, UNPRI guidelines are used by private equity investors and whether they are effective tools for their intended purposes.

Lastly, given the informal manner in which ESG is integrated in Southern African PE & VC, research may also be conducted to determine whether formalising ESG makes significant difference in the consistency of ESG integration in PE & VC.

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APPENDICES

Appendix 1 –Interview Respondents:

Name of the Firm	Date Of interview	Type of Firm	Participant's name	Role	Type of interview
Batian Fund	20-Jun-12	Independent	Shaun Collyer	CEO	Face to Face
Emerging Capital Partners (ECP)	21-Jun-12	Independent	Zain Laher	Vice President	Face to Face
Aureos Capital	21-Jun-12	Independent	Andrew Whiley	Associate	Face to Face
Sphere Holdings	25-Jun-12	Independent	Itumeleleng Kgaboesele	CEO	Face to Face
Pan African Private Equity	26-Jun-12	Independent	Zuko Kubukeli	CEO & Principal	Face to Face
The New Africa Mining Fund II Part of NCAS	27-Jun-12	Independent	Neil Gardyne	Portfolio Manager	Face to Face
Metier Lereko	28-Jun-12	Independent	JP Fourie	Head of Investor Relations	Face to Face
RMB Ventures	29-Jun-12	Captive	Cassim Motala	Private Equity Transactor	Face to Face
Inspired Evolution	03-Jul-12	Independent	Roanne Baker	Investment Associate and transaction analyst	Face to Face
Edgegrowth	11-Jul-12	Independent	Greg McDonald	Investment Officer	Face to Face
Vantage Capital	16-Jul-12	Independent	David Kornik & Siyanda Gule	Senior Associate	Face to Face
Standard Chartered Principal Finance	19-Jul-12	Captive	Adrian Smith	Associate Director	Face to Face
Collins Private Equity	24-Jul-12	Investment holding Company	Bruce Chelius	Portfolio Manager	Questionnaire completed without interview
Medu Capital	27-Jul-12	Independent	Nhlanganiso Mkwanazi and Annabelle Clark	Nhlanganiso Co-founder and Director Annabelle - CFO	Face to Face
Convegence Partners	01-Aug-12	Independent	Envir Fraser	Chief Strategy Officer	Face to Face
Musa Capital	02-Aug-12	Independent	Rebone Mabusela	Senior Associate	Face to Face
Capricorn Capital Partners	07-Aug-12	Investment holding Company	Gavin Chadwick	Co-founder and Manager	Face to Face
Treacle Private Equity	13-Aug-12	Independent	Njabulo Mthembu	Partner in the firm	Face to Face
Kagiso Tiso Holdings	13-Aug-12	Investment holding Company	Sanjay Bhikha	Portfolio Manager	Face to Face
Capitau Investment Partners	15-Aug-12	Independent	David Shimkins	Portfolio Manager	Face to Face
Nodus Investment Managers	17-Aug-12	Investment holding Company	Erich Schulenburg	Portfolio manager	Face to Face
Zungu Investment Company	17-Aug-12	Investment holding Company	Londeka Shezi	Senior Associate	Face to Face
Absa Capital Private Equity	21-Aug-12	Semi-Captive (Fund) within a bank	Charmaine Padayachee	Associate Principal	Face to Face
Business Partners	21-Aug-12	Independent	Xolani Meva	National Business Development Manager	Face to Face
4 Di	23-Aug-12	Independent	Anton van Vlaanderen	Partner	Telephonic

