



# 2018 ANNUAL LIMITED PARTNER SURVEY

Institutional investor views and expectations  
about private equity in Africa

LPs believe in the long-term attractiveness of Africa – especially when compared to developed markets.

# FOREWORD

We are pleased to present the fifth edition of the AVCA Limited Partner Survey, which examines global investor views on private equity in Africa.

This year, we surveyed 60 limited partners from across the globe, to gain a broad and comprehensive understanding of investors' sentiments, plans and expectations about private equity in Africa.

We would like to thank all of the participants who supported this initiative by giving their time and sharing their thoughts.

At AVCA, our mission is to educate and equip stakeholders with valuable insights into Africa's investment landscape, with the goal of attracting increased capital into the asset class. We hope that this study into investors' views on African PE helps to serve this purpose.



**Michelle Kathryn Essomé**

Chief Executive Officer

African Private Equity and  
Venture Capital Association

# EXECUTIVE SUMMARY

This is the fifth edition of AVCA's Limited Partner Survey. The study looks into the plans, views, preferences, expectations and evolving attitudes of 60 Limited Partners (LPs) from Africa, Asia, Europe and North America regarding Private Equity (PE) in Africa.

LPs' appetite for African PE has remained steady, with 53% of LPs planning to increase their PE allocation on the continent over the next three years (only 1 percentage point down from AVCA's 2017 LP Survey).

West Africa was selected by the biggest proportion of LPs (85%) as an attractive region for PE investment over the next three years. This is an improvement from AVCA's 2017 LP Survey, where West Africa was selected by 76% of survey respondents. Nigeria, West Africa's largest PE market, was chosen by the biggest proportion of LPs (58%) as an attractive country for PE investment over the next three years.

In relation to sectors, consumer-driven industries – such as Financial Services and Consumer Goods – were chosen by the most LPs as attractive sectors for General Partners (GPs) investment. This signifies that the consumer theme is still persistent on the continent and drives investors' interest. An emerging sector for PE investment is Technology, which was the 3rd most popular sector amongst LPs (compared with 6th in AVCA's 2017 LP Survey).

Overall, LPs believe in the long-term attractiveness of Africa; especially, when they compare Africa with developed markets.



# TRENDS & HIGHLIGHTS

2018

2017

2016

53%

54%

57%

LPs that plan to increase their allocation to PE in Africa over the next three years

65%

65%

65%

LPs that view Africa as more attractive for PE investment compared with developed markets over the next ten years

85%

76%

77%

LPs that identify West Africa as an attractive region for PE investment over the next three years

70%

73%

71%

LPs that are currently looking for co-investment opportunities

67%

73%

66%

LPs that would invest in a first time African GP

# PLANNED INVESTMENTS BY LPs INTO AFRICAN PE

## 53%

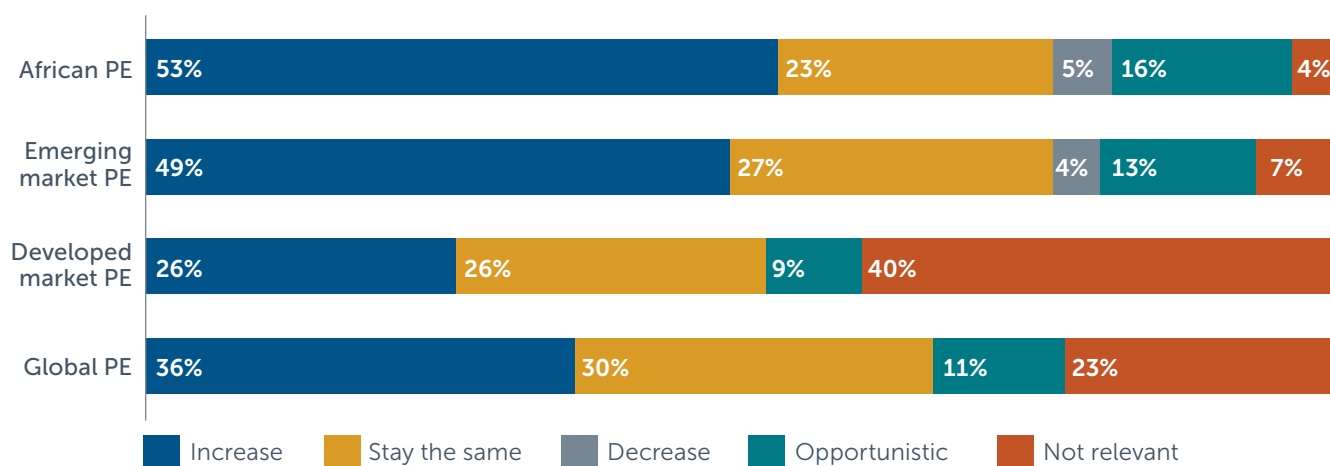
of LPs plan to increase their allocation to PE in Africa over the next three years

## LPs' planned allocation to African PE

Over half of LPs (53%) plan to increase their allocation to African PE over the next three years (only 1 percentage point down from AVCA's 2017 LP Survey). Of these, 97% are currently invested in PE funds in Africa, and are mainly Development Finance Institutions (33%) and Fund-of-funds (20%). By location, whilst only 44% of non-African LPs plan to increase their African PE allocation, nearly two-thirds (65%) of African LPs plan to increase their exposure to African PE over the next three years.

Overall, 76% of LPs plan to increase or maintain their allocation to African PE. Only 5% of survey respondents say that they will decrease their allocation to PE in Africa.

**Figure 1: LPs' plans for their global, developed, emerging markets and African PE allocation over the next three years**



Performance and diversification are viewed as the main factors driving LPs' plans to increase or maintain their Africa PE allocation

Among those LPs that plan to increase or maintain their exposure to African PE over the next three years, 63% and 60% view performance and diversification respectively as the main drivers behind their investments plans.

**Figure 2: LPs' drivers for increasing or maintaining their African PE allocation over the next three years**



# ATTRACTIVENESS OF AFRICAN PE

## 65%

of LPs view Africa as more attractive for PE investment compared with developed markets over the next ten years

## Attractiveness of Africa relative to other markets

### African PE relative to emerging and frontier markets

The percentage of LPs that view Africa as more attractive for PE investment relative to other emerging and frontier markets over the next five and ten years is 43% and 49%, respectively. Only 26% of LPs that view Africa as more attractive over the next year. The percentage of LPs saying that Africa will have the same level of attractiveness over the medium to long term has increased significantly this year compared to AVCA's 2017 LP Survey, from 36% to 47% over a five-year time horizon, and from 35% to 42% over a ten-year time horizon.

