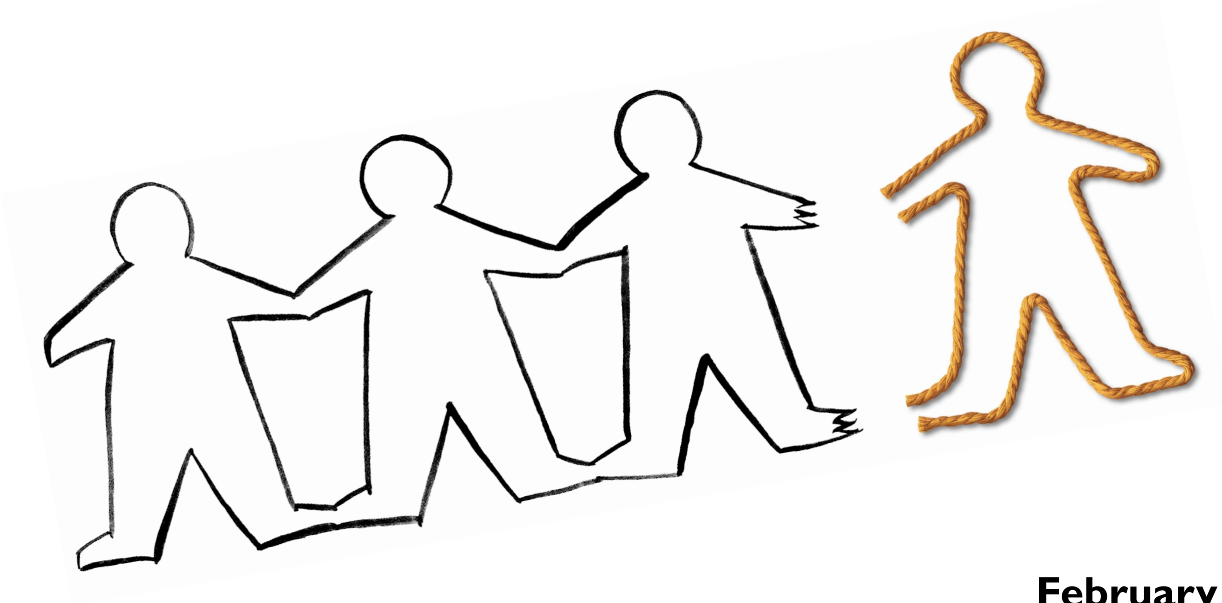
RisCura South African Private Equity Performance Report.

An independent point of view.



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SAVCA
SOUTHERN AFRICAN VENTURE CAPITAL AND PRIVATE EQUITY ASSOCIATION

RisCura Fundamentals
good thinking

RisCura South African Private Equity Performance Report.

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SAVCA SOUTHERN AFRICAN VENTURE CAPITAL AND PRIVATE EQUITY ASSOCIATION

1 Foreword

We are pleased to release the first version of the RisCura South African Private Equity Performance Report. This report tracks the performance of a representative basket of South African private equity funds and will be released quarterly on an ongoing basis. The purpose of the report is to provide stakeholders of South African private equity with more transparency into historic returns and a way to benchmark private equity funds' performances.

This report, prepared by RisCura in association with SAVCA, is the most comprehensive analysis of private equity performance prepared in South Africa. The report covers 20 current and historic funds with a committed capital totalling R24 billion (USD 3.5 billion), around 50% of capital currently committed to investable South African private equity. We consider this to be a representative sample and indicative of South African private equity performance as a whole. This notwithstanding, we will be looking to increase our market coverage in the future.

Private equity in South Africa has certainly come of age in recent years, with funds under management in excess of R100 billion (USD14bn) and around 70 managers actively investing and managing portfolios of private companies. With this increased level of activity has come increased scrutiny and a desire of fund managers and investors alike, to understand the performance of this asset class.

It is pleasing to report that the industry has returned a 10 year net IRR of 21.7% to 30 September 2010, while the equivalent measure of investment return on the Johannesburg Stock Exchange All Share Index has been a more modest 17.0%.