Name of the Firm	Date Of interview	Type of Firm	Participant's name	Role	Type of interview
Sovereignty Capital	27-Aug-12	Independent	Simon Koch	CEO	Face to Face
Global Environment Fund (GEF) Africa Advisors	27-Aug-12	Independent	Peter Tynan and Gloria Mamba	Managing Director	Face to Face & Telephonic
InvenFin	28-Aug-12	Investment holding Company	Stuart Gast	Executive Director	Telephonic
Molash	31-Aug-12	Investment holding Company	Eldon Beinart	Co-Founder and Portfolio manager	Face to Face
National Empowerment Fund	31-Aug-12	State governed Fund	Louisa Stephens	Fund Manager (Umonotho Fund)	Face to Face
Mineworkers Investment Company	04-Sep-12	Investment holding Company	Mahlitse Kabi	Senior Investment Manager	Face to Face
Public Investment Corporation	10-Sep-12	Independent	Koketso Mabe	Portfolio Manager	Face to Face
IDC	11-Sep-12	Captive	Christo Fourie	Head of the VC SBU	Face to Face
Makalani Holdings	11-Sep-12	Investment holding Company	Grant Minnaar	CFO	Face to Face
Tamela Holdings	11-Sep-12	Investment holding Company	Sydney Mhlarhi	Director of Firm and Portolio Manager	Face to Face
Sanlam Private Equity	12-Sep-12	Captive	Alton Solomons	CEO	Face to Face
Enablis	14-Sep-12	Independent	Darryl Rose	Acting CEO (Enablis Africa)	Face to Face
Nedbank Capital Private Equity	17-Sep-12	Captive	Yougan Moodley	Portfolio Manager	Face to Face
Marlow Capital	28-Sep-12	Independent	Andrew Hunt	Managing Director	Face to Face
Ethos	01-Oct-12	Independent	Chelsea Wilkinson	Corporate Affairs	Face to Face
Old Mutual Investment Group Alternative Investments	02-Oct-12	(Semi) Captive but has retail offering	Farhad Khan	Portfolio Manager	Telephonic
Name of the DFI	Date of interview	Type of Firm	Participants Name	Role	Type of interview
Swiss Investment Fund for Emerging Markets	27-Jun-12	Development Finance Institution	Phillip Walker	Investment Analyst	Telephonic
Proparco	29-Jun-12	Development Finance Institution	Felice Moullard	Investment Officer	Face to Face
Norfund	04-Jul-12	Development Finance Institution	Sarita Bartlett	Investment Manager- Social, Environment and Governance	Telephonic
Development Bank of Southern Africa	16-Jul-12	Development Finance Institution	Bertha Kobue	Senior Investment Officer	Face to Face
DEG	26-Jul-12	Development Finance Institution	Zubair Suliman and Anne Keppler	Investment officer: Equity & Mezzanine Africa	Face to Face
FMO	07-Aug-12	Development Finance Institution	Ewout van der Molen	Regional Representative Southern Africa	Face to Face

Appendix 2 –SAVCA Matrix 2011

Full members	Fund names	Fund Size or Funds invested to date	Min Investment	Max Investment	Start-up investment	Excluded Industries
ABSA Capital Private Equity	ACPE Fund 1 (Open ended)	R 4.2 billion	R250 million	R1 billion	No	Primary agriculture, property, armaments and mining
Actis	Actis Africa Fund 1	US\$ 343 million	US\$ 50 million	US\$ 200 / 250 million	No	Military and gambling
	Actis Africa Fund 2 and Canada Investment Fund for Africa (CIFA)	US\$ 566 million				
	Actis Africa Fund 3	US\$ 910 million				
	Actis Africa Empowerment Fund	US\$ 50 million across Africa				
Acorn Private Equity	Acorn General Fund One	R 55 million (first close)	R 5 million	R 50 million	No	Property and mining
	General private equity (LLP)	R 43 million				
	Acorn Venture Technology Fund	R 16 million (first close)	No limit	No Limit	Yes	
	Technology (LLP)	R 8.3 million				
Advelo Capital	Adlevo Capital	US\$ 100 million	US\$ 3 million	US\$ 30 million	Yes	None
African Infrastructure Investment Managers (Pty) Ltd	South African Infrastructure Fund	R 1.635 million	R 140 million	R 700 million	Greenfield and Brownfield	Weapons, tobacco and radioactive
	African Infrastructure Investment Fund	R 1.320 million				
	Kagiso Infrastructure Empowerment fund	R 649 million				