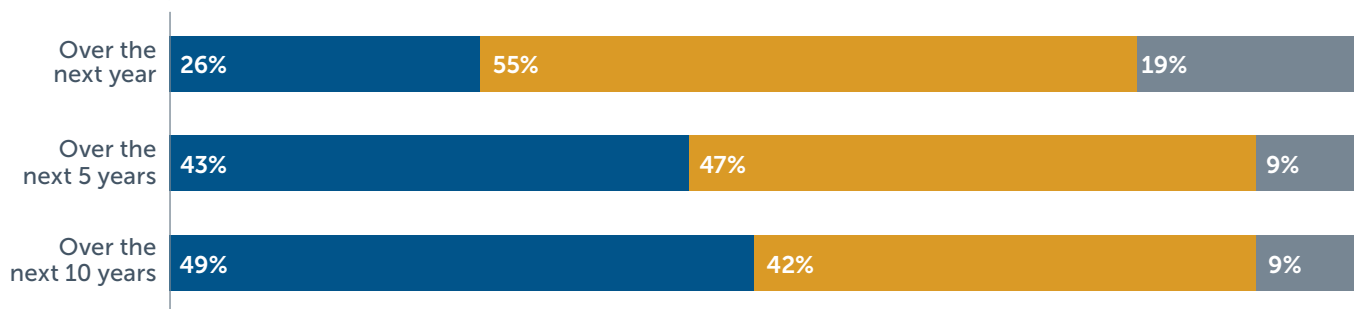
By location, only 33% of non-African LPs view Africa as more attractive over the next ten years, while the same figure increases to 75% when it comes to African LPs.

### African PE relative to developed markets

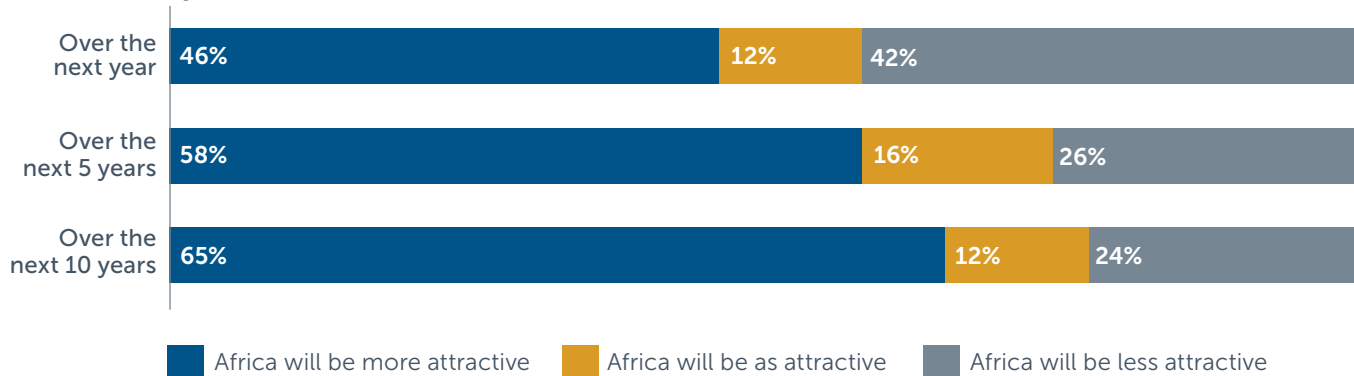
Nearly two-thirds of LPs (65%) view Africa as more attractive for PE investment than developed markets over the next ten years. Overall, most LPs believe in the medium to long term attractiveness of Africa compared to developed markets.

**Figure 3: Attractiveness of African PE compared with other markets**

#### Relative to emerging and frontier markets



#### Relative to developed markets

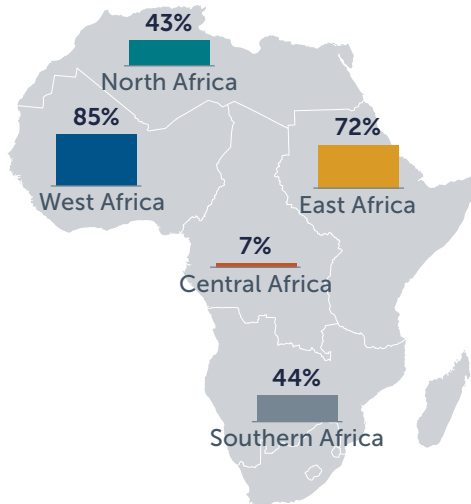


# 85%

of LPs identify West Africa as an attractive region for PE investment over the next three years

## Attractiveness of African **regions** for PE investment

**Figure 4: Attractiveness of African regions for PE investment over the next three years**



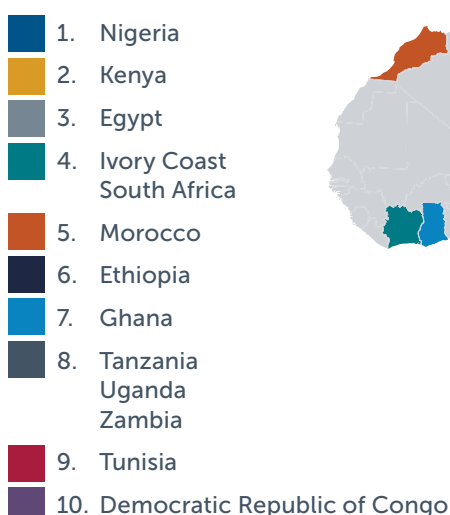
West Africa is viewed by the biggest proportion of LPs (85%) as an attractive region in Africa for PE investment over the next three years, followed by East Africa (72%). This aligns with findings in AVCA's 2017 Annual African Private Equity Data Tracker which show that West Africa has attracted the greatest share of PE deals reported in Africa between 2012 and 2017.

Southern Africa's attractiveness also increased in this year's survey to 44% from 35% in AVCA's 2017 LP Survey.

The highest proportions of LPs see Nigeria, Kenya and Egypt as attractive countries for PE investment in Africa over the next three years

## Attractiveness of African **countries** for PE investment

**Figure 5: The ten most attractive countries for PE investment in Africa over the next three years**



Nigeria is viewed by 58% of LPs as an attractive country for PE investment in Africa over the next three years, followed by Kenya (40% of LPs) and Egypt (31% of LPs). However, there are differences in LPs' views depending on their location. Whilst Egypt is the 7th most popular option amongst African LPs, it is the 2nd most popular option amongst non-African LPs.

Notably, South Africa is the 4th most popular option amongst LPs; an improvement from 2017, when South Africa was the 8th most popular option amongst LPs.