The performance reflected in this report has been tempered by the recent recession, which has affected the performance of portfolio companies across many industries. However, as in previous cycles, it is anticipated that good returns will come from investments made during the downturn.

We would like to thank all participants who made their data available to us to facilitate the establishment of this performance report. Particular thanks must also go to the SAVCA board for encouraging member participation.

We trust that the information contained in this and future reports will begin to provide the information that South African and international investors need to make investment decisions about private equity in South Africa.

Rory Ord
Head of RisCura Fundamentals

J-P Fourie
SAVCA Executive Officer

2 Private equity in South Africa

Private equity is a long term investment class which differs in nature from most other assets, including listed equity. Typically, private equity fund investments show low correlation to quoted equity markets and are relatively illiquid, particularly in the early years. Private equity will normally show a drop in net asset value before showing any significant gains. This is often the effect of management fees and start-up costs on the relatively small capital base of a new fund.

Private equity funds in South Africa typically follow a commitment and draw down model. This means that investors commit a certain total of capital at the start of a fund, but are only requested to transfer cash to the private equity manager as investments are identified or costs are incurred. These funds typically return capital during the course of the fund's life as investments are realised.

South African private equity offers institutional investors the opportunity to invest in an asset type which has historically outperformed listed equity. However, it does have a different nature from quoted equity and it is crucial that an institutional investor considers the appropriateness of private equity to its particular objectives.

Methods of measuring performance

The most widely accepted method for calculating the returns of private equity funds is the annualised internal rate of return (IRR) achieved over a period of time. This report measures performance in two ways: by 'since inception' and 'end-to-end' (over three, five and ten years).

IRR since inception

This is the most widely used IRR measure of private equity performance. It measures the return of a PE fund based on all cash flows in and out of the fund, as well as the remaining net asset value of the fund. Therefore, this measure most closely reflects the return an investor would achieve if they had invested at the start of the fund. This is the most likely scenario in South Africa where investors in private equity funds are locked in for the life of the fund and must catch up initial fees when joining a fund after the initial investors.

End-to-end IRR

End-to-end IRRs allow the computation of the return of groups of private equity funds which do not necessarily have the same inception date. This calculation also allows for a better comparison of private equity returns to those of other asset classes over similar periods.

While this method has advantages, it must be noted that it allows the returns of funds at different life cycle stages to be combined. Where the period selected contains more new funds than older funds, the return will likely include a higher balance of fees than a time period with a greater number of older funds.

The longer term IRRs are considered to be the most indicative of private equity performance across different stages of the economic cycle and are considered to be the headline measures.

One year returns should be viewed with caution as private equity is a long-term investment and have not been presented in this report.

Times Money Return

The Times Money Return is the ratio of total capital invested to total capital returned and remaining value. This is a useful cross-check of IRR measures and is easily understandable. While IRR calculations are heavily dependent on the length of time that capital has been invested, the Times Money Return does not take time into account.

Public Market Equivalent (PME)

This measure seeks to equate the heavily timing dependent returns of private equity funds with the returns of public market indices. The measure is a ratio of the net outflows from PE funds re-invested into the public index to the end of the fund's life, divided by the inflows into a PE fund invested in the public index until the end of the fund's life. A ratio greater than one reflects private equity outperformance, while a ratio of less than one reflects underperformance.

3 Returns over different time horizons

We regard the 10 year return as the headline measure of private equity returns. This is because of the long term nature of private equity investment, and the locked-in nature of typical fund structures.

The lower returns over the three and five year periods reflect the downturn in South African growth brought on by the global financial crisis. This has also affected the 10 year returns, but to a lesser extent than the shorter period measures.

In the private equity context, one year returns are not considered a reliable measure of performance at this stage and have not been presented.

The adjacent graph and table demonstrates the performance of South African private equity compared to private equity returns in the developed markets of the United States and the United Kingdom. These markets have historically followed a higher leverage model than SA private equity and have consequently shown poor returns over the recession as portfolio company earnings fell.