	Unlisted Infrastructure Fund, investing African Infrastructure Investments Fund 2	R 3.291 million				
	Unlisted Infrastructure Fund	R 3.068 million				
Aureos South African Advisers	Aureos Africa Fund (2008)	US\$ 381 million	US\$ 4 million	US\$ 38 million (10% of fund)	No	Gambling, alcohol (excluding beer and wine), tobacco, and armaments
	Aureos Southern Africa Fund (2003)	US\$ 50 million				
Brait Private Equity	Brait I (fully invested and fully realised)	R 228 million	-	-	No	None
	Brait II (fully invested and fully realised)	R 690 million	-	-		
	Brait III (fully invested)	US\$ 409 million	-	-		
	Braitec (fully invested)	R 227 million	-	-		
	Proprietary investing (Open ended)	Over R 10 billion	R 5 million	R1 billion		
	Brait IV	US\$ 880 million	R 100 million	R1 billion		
Business Partners Limited	Inland East	R 1.190 billion	R 500 000	R 20 million	Yes	Agriculture and on- lending
	Inland West	R 1.230 billion	R 500 000	R 20 million	Yes	
	East Coast	R 1.640 billion	R 500 000	R 20 million	Yes	
	West Coast	R 1.670 billion	R 500 000	R 20 million	Yes	
	The Business Partners / Khula Start-up Fund	R 150 million	R 150 000	R 3 million	Yes	
	Property Equity Fund	R 200 million	R 500 000	R 20 million	Yes	
Capricorn Capital Partners (Pty) Ltd	Capricorn Capital Partners	R 600 million	R 10 million	R 150 million	No	Mining

Full members	Fund names	Fund Size or Funds invested to date	Min Investment	Max Investment	Start-up investment	Excluded Industries
Capitalworks Investment Partners (Pty) Ltd	Capitalworks Private Equity I	R 1.5 billion	R 70 million	R 450 million	No	Oil and gas exploration
Coast2Coast	Coast2Coast	R 200 million	R 30 million (annual profits over R10 million)	R 300 million	No	Mining, Agriculture, Technology
Collins Private Equity Holdings P/L	Collins Private Equity	R 150 million	Nil	R 25 million	No	None
Convergence Partners	Convergence Partners Investments	R 500 million	No Minimum	No Maximum	No	Non -TMT
Development Bank of Southern Africa	On balance sheet	R 6 billion	R 100 million	R 700 million	Yes	Arms, gambling, liquor
Development Partners International LLP	African Development Partners I – closed in Dec 2009	€ 270 million	€ 10 million	€ 50 million	No	N/A
Edge Growth	Vumela Enterprise Development Fund	R 86 million	R 2 million	R 15 million	Yes	Hi-tech
Emerging Capital Partners	ECP Africa Fund III	US\$ 613 million	US\$ 30 million	US\$ 60 million	No	Arms and ammunition, tobacco, gaming, alcohol.
	Pan African Growth Funds	US\$ 1.8 billion				
Enablis Financial Corporation SA (Pty) Ltd	Enablis Khula Loan Fund	R 45 million	R 100 000	R 5 million	Yes	Product and IP Development
	Khula Enablis SME Acceleration Fund	R 50 million	R 25 000	R 2.5 million		

Full members	Fund names	Fund Size or Funds invested to date	Min Investment	Max Investment	Start-up investment	Excluded Industries
Ethos Private Equity	Fund I- IV (full invested and realised)	R 3.25 billion	-	-	-	-
	Fund V (significantly invested)	R 5.5 billion	R 100 million	R 800 million	No	-
	Fund VI	US\$ 750 million (Target)	-	-	No	-
	Tech Fund I (fully invested and partially realised)	R 270 million	-	-	-	-
4Di Capital (Pty) Ltd	4Di Fund 1: Early Stage Technology	N/A	R100 000	R5 million	No	N/A
Freetel Capital	N/A	R 130 million	R 20 million	R 200 million	Yes	Sector Neutral
Glenhove Fund Managers (Pty) Ltd	Women Private Equity Fund (WPEF)	R 128 million	The Women Private Equity Fund is fully invested and is closed to new investment opportunities.			
Global Capital (Pty) Ltd	Global Capital Fund 2	R 100 million	R 20 million	No Limit	No	Mining
	Global Capital Fund 3	R 100 million				
Hasso Plattner Ventures Africa	Hasso Plattner Ventures Africa Fund	R 380 million	R 5 million	R 35 million	Yes	Property and Mining
Horizon Equity Partners	Horizon Fund III Generalist PE Fund, specializing in growth capital	R 300 million	R 15 million	R 50 million	No	Property, gaming, tobacco, alcohol, armaments and mining