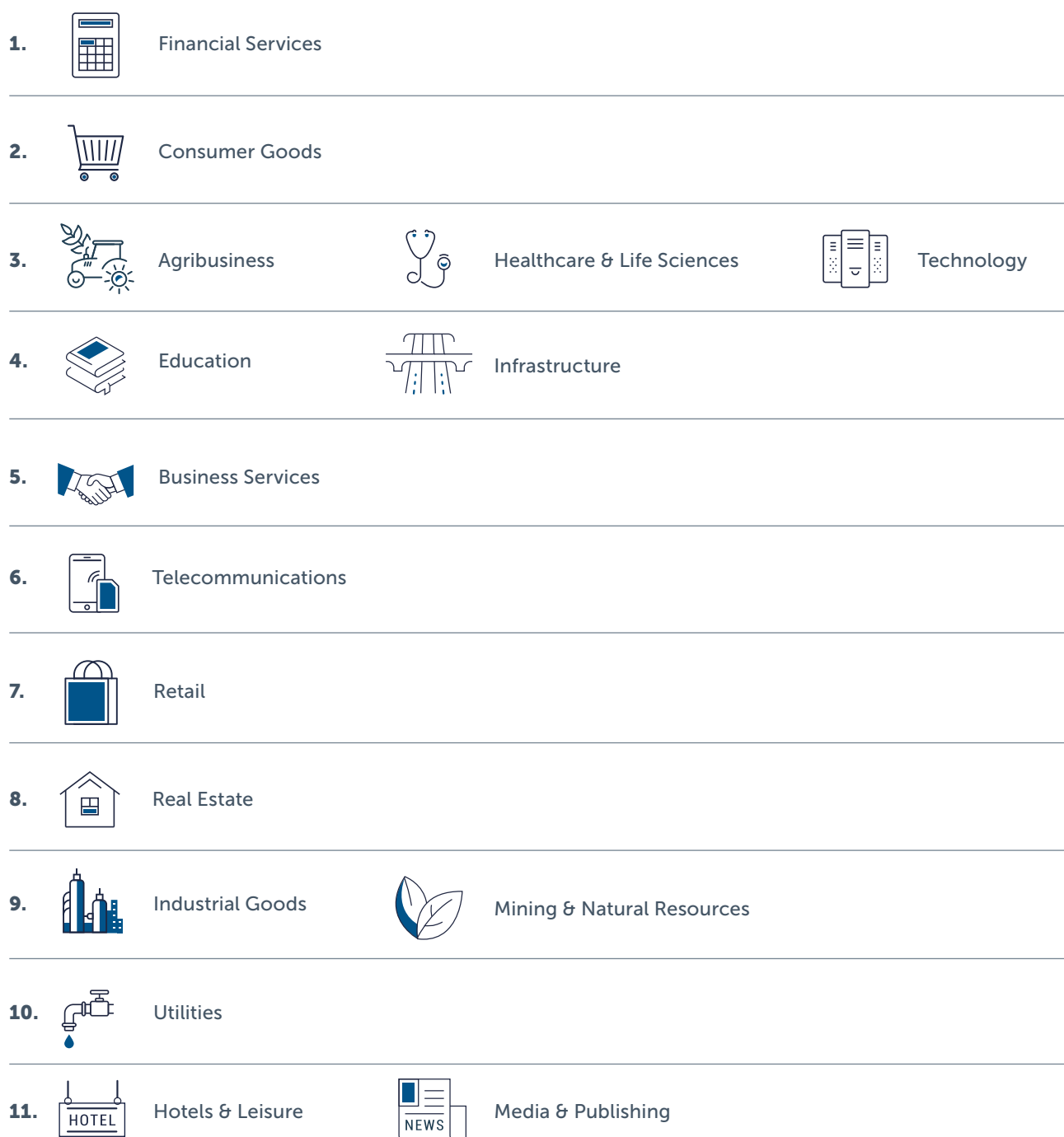
LPs still view consumer-driven sectors as attractive for PE investment

## Attractiveness of sectors for PE investment

Financial Services is identified by the most LPs (51%) as an attractive sector for PE investment in Africa over the next three years. Other sectors associated with the rise of the African consumer – Consumer Goods, Agribusiness, Healthcare and Education – are also viewed by LPs as top sectors for PE investment over the same period.

Technology is selected by the 3rd highest number of LPs as an attractive sector for PE investment in Africa. This is a notable improvement from AVCA's 2017 LP Survey, where Technology was chosen by the 6th highest number of LPs.

**Figure 6: Most attractive sectors for PE investment in Africa over the next three years**



# LPs' DRIVERS AND PREFERENCES WHEN INVESTING IN AFRICAN PE

## LPs' expectations about exit routes in African PE

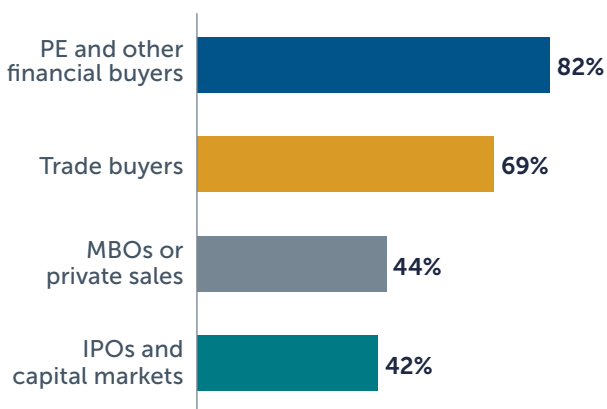
82%

of LPs expect sales to PE firms and other financial buyers to increase over the next three to five years

Most LPs (82%) expect sales to PE firms and other financial buyers to increase over the next three to five years. This aligns with findings in AVCA/EY's PE Exits in Africa study (April 2018) which show that exits to PE and other financial buyers continued to increase in 2017, now representing the most common exit route. The increase in secondary sales is likely to be due to PE firms deploying the large amounts of capital that was raised in 2014-2016.

Exits to trade buyers is selected by 69% of LPs, followed by MBOs or private sales (44% of LPs). IPOs and capital markets is mainly selected by Pension funds (43%) and Fund-of-funds (26%).

**Figure 7: LPs' expectations about exit routes for African PE investments**



## LPs' preferred strategies when investing in African PE

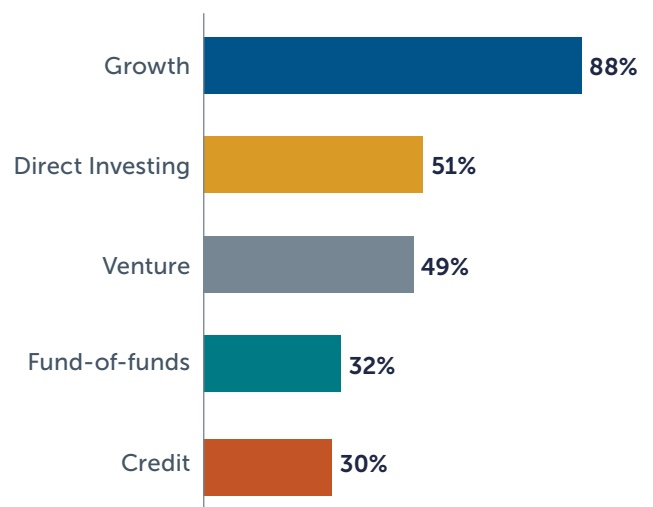
88%

of LPs regard growth equity as being a strategy of interest when investing in African PE over the next three years

Growth equity is selected by the highest proportion of LPs (88%) as a strategy of interest when investing in African PE over the next three years. This supports a similar finding in AVCA's 2017 LP Survey. Direct investing is the next most popular investment strategy (51% of LPs). Of these LPs, 34% are Development Finance Institutions (DFIs) based in Africa and Europe, with the majority planning to increase their African PE allocation over the next three years.