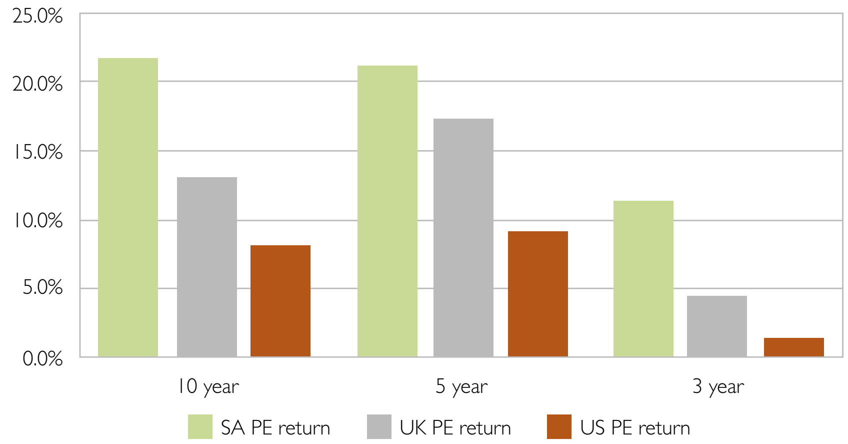
	SA Pooled IRR*	UK Pooled IRR#	US Pooled IRR+
10 year	21.7%	13.1%	8.1%
5 year	21.2%	17.3%	9.1%
3 year	11.5%	4.4%	1.3%

*Source: RisCura Fundamentals.

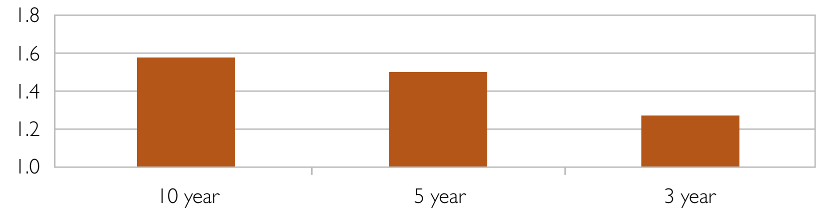
#Source: British Private Equity and Venture Capital Association Private Equity and Venture Capital Performance Measurement Survey 2009.

+Source: Cambridge Associates LLC U.S. Private Equity Index September 2010.

SA pooled IRR vs. developed markets



Pooled Times Money



4 Returns by vintage year

Previous studies have shown fund vintage year to be an important determinant of private equity returns. Our findings are consistent with these studies and show a dramatic difference in returns by vintage grouping.

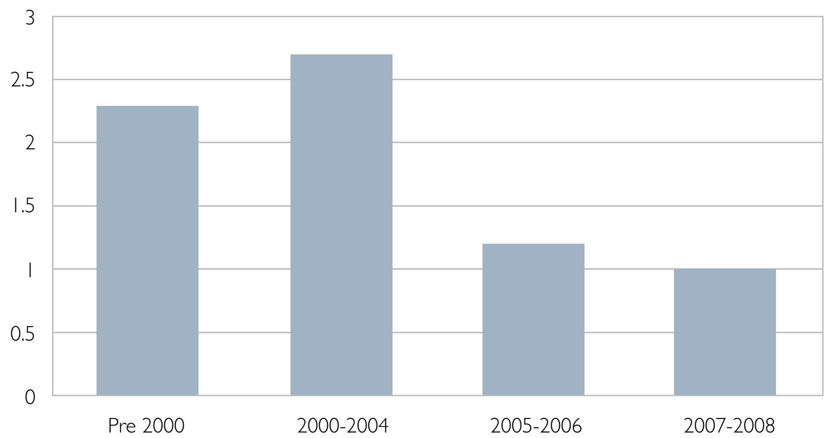
At 36.4%, the 2000 to 2004 vintage year grouping was the best of the vintage groups surveyed. This time period matches a period of strong growth in the South African economy, as well as strong growth on the Johannesburg Stock Exchange.