Full members	Fund names	Fund Size or Funds invested to date	Min Investment	Max Investment	Start-up investment	Excluded Industries
Imbewu Capital Partners (Pty) Ltd	Imbewu Capital Partners	On balance sheet	R 1 million	None	No	None
Industrial Development Corporation of South Africa Limited (IDC)	IDC	Loans & advance at 31 March 2010: R 10.37 billion; Investments at 31 March 2010; R 69 billion	R 1 million	Depending on nature of transaction	Yes	Gambling
Inspired Evolution Investment Management (Pty) Ltd	Evolution One Fund	US\$ 93 million (circa R 700m)	R 10 million	R 100 million plus (with co-investment rights)	Yes	Tobacco, alcohol, gaming, fixed asset (Property) defence, select environmental category exclusions
Intel Capital	Intel Capital	Open ended (US\$ 10 billion)	None	None	Yes	Non - technology
International Housing Solutions (Pty) Ltd	South African Workforce Housing Fund	R 1.9 billion	R 25 million	R 250 million	Yes	Industrial
Invenfin	Invenfin Fund I	Undisclosed	None	None	Yes	Property, gambling and franchise
Investec Private Equity	Investec Principal Investments	Open ended	EV greater than R 150 million	No limit	No	Primary Agriculture and Property
Kagiso Venture Private Equity Fund	Kagiso Strategic Investments	R1 billion	R 50 million	R 100 million	No	Agriculture, commodities and property

Full members	Fund names	Fund Size or Funds invested to date	Min Investment	Max Investment	Start-up investment	Excluded Industries
Khula Enterprise Finance	Business Partners - Khula Start Up Fund	R 150 million	R 150 000	R 3 million	Yes	Primary agriculture, on lending, property not forming part of business, mining, (excluding quarries, lime, sand and stone), defence, liquor, tobacco and gambling
Kingdom Zephyr Africa Management	Pan-African Investment Partners II (PAIP II)	US\$ 492 million	US\$ 20 million	US\$ 60 million	No	Defence, liquor, tobacco and gambling
	Pan-African Investment Partners & Pan-Commonwealth African Partners I (PAIP I)	UD\$ 123 million				
Leaf Capital (Pty) Ltd	Leaf Private Equity Fund No. 1	R 115 million	R15 million	R 30 million	No	Property development, mining exploration
Lereko Metier Capital Growth Fund Managers (Pty) Ltd	Lereko Metier Capital Growth Fund	R 3,5 billion	R 50 million	R 750 million	No	Spirits and Gambling
Lireas Holdings	Lireas	R 125 million	R 500 000	R 5 million	Yes	All except insurance
Marlow Capital	Marlow One	Not disclosed	R 75 million	R 400 million	Yes	Property, commodity exploration
Mecene Investment Company	Mecene Investment Company	US\$ 50 million	US\$ 500 000	US\$ 5 million	Yes	Non - financial services
Medu Capital	Medu Capital Fund I	R 250 million	R 30 million	R 175 million	No	Tobacco, liquor, gambling and military weapons
	Medu Capital Fund II	R 900 million				