Venture capital is identified by 49% of LPs as a strategy of interest, up from 38% in 2017. In 2018 H1, 25% of the total number of reported investments was in the venture capital space.

**Figure 8: LPs' preferred strategies when investing in African PE over the next three years**



# 74%

of LPs have invested in Africa via pan-African or sub-Saharan African funds

# 56%

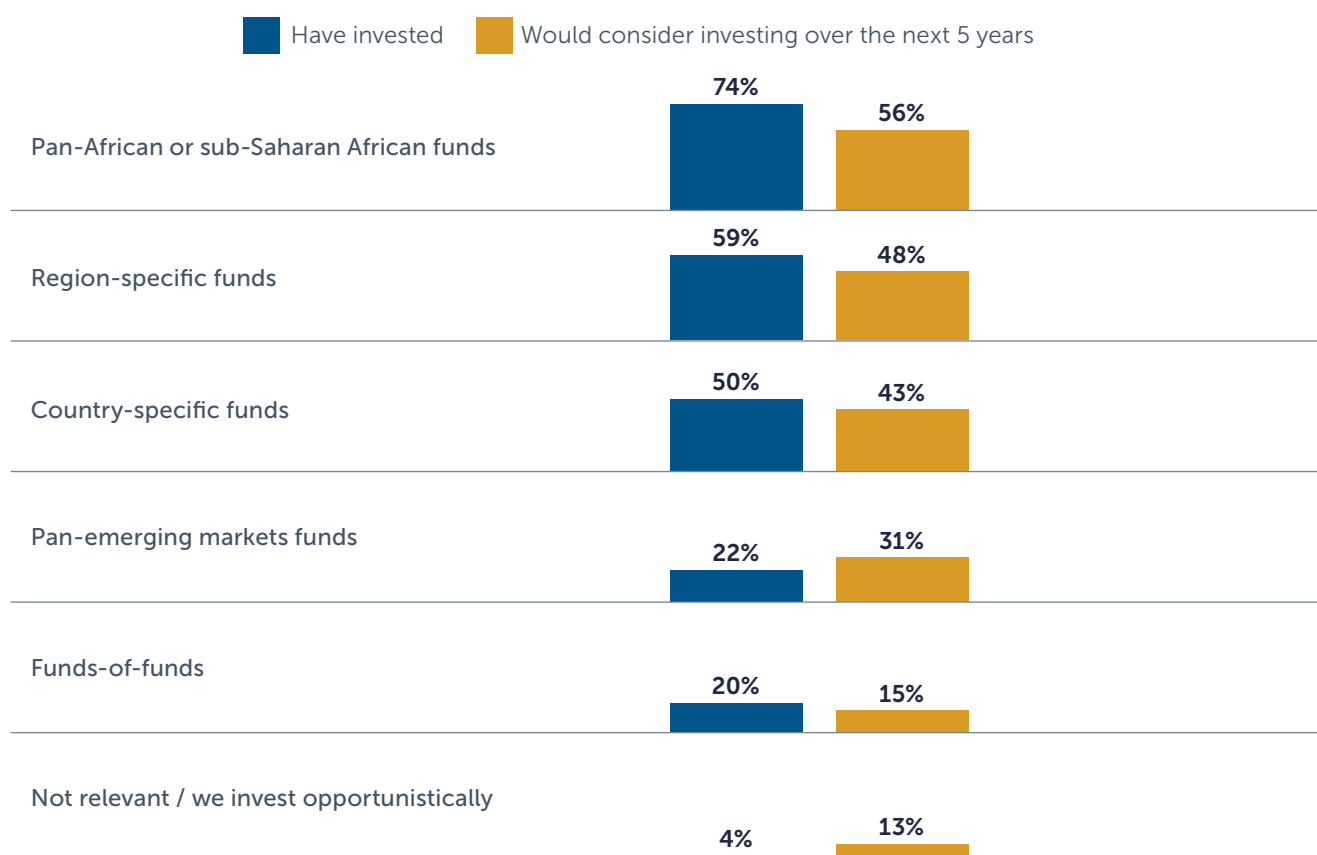
of LPs would consider investing in pan-African or sub-Saharan African funds over the next five years

## LPs' preferences on the geographic focus of funds when investing in African PE

Most LPs (74%) say that they have invested in African PE via pan-African or sub-Saharan African funds. Of these, 81% plan to increase or maintain their African PE allocation over the next three years, with 70% of them selecting diversification as the main driver behind their investment plans.

Whilst only 22% have invested in African PE via pan-emerging markets funds, 31% of LPs would consider investing in Africa through these funds.