Funds starting in or after 2005 have been negatively impacted by the downturn in the economy. In particular, funds making investments in the 2007 – 2008 period have shown poor returns. Part of the reason for the current poor result of the most recent vintage grouping is that these funds are still in the "J-curve", where management fees play a significant part in determining fund returns and the investments made by these funds still need to be enhanced by the private equity fund manager.

Vintage year grouping	IRR	Times Money
Pre 2000	32.4%	2.3
2000 - 2004	36.4%	2.7
2005 - 2006	3.2%	1.2
2007 - 2008	-0.5%	1.0

IRR by vintage year

Vintage year Times Money

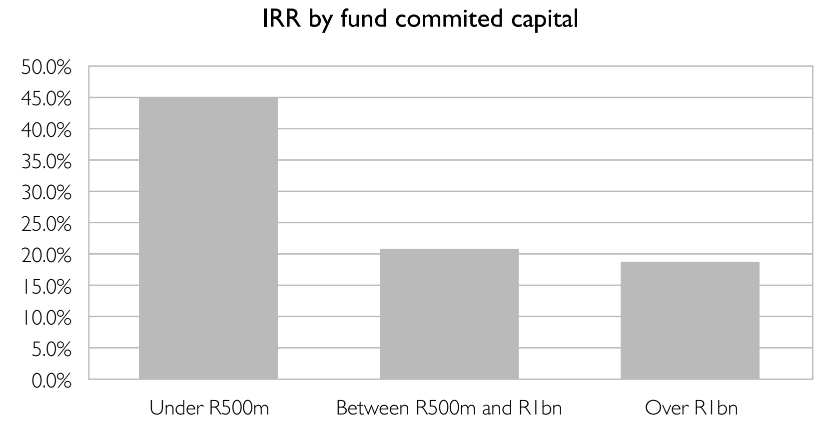


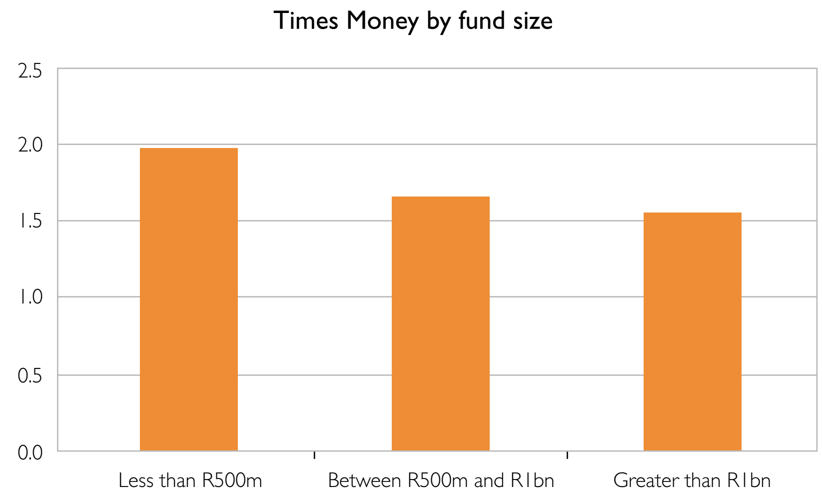
5 Returns by fund size

The analysis shows that historically, smaller funds have performed very well. This strong performance may be due to smaller funds investing in the high growth mid-market sized companies which have performed well under generally good economic conditions.

However, it is important to note that the larger funds were more likely to have been in existence more recently, and will therefore be part of the poorer vintage year groupings. It is likely that vintage year is a bigger determinant of performance than size.

Fund Size	IRR	Times Money
Under R500m	45.1%	2.0
Between R500m and R1bn	20.7%	1.7
Over R1bn	18.9%	1.5