Full members	Fund names	Fund Size or Funds invested to date	Min Investment	Max Investment	Start-up investment	Excluded Industries
Mezzanine Partners	Mezzanine Partners 1, LP (fully vested)	R 450 million	R 50 million	R 1 billion with co-investors	No	None
	Mezzanine Partners 2, LP (Investing)	R 550 million				
Molash Capital	Molash Capital Fund 1 - SA Partnership	R 170 million	R 20 million	R 100 million	No	Venture Capital, Biotech oil and gas
Musa Capital	Musa Kubu Fund	R 575 million	R 5 million	R 100 million	No	Alcohol, tobacco, gambling, weapons and military
National Empowerment Fund	National Empowerment Fund	R 5 billion	R 250 000	R 75 million	Yes	Morally reprehensible sectors
Nedbank Capital Private Equity	Nedbank Capital Private Equity	R 1.4 billion	R 30 million	R 120 million	No	Real estate, primary agriculture
New African Mining Fund	New African Mining Fund (closed for new investments)	R 564 million	R 5 million	R 80 million	Yes	Uranium, and diamond mining
	New African Mining Fund II (launched in February 2011)	R52 million				
Nodus Equity	Nodus Equity	Open ended R 29 million	R 5 million invested	R 25 million invested	No	Agriculture mining, property
Old Mutual Investment Group, Alternative Investments	Old Mutual Private Equity Funds 1, 2, 3 and Other Direct	R 7.1 billion	R 200 million	R 500 million with ability to exceed this on approved exception basis	No	Early Stage, Mining Exploration & Property

Old Mutual Multi-Manager Private Equity Fund I & II	R 1.7 billion	R 100 000	R 20 million with ability to exceed this on approved exception basis		Early Stage, Mining Exploration & Property
Old Mutual Private Equity Secondary Fund 1	R 572 m	R 100 000	R 20 million with ability to exceed this on approved exception basis		Early Stage, Mining Exploration & Property
Old Mutual Private Equity Legacy Funds	R 495 million	N/A	N/A		N/A
Old Mutual Private Equity Fund of Funds	R 1,3 billion	R 100 million	R 350 million		Early Stage, Mining Exploration & Property
Entrepreneurial Ventures Finance Fund	R 250 million	R 5 million	R 30 million		Property mining and commodities
Old Mutual Mezzanine Debt Fund	R 553 million	R 50 million	R 200 million with ability to exceed this on approved exception basis		Early Stage, Mining Exploration & Property
IDEAS Fund	R 2.7 billion	R 20 million	R300 million with ability to exceed this on approved exception basis		All except infrastructure, environmental and development assets
Infrastructure and Development Assets Funds	R 8.7 billion	R 25 million	R 250 million with ability to exceed this on approved exception basis		All except infrastructure and development assets

	Financial Sector Charter Fund	R 4.5 billion	R 5 million	R 500 million with ability to exceed this on approved exception basis		All except infrastructure and development assets
	Housing Impact Fund South Africa	R 6.8 billion	R 5 million	R 500 million with ability to exceed this on approved exception basis		All except infrastructure and development assets
	Africa Fund	R 2.6 billion	R 10 million	N/A		N/A
	OMIGSA International Private Equity Fund of Funds	R 1.4 billion	US\$ 5 million	US\$ 25m		Property, Bio- Tech and Oil & Gas Exploration
	Other Off-shore Private Equity Portfolio	R 359 million	N/A	N/A		N/A
Pamodzi Resources Fund Advisors	Pamodzi Resources Fund	US\$ 1.3 billion	US\$ 150 million	US\$ 325 million	No	Non - mining
Phatisa Group	African Agriculture Fund (AAF) (First closing)	US\$ 151 million (final target closing US\$ 300 million)	US\$ 5 million/higher of US\$20 million or 10% of fund size	US\$5 million/higher of US\$20 million or 10% of fund size	Yes	Forestry, tobacco and biofuel
PoweredbyVC	HBD Venture Capital	R 138 million	R 10 million	R 25 million	Yes	Agriculture, armaments, alcohol, financial services, gambling, insurance mining, real estate, tobacco as well as morally objectionable industries
Public Investment Corporation	Isibaya Fund	R 45 billion	R 20 million	R2 billion	Yes	Gambling, high risk industries and ammunition