**Figure 9: LPs' preferences about the geographic focus of PE funds when investing in Africa**



# 71%

of LPs have invested in Africa via generalist funds

# 59%

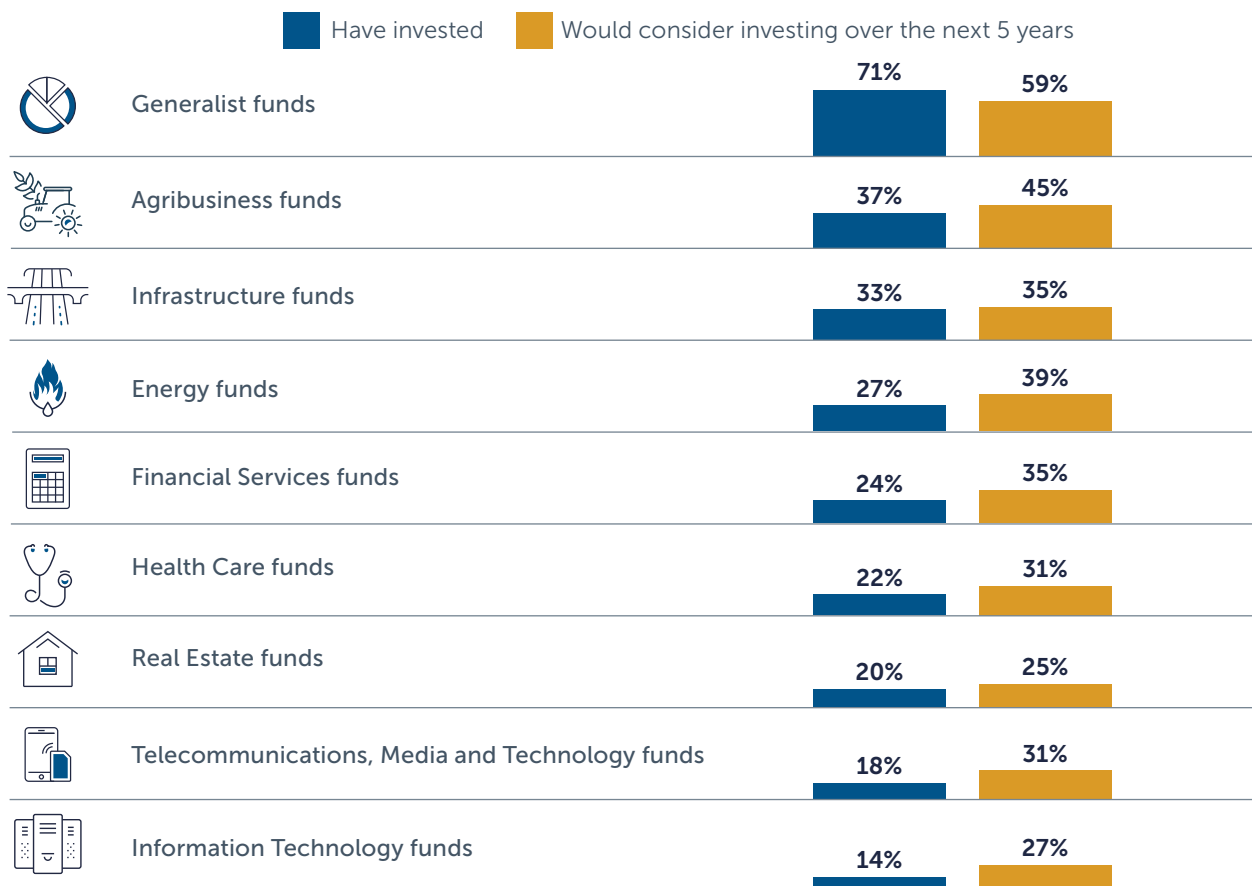
of LPs would consider investing in generalist funds over the next five years

## LPs' preferences on sector focus of funds when investing in African PE

The majority of LPs (71%) have invested in Africa via generalist funds. This is reflected in findings from AVCA's 2017 Annual African Private Equity Data Tracker (member version) which shows that 60% of the total number of African PE funds closed between 2012 and 2017 were generalist. Overall, 59% of LPs would consider investing in Africa through generalist funds over the next five years.

With regard to sector-specific funds, the percentage of LPs that would consider investing in different types of sector-focused funds is greater than the share of LPs that have previously invested in Africa via these funds.

**Figure 10: LPs' preferences about the sector focus of PE funds when investing in Africa**



# IMPORTANT FACTORS IN EVALUATING AFRICAN PE INVESTMENTS

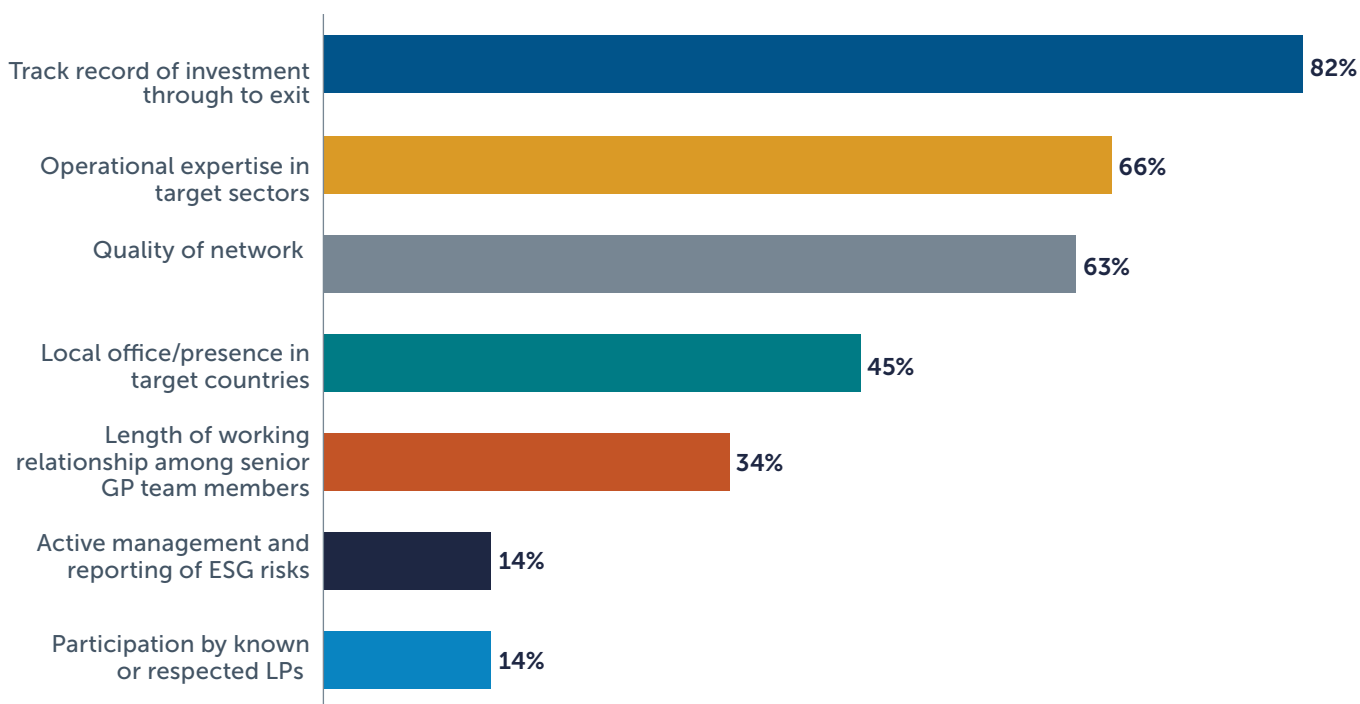
GPs' track record is viewed by the biggest proportion of LPs as an important factor when evaluating African PE firms

## African PE fund managers

GPs' track record of investment through to exit is identified by 82% of LPs as an important factor when evaluating African PE fund managers. This is in keeping with previous findings in AVCA's 2017, 2016 and 2015 LP Surveys which also identified GPs' track record as the factor selected by the highest number of LPs.