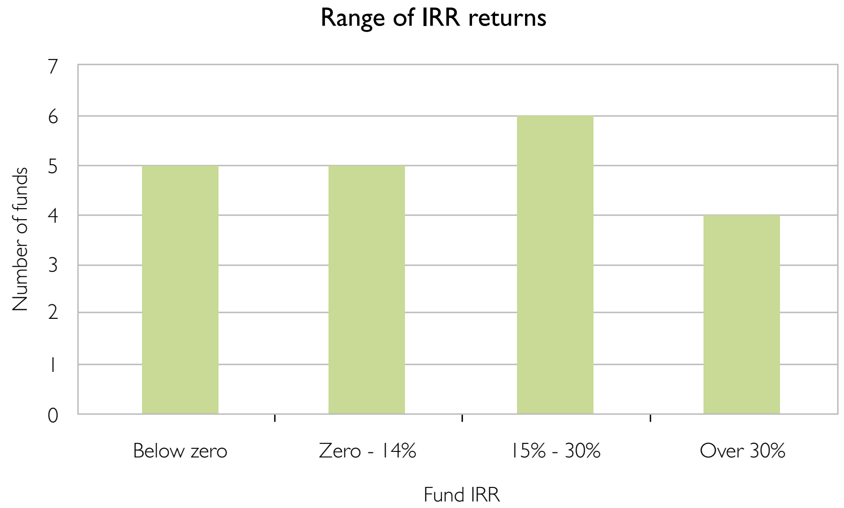




6 Range of returns

Individual fund returns since inception showed a wide range. This highlights the importance of choosing the best managers when making allocations to private equity.

It must be noted that the below zero category is made up of funds of newer vintage, which are still in the "J-curve" where management fees have a disproportionate effect on returns. The investments made by these funds still need to be enhanced by the private equity fund manager. This analysis also demonstrates that the strong returns of South African private equity as a whole is not significantly skewed by the performance of a single fund.



IRR return range	Number of funds
Below zero	5
Zero to 14%	5
15 - 30%	6
Over 30%	4

Times money return range	Number of funds
Below 1	5
1 to 1.5	5
1.5 – 2.5	5
1.5 – 2.5	5

7 Returns compared to listed equity

Private equity returns compare favourably to the returns of the FTSE/JSE All Share Index (ALSI) of the Johannesburg Stock Exchange (JSE). Private equity outperforms the ALSI Total Return Index (TRI), as well as the FTSE/JSE Shareholder Weighted Total Return Index (SWIX TRI) and the FTSE/JSE Financial and Industrial Index (FINDI).

IRR returns have been compared to CAGRs of listed indices on a direct basis and on the more comparable Public Market Equivalent (PME) basis.

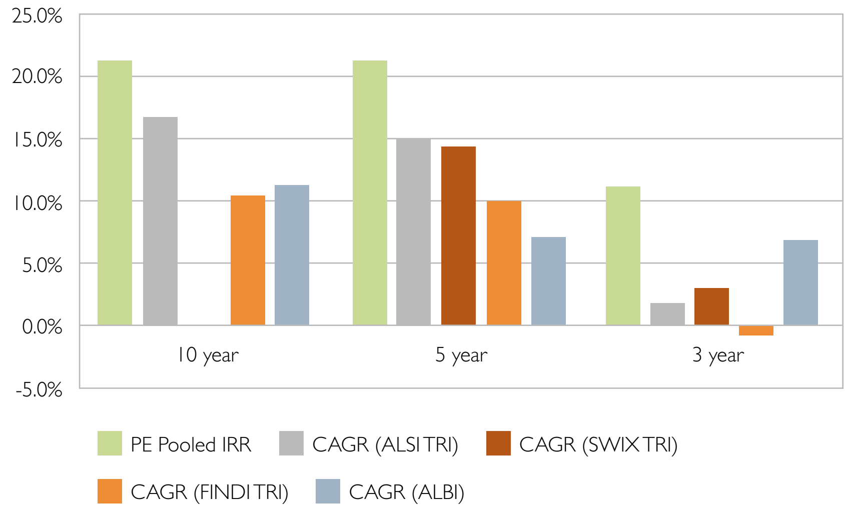
The BEASSA All Bond Index (ALBI) is not really comparable to equity type investments but has been included as a reference point.

The PME results show that private equity has outperformed the ALSI, FINDI and SWIX over all periods.