Full members	Fund names	Fund Size or Funds invested to date	Min Investment	Max Investment	Start-up investment	Excluded Industries
RMB Corvest	RMB Corvest	Open ended R 3.9 billion (R 1.6 billion in BEE deals)	R 10 million	R 500 million	No	Mining, agriculture and property
RMB Private Equity	RMB Private Equity	Open ended R 5.1 billion	-	-	No	-
	RMB Ventures	Open ended (in excess of >R 1 billion invested)	R 50 million	R 300 million		Mining, agriculture and property
	RMB Leveraged Finance, a business unit within Rand Merchant Bank	Open ended Invested R 13.7 billion	R 50 million	None		Property, resources and infrastructure
Full members	Fund names	Fund Size or Funds invested to date	Min Investment	Max Investment	Start-up investment	Excluded Industries
Sanlam Private Equity	National Funds	R 4 billion	R 100 million	R 250 million	No	Property, mining and primary agriculture
Sasfin Private Equity Fund Managers (Pty) Ltd	Sasfin-MDM Private Equity Fund I	R 100 million (fully invested)	R 10 million	R 50 million	No	Agriculture and resources
	Sasfin Private Equity Fund II	R 200 million				
	Sasfin Real Estate Fund I	R 200 million	R5 million	R30 million	Yes	None
Senatla Capital	Senatla Capital Empowerment Fund 1	R 85 million	R 10 million	R 16 million	No	None

Full members	Fund names	Fund Size or Funds invested to date	Min Investment	Max Investment	Start-up investment	Excluded Industries
Shanduka Fund Managers	Shanduka Value Partners Fund I	R 303 million	R 20 million	R 75 million	No	Mining, agriculture, property, energy and power
Southern Africa Enterprise Development Fund	Southern Africa Enterprise Development Fund	US\$ 88 million	US\$ 1 million	US\$ 10 million	Yes	Alcohol, tobacco
SP-aktif Investments (Pty) Ltd	Agri-Vie: Africa Food & Agribusiness Investment Fund (Fund management partnership with Sanlam Private Equity and Makotulo Group)	R 760 million	R20 million	N/A	No	All except Agribusiness: Food and beverages, Fibre, Alternative Energy, Logistic, Services, agricultural inputs and Eco-Tourism
Sphere Private Equity	Sphere Private Equity Fund 1	R 302 million	R 10 million	R 50 million	No	Primary agriculture, mining and property
Spirit Capital (Pty) Ltd	Proprietary Fund	Drawdown/ Invested R 236 million	R 10 million	R 100 million	No	Agriculture, mining and property
Standard Chartered Principle Finance	Standard Chartered Principle Finance	Not available	US\$ 20 million	US\$ 150 million	No	Military and tobacco
Tamela Holdings (Pty) Ltd	On balance sheet	+R 100 million (balance sheet)	None	None	No	Primary agriculture, mining and exploration
Treacle Private Equity (Pty) Ltd	Treacle Fund II	R 463 million	R 10 million	R 90 million	Yes	Primary agriculture, real estate and resources

Full members	Fund names	Fund Size or Funds invested to date	Min Investment	Max Investment	Start-up investment	Excluded Industries
Trinitas Private Equity	Trinitas Private Equity Fund	R 400 million first close (target final close of R750 million)	R 40 million	R 150 million	No	Resources and property
TriVest – Contributing Investors	N/A	(Invested R34 million to date)	N/A	R 20 million	Yes	Arms, gambling, tobacco, alcohol, morally objectionable industries
Triumph Venture Capital	Southern African Intellectual Property Fund	R 120 million	R 3 million	R 30 million	Yes	Real Estate
Utho Capital Fund Managers	Utho SME Infrastructure Fund	R 62 million	R 2 million	R 12 million	Yes	Gambling, alcohol, tobacco and armaments
Vantage Risk Capital	Vantage Mezzanine Fund I	R1 billion (with fund manager’s co- investment)	R40 million	R350 million (with co- investment)		Primary Agricultural, Low margin, trading business, businesses selling arms, loss making operational turnaround opportunities, start-ups, Junior mining businesses
	Vantage Capital Mezzanine Fund II	Fundraising in progress				
Venture Partners Botswana	CEDA Venture Capital Fund	P 200 million	P 0.5 million	P 30 million	Yes	None
	VPB Namibia Growth Fund	N\$ 160 million	N\$ 5 million	N\$ 32 million		
	VPB II	US\$150 million (Fund raising_	-	-	-	-
Vunani Private Equity Partners	Vunani Private Equity Fund	R 1,340 million	R 50 million	No limit	Yes	None
Zico Capital Limited	Zico Capital Fund 1	R 500 million	R 15 million	R 500 million	No	Resources, agriculture and properties