Two-thirds of LPs (66%) regard PE firms' operational expertise in target sectors as another important factor. The quality of GPs' network to source, manage and support companies, along with the PE firms' local presence in target countries are also viewed as significant.

**Figure 11: Important factors in LPs' evaluation of African PE fund managers**



# 70%

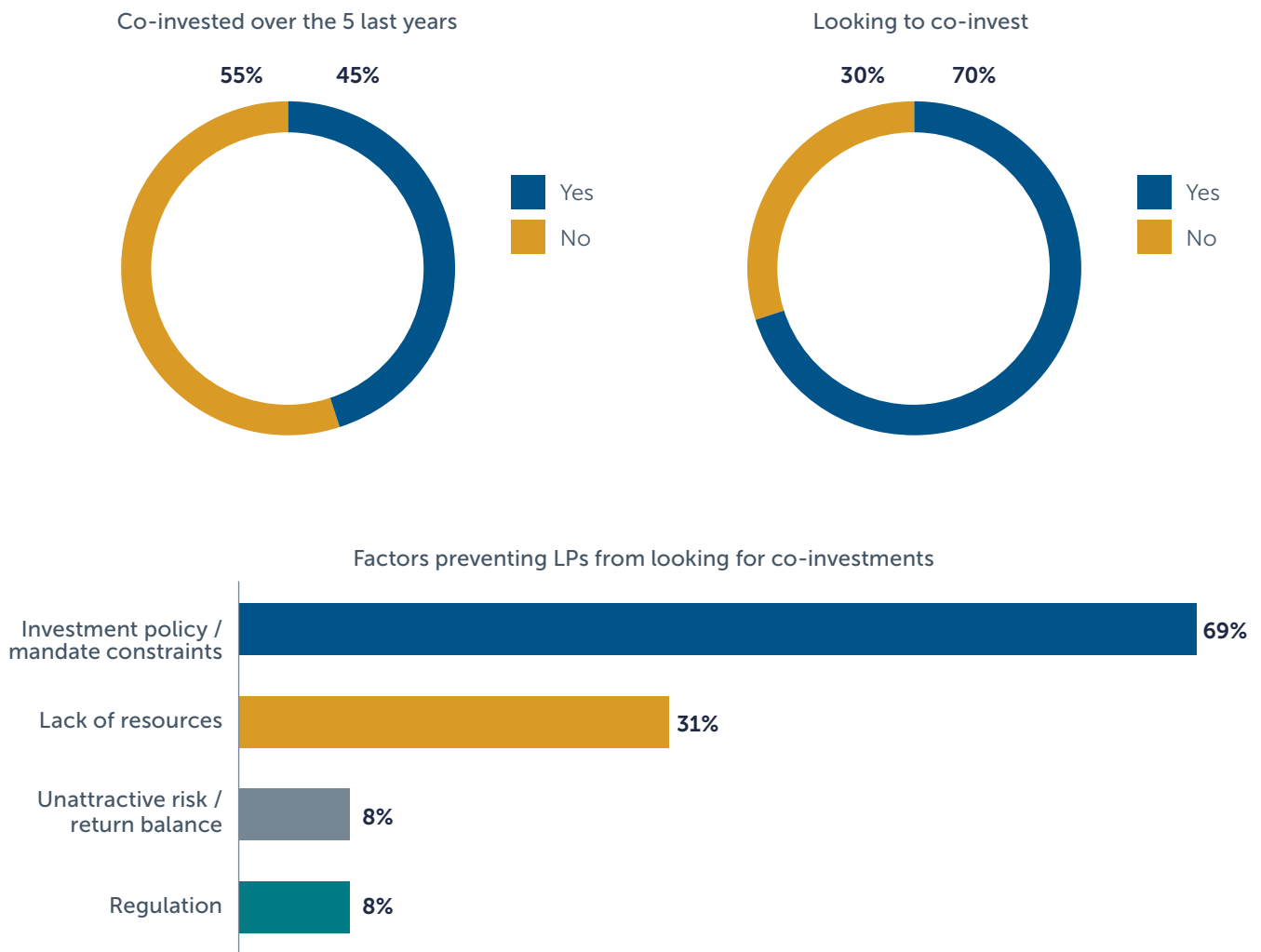
of LPs are currently looking for co-investment opportunities

## Co-investments

Whilst only 45% of LPs have co-invested alongside an African GP over the last five years, 70% of LPs are currently looking for potential co-investment opportunities. Of these, 82% plan to increase or maintain their African PE allocation over the next three years.

Only 30% of LPs are not currently looking for co-investment opportunities. Of these, 69% say that investment policy constraints prevent them from co-investing alongside an African GP. The second most popular factor preventing LPs from co-investments is a lack of resources.

**Figure 12: LPs co-investing alongside African GPs**



# 67%

of LPs would invest in a first-time African GP

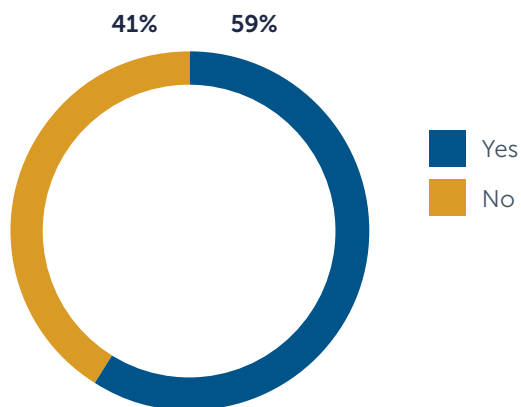
## First-time fund managers

Most LPs (67%) say that they would consider investing in a first-time African GP. Of these, 78% plan to increase or maintain their African PE allocation over the next three years. The main factor driving their investment plans is impact (68%). Almost two-thirds (62%) of those that would consider investing in a first-time African GP view Venture Capital as an attractive investment strategy.

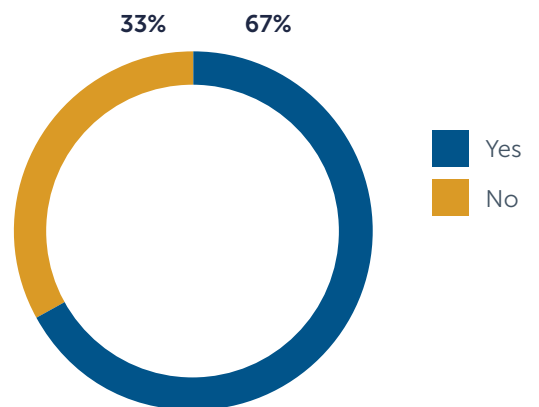
Over half of LPs (59%) say that they have invested in a first-time African GP over the last five years. Of these, 48% state that the performance of their African PE portfolio has matched or exceeded their expectations.

