**PAPE FUND MANAGERS**
**BLOG - JANUARY 2020**

# Raising a Private Equity Fund in Challenging Times

The SAVCA 2019 Private Equity Industry survey reflects a total of ZAR12.8bn raised during the preceding year by fund managers.

Of the total raised, the large majority (64%) was sourced locally in South Africa, with just 17.7% coming from Europe and 6.6% from elsewhere. Funds raised specifically for investment in South Africa totalled some ZAR7.1bn and of these, 92.2% are being directed into late stage investments with less than 8% being directed to early stage investments. Against this timeline, PAPE Fund Managers has successfully raised ZAR1.03bn in new investment capital for PAPE Fund 3. We succeeded in attracting funding from pension funds, institutional investors, one DFI and a hold-co of private investors. PAPE Fund reached first closing in July 2018 and final closing in January 2020.

We have gained some very useful insights into the key dynamics that influence and determine successful fund raising. These include: (a) evidencing a demonstrable track record in being able to identify, make investible, close, monitor, manage and exit pedigreed deals; (b) evidencing a well-established team of professionals who have demonstrated a track record or working together across a portfolio of deals; (c) a robust pipeline of investible transactions; and (d) a sustainable fund manager's business model with a strong overlay of financial, legal, administrative, ESG and operational compliance.

The challenge facing newly established fund managers, irrespective of their principals' respective track records, is being able to meet and exceed these investor criteria, well prior to generating management fees. This places extraordinary pressure on the manager to maintain financial and operational sustainability during the investors' often lengthy due diligence processes. This can be viewed as a discouragement, whereas in effect it can create an enhanced sense of determination and motivation in a fund management team, knowing that if and when it fulfils the investors' requirements, first closing can occur and fees can be generated.

Illustratively, we were able to secure and hold onto our first deal through no fewer than seven successive novation agreements, a testimony to the patience of the promoters! As the fund's first closing arrived, we were well enough prepared to procure the LPs' subscription agreements on the Monday of that week, obtain approvals for this first investment on the Thursday and issue our capital calls on the Friday for funding two weeks hence. Our LPs responded positively to this performance by meeting our funding timelines and securing this investment, providing a case study in proper pre-planning, determination and tenacity at work.

In the course of raising ZAR1bn of the total ZAR12bn in PE funding raised in South Africa over the past year, our key learnings have included the requirement to not over-complicate the fund model or the legal agreements; to be completely open, honest and transparent with LP's; to be willing to fully respect that capital raising is not a "one size fits all" arrangement and that each and every LP is entitled to ask the same questions and to demand the same documentation and verifications as every other investor.

PAPE Fund Managers has in the eighteen months to date deployed ZAR345m of total capital commitments, and is scheduled to execute a fourth transaction in Q2 2020, bringing total capital deployed to within 50% of total commitments in just two years.

It is our view that the South African PE industry can substantively enhance the timelines and efficiencies pertaining to capital raising, primarily through the education and up-skilling of new GPs in respect of LPs' requirements and decision-making processes. The LP-GP relationship is generally a minimum 10-year engagement and in order to ensure that it has the best possible chances of enduring for a decade or more, rigorous understandings and agreements need to put in place from the outset, as these will guide and sustain the relationship over time. The better GPs are acquainted with investors' selection criteria and on-going compliance protocols, the more efficient will be the front-ended capital raising process.

We understand that SAVCA is taking concrete steps towards creating skills development platforms for GPs and in particular new emergent fund managers, and this action is to be encouraged and applauded as it can and should lead to a far more efficient fund establishment process and a more equitable, transformed and diversified PE industry in the future.

**Ends.**