Appendix 2 -SADC Member States

SADC MEMBER STATES	
Angola	Namibia
Botswana	Seychelles
Democratic Republic Of Congo	South Africa
Lesotho	Swaziland
Madagascar	United Republic of Tanzania
Malawi	Zambia
Mauritius	Zimbabwe.
Mozambique	

Appendix 3- Fund Managers on the SAVCA list of full members

Fund Manager	Location	Fund Manager	Location	Fund Manager	Location
4Di Capital (Pty) Ltd	WC	Hasso Plattner Venture Africa Advisory (Pty) Ltd	WC	Pan-African Private Equity 1 Fund Managers (Pty) Ltd	GP
ABSA Capital Private Equity	GP	Horizon Equity Partners	GP	Phatisa	GP
Acorn Private Equity	WC	Imbewu Capital Partners	KZN	POWEREDBYVC	WC
Actis	GP	Industrial Development Corporation of South Africa (IDC)	GP	Public Investment Corporation	GP
Adlevo Capital	GP	Inspired Evolution	WC	RMB Corvest	GP
African Infrastructure Investment Managers (South Africa) (Pty) Ltd	WC	Intel Capital	GP	RMB Leveraged Finance	GP
Aureos SA Advisers (Pty) Ltd	GP	International Housing Solutions (Pty) Ltd	GP	RMB Private Equity	GP
Batian Fund	GP	InVenfin	WC	RMB Ventures SA	GP
Brait Private Equity	GP	Investec Principle Investments	GP	Sanlam Private Equity	GP
Brighthead Investments (Pty) Ltd	GP	Kagiso Tiso Holdings Proprietary Limited	GP	Sasfin Private Equity Fund Managers (Pty) Ltd	GP
Business Partners Limited	GP	Khula Enterprise Finance	GP	Senatla Capital	GP
Capitalworks Equity Partners	GP	Kingdom Zephyr Africa Management	GP	Shanduka Fund Managers	GP

Capricorn Capital Partners	GP	Leaf Capital (Pty) Ltd	WC	Southern Africa Enterprise Development Fund	GP
Coast2Coast Investments	GP	Lereko Metier Capital Growth Fund Managers	GP	SP-aktif	WC
Fund Manager	Location	Fund Manager	Location	Fund Manager	Location
Coller Capital	WC	Lireas Holdings	GP	Sphere Private Equity	GP
Collins Private Equity Holdings	KZN	Makalani Management Company (Pty) Ltd	GP	Spirit Capital (Pty) Ltd	GP
Convergence Partners	GP	Marlow Capital	GP	Standard Chartered Principal Finance	GP
Development Bank of Southern Africa	GP	Mecene Investment	GP	Tamela Holdings (Pty) Ltd	GP
Development Partners International LLP	LON	Medu Capital	GP	Treacle Private Equity	GP
Edge Growth	GP	Mezzanine Partners (Pty) Limited	GP	Trinitas Private Equity	GP
Emerging Capital Partners	GP	Molash	GP	Triumph Venture Capital	GP
Enablis Financial Corporation SA (Pty) Ltd	WC	Motseng Investment Holdings	GP	TriVest - Contributing Investors	GP