**Figure 13: LPs investing in a first-time GP in Africa**

Invested in a first-time GP in Africa over the last 5 years



Would invest in a first-time GP



# POTENTIAL OBSTACLES TO LP AND GP INVESTMENT IN AFRICA

## 65%

of LPs view currency risk as a key challenge when investing in African PE

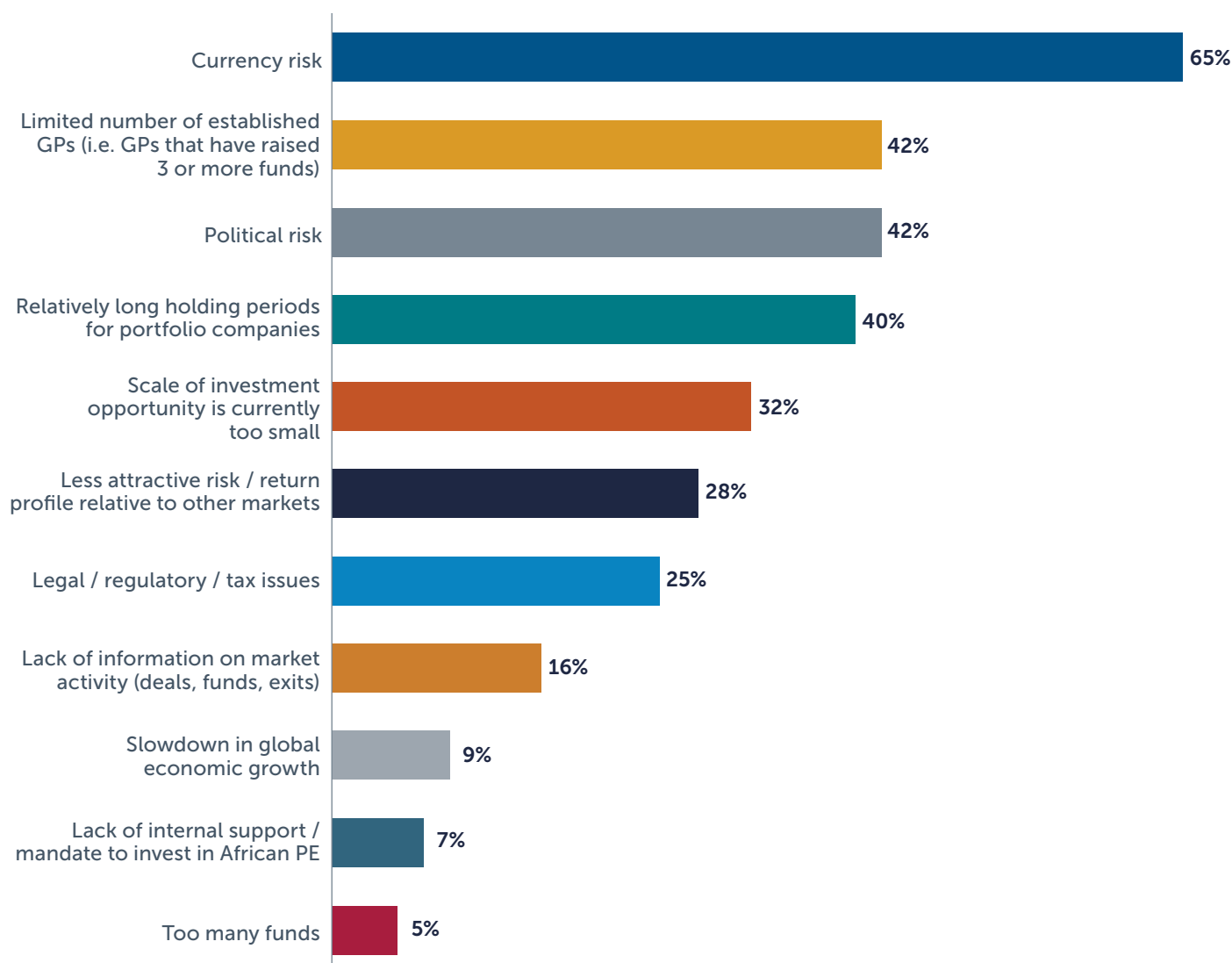
## Barriers to LP investment in African PE

Nearly two-thirds of LPs (65%) view currency risk as a key challenge when investing in African PE. AVCA's 2016 and 2017 LP Surveys also identified currency risk as a key barrier to investment on the continent (it was selected by 60% of LPs in 2016, and 69% in 2017).

Turning to the most popular options after currency risk, 42% of LPs select the limited number of established GPs and political risk as important challenges when investing in African PE.

A relatively long holding period for portfolio companies is viewed by 40% of LPs as another significant challenge. However, the percentage of LPs that share this view has decreased from 53% in 2017.

**Figure 14: Biggest challenges for LPs investing in African PE**





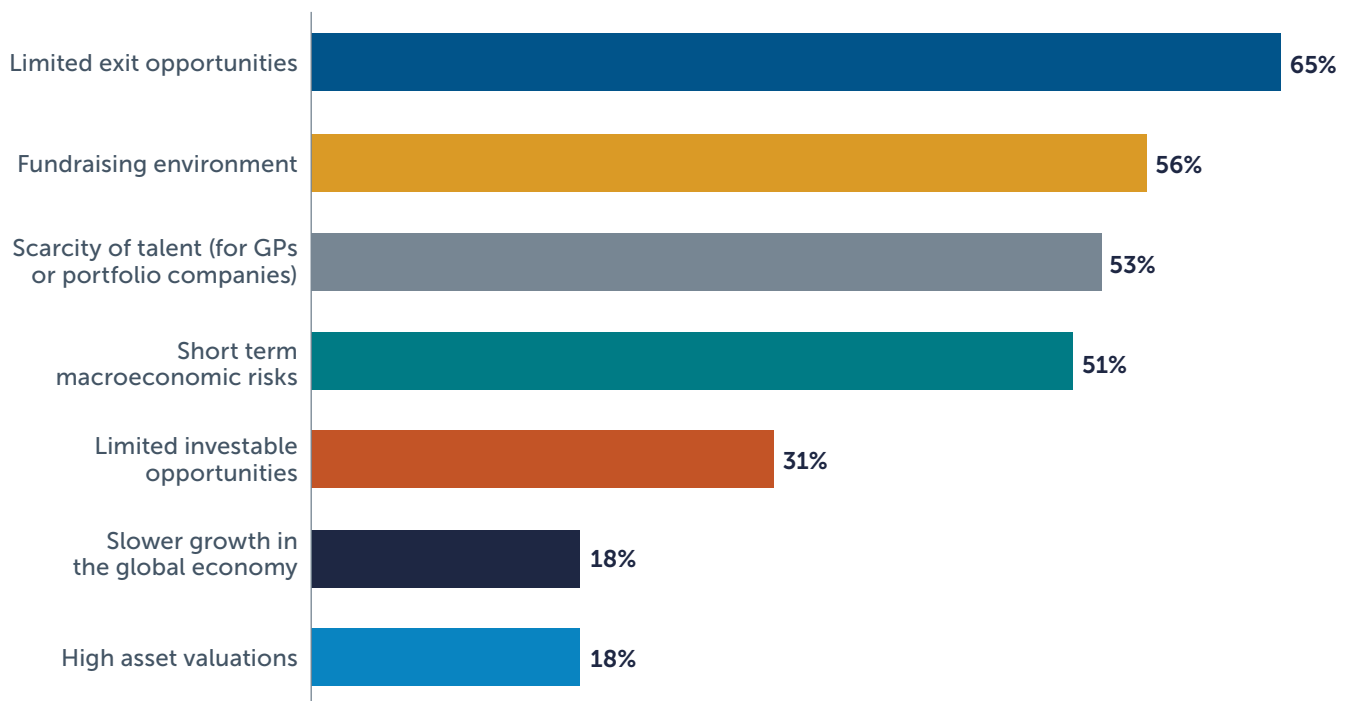
Limited exit opportunities, fundraising environment and scarcity of talent are identified by the biggest proportions of LPs as key challenges facing GPs in Africa over the next three years