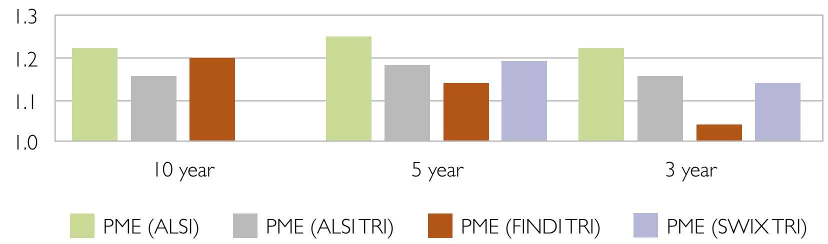
	PE Pooled IRR	CAGR (ALSI TRI)	CAGR (FINDI TRI)	CAGR (ALBI)	CAGR (SWIX TRI)
10 year	21.7%	17.0%	10.6%	11.5%	N/A
5 year	21.2%	15.2%	9.9%	7.1%	14.2%
3 year	11.5%	2.0%	-1.0%	7.3%	3.0%

	PME (ALSI TRI)	PME (FINDI TRI)	PME (SWIX TRI)
10 year	1.15	1.19	N/A
5 year	1.18	1.13	1.19
3 year	1.15	1.04	1.14

Net PE IRR returns compared to listed indices



Public market equivalent results



8 Methodology and definitions

RisCura has collected cash flow and portfolio value data from South African private equity fund managers and has established a confidential database to enable the preparation of the performance statistics included in this report. This report includes data from 20 South African private equity funds.

Users of this report may find the following information useful:

- Returns of cash flow and portfolio value data from private equity managers are the primary source for information included in this report.
- The performance calculation solves for the discount rate (IRR) which makes the Net Present Value of a set of cash flows equal to zero. The calculation is based on cash-on-cash returns over equal periods, modified for the residual value of the fund's equity (NAV). The residual value attributed to each respective group being measured is incorporated at its ending value.
- The database accounts for cash flows on a monthly basis and NAVs on a quarterly basis, but adopts annualized values for reporting purposes. The End-to-End performance calculation is similar to the IRR, however, it is measuring the return between two points in time. The calculation takes into account the opening NAV, the quarterly cash flows and the closing NAV. Returns are then annualised for comparability.
- The pool of funds has been split into subsets where this would enhance the user's understanding of returns. However, this has been balanced with confidentiality considerations and no such subsets include fewer than 4 funds.
- Most funds included in this report have unrealised investments, and therefore rely on the valuation of these investments to determine returns. All participating fund managers are members of SAVCA and apply the International Private Equity and Venture Capital Valuation Guidelines to determine these valuations. RisCura has not verified that these Guidelines have been adhered to.
- Only South African Rand denominated funds have been included in this report and therefore, none of the returns included are affected by exchange rate movements.

Definitions:

CAGR is the cumulative annual growth rate.

Committed capital is the value of dedicated investment funds pledged by the investors of a private equity fund and available for investment. This is a proxy for the size of the fund.

IRR is the rate of return that makes the present value of all cash flows equal to zero. IRR is a money-weighted return which should be compared to time-weighted returns with caution. Time-weighted returns are used to measure returns in most asset classes where frequent valuations are available.

Pooled Mean aggregates or "pools" all cash flows and ending NAVs to calculate a money-weighted return.

Vintage Year is the year in which a fund first draws down capital from its investors.

9 About RisCura Fundamentals

RisCura Fundamentals is the leading provider of independent valuation, risk and performance analysis services to investors in unlisted instruments in Africa. We work in partnership with our clients to deliver the transparency and accountability that increasingly is demanded by investors and auditors. Our clients include private equity funds, pension funds, credit funds, banks and other investors in Africa, and cover industries as diverse as agriculture, retail, manufacturing and the extractive industries.

For more information about our services please contact:
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RisCura is Africa's premier independent financial analytics provider and investment consultant servicing 7 of Africa's 10 largest pension funds that represent more than USD115 billion AUM and money managers with over USD 5 billion in hedge fund AUM and PE committed capital. RisCura is currently the only investment consultant and financial analytics provider in Sub-Saharan Africa signed on to the Principles for Responsible Investment. For more information about RisCura visit www.riscura.com

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