Eris Property Fund (Pty) Ltd	GP	Musa Capital Fund Managers (Pty)Ltd	GP	Utho Capital Fund Managers	GP
Ethos Private Equity	GP	National Empowerment Fund	GP	Vantage Risk Capital	GP
Freetel Capital	GP	Nedbank Capital Private Equity	GP	VICI Private Equity Fund II Limited	GP
Glenhove Fund Managers	GP	New African Mining Fund	GP	VPB (Venture Partners Botswana)	BotS
Global Capital	GP	Nodus Equity	GP	Vunani Private Equity Partners	WC
Grindrod Bank Limited	GP	Old Mutual Investment Group Alternative Investments	WC	Vuwa Investments (Pty) Ltd	GP
Harith Fund Managers	GP	Pamodzi Resources Fund Advisors	GP	Zungu Investments Company (Pty) Ltd	GP

*Table constructed by researcher with information sourced from SAVCA (www.savca.co.za) . Accessed March 2012

Appendix 4 European DFI's

Association Of European Development Finance Institutions	
BIO - Belgian Investment Company For Developing Countries	OEEB - The Development Bank Of Austria
CDC - CDC Group Plc.	Proparco - Société De Promotion Et De Participation Pour La Coopération Economique
Cofides - Compañía Española De Financiación Del Desarrollo	Sbi-Bmi - Belgian Corporation For International Investment
DEG - Deutsche Investitions- Und Entwicklungsgesellschaft Mbh	SIFEM - Swiss Investment Fund For Emerging Markets
Finnfund - Finnish Fund For Industrial Cooperation Ltd	Simest - Società Italiana Per Le Imprese All'estero
FMO - Netherlands Development Finance Company	SOFID - Sociedade Para O Financiamento Do Desenvolvimento
IFU - The Industrialisation Fund For Developing Countries	Swedfund - Swedfund International Ab
Norfund - Norwegian Investment Fund For Developing Countries	

Appendix 5 Associations endorsing the IPEV Valuation Guidelines

Associations endorsing the IPEV Valuation Guidelines		
AFIC - Association Française des Investisseurs en Capital	CVCA - Canada's Venture Capital and Private Equity Association	LVCA - Latvian Venture Capital Association
AIFI - Italian Private Equity and Venture Capital Association	CVCA - China Venture Capital Association	MENA Private Equity Association
AMEXCAP - Mexican Private Equity Association	CVCA - Czech Venture Capital and Private Equity Association	NVCA - Norwegian Venture Capital & Private Equity Association
AMIC - Moroccan Private Equity and Venture Capital Association	DVCA - The Danish Venture Capital and Private Equity Association	NVP - Nederlandse Vereniging van Participatiemaatschappijen (Dutch Private Equity and Venture Capital Association)
APCRI - Portuguese Private Equity and Venture Capital Association	EMPEA - Emerging Markets Private Equity Association	NZVCA - New Zealand Private Equity and Venture Capital Association
ASCRI - Spanish Private Equity and Venture Capital Association	EVCA - European Private Equity and Venture Capital Association	PSIK - Polish Private Equity and Venture Capital Association
ATIC - Tunisian Venture Capital Association	FVCA - Finnish Venture Capital Association	Réseau Capital - Québec Venture Capital and Private Equity Association
AVCA - African Venture Capital Association	HKVCA - Hong Kong Venture Capital Association	RVCA - Russian Private Equity and Venture Capital Association
AVCAL - Australian Private Equity and Venture Capital Association	HVCA - Hungarian Venture Capital and Private Equity Association	SAVCA - Southern African Venture Capital and Private Equity Association
AVCO - Austrian Private Equity and Venture Capital Organization	ILPA - Institutional Limited Partners Association	SECA - Swiss Private Equity and Corporate Finance Association
BVA - Belgian Venture Capital & Private Equity Association	IVCA - Irish Venture Capital Association	SLOVCA - Slovak Venture Capital Association
BVCA - British Venture Capital Association	LAVCA - Latin American Venture Capital Association	SVCA - Singapore Venture Capital and Private Equity Association
BVK - German Private Equity and Venture Capital Association e.V.	LPEq - Listed Private Equity	SVCA - Swedish Private Equity and Venture Capital Association
CAPE – China Association of Private Equity		