## Challenges facing GP investment in Africa

The biggest proportion LPs (65%) view limited exit opportunities as a key challenge to GPs over the next three years. Other significant factors include the fundraising environment (56% of LPs), the scarcity of talent for GPs or portfolio companies (53% of LPs compared to 35% in 2017) and short-term macroeconomic risks (51% of LPs).

Among those LPs that plan to increase their African PE allocation over the next three years, the fundraising environment is viewed by the biggest proportion (63%) as a key challenge facing GPs in Africa. Similarly, over two-thirds of African LPs (67%) believe that the fundraising environment is an important factor. By comparison, the biggest proportion of non-African LPs (76%) see limited exit opportunities as a core challenge for African GPs.

**Figure 15: Challenges facing GPs in Africa over the next three years**



# AFRICAN PE RETURNS

## 48%

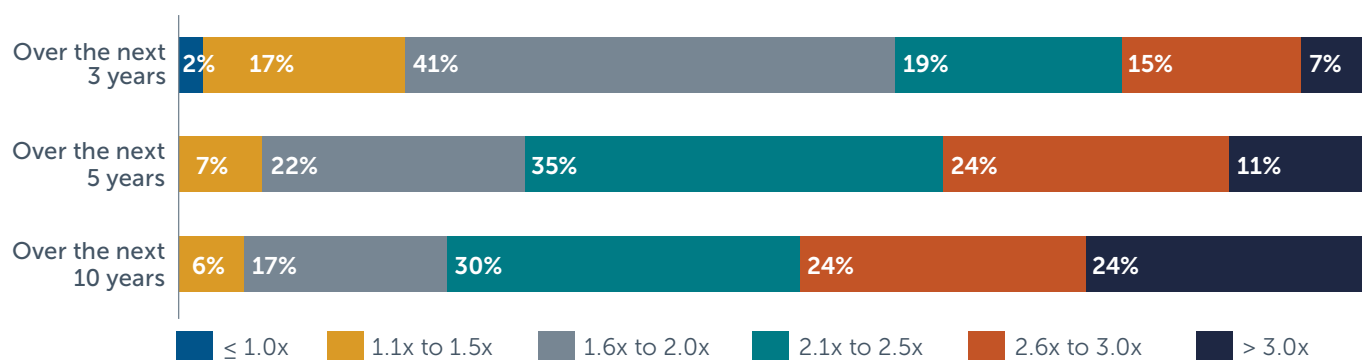
of LPs expect African PE returns to exceed 2.5x over the next ten years

## LPs' expectations about African PE returns over the next three, five and ten years

Almost half of LPs (48%) expect their African PE returns to exceed 2.5x over the next ten years. Of those LPs, 65% are based in Africa, and 92% are currently invested in African PE funds. By organisation type, 78% of Fund-of-funds participating in the survey expect their African PE returns to exceed 2.5x over the same period. On the other hand, 77% of DFIs expect African PE returns to be between 1.6x and 2.5x over the next ten years.

Only 22% of LPs expect African returns to be higher than 2.5x over the next three years.

**Figure 16: LPs' expectations about the aggregate cash-on-cash returns from African PE**



LPs view fund manager skills and expertise as the factor with the greatest influence on their African PE returns

## Greatest influences on African PE returns

Fund manager skills and expertise is ranked by LPs as the most important influence on their African PE returns. Of these, over half (54%) say that the performance of their African PE portfolio has matched or exceeded their expectations.

Portfolio company growth and local currency are ranked second and third among LPs respectively.

**Figure 17: LPs' views on the greatest influences on their African PE returns**

1. Fund manager skills and expertise	2. Portfolio company growth	3. Local currency	4. Economic growth
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# 55%

of LPs expect African PE returns to outperform developed markets over the next ten years

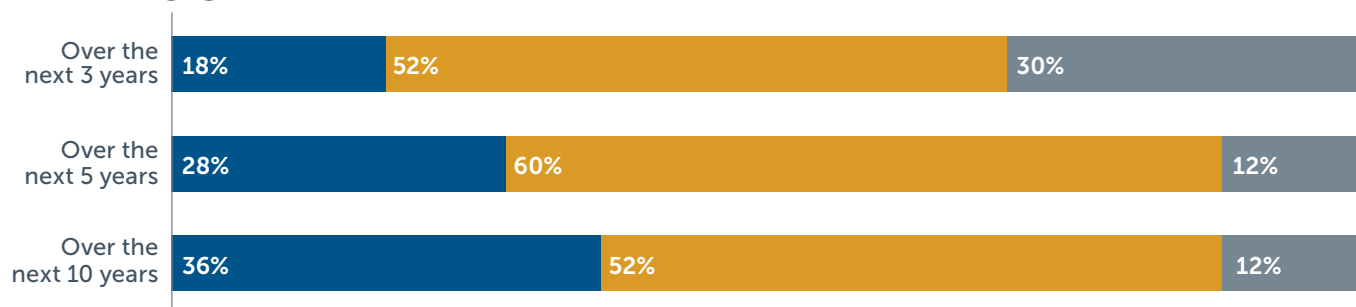
## Expected PE returns in Africa compared with other markets

Most LPs expect returns on PE in Africa to perform similar to other emerging and frontier markets over the next three, five and ten years. Only 36% of LPs expect their African PE returns to outperform other emerging and frontier markets over the next ten years (down from 51% in AVCA's 2017 LP Survey). Of these, 67% expect returns to exceed 2.5x over the same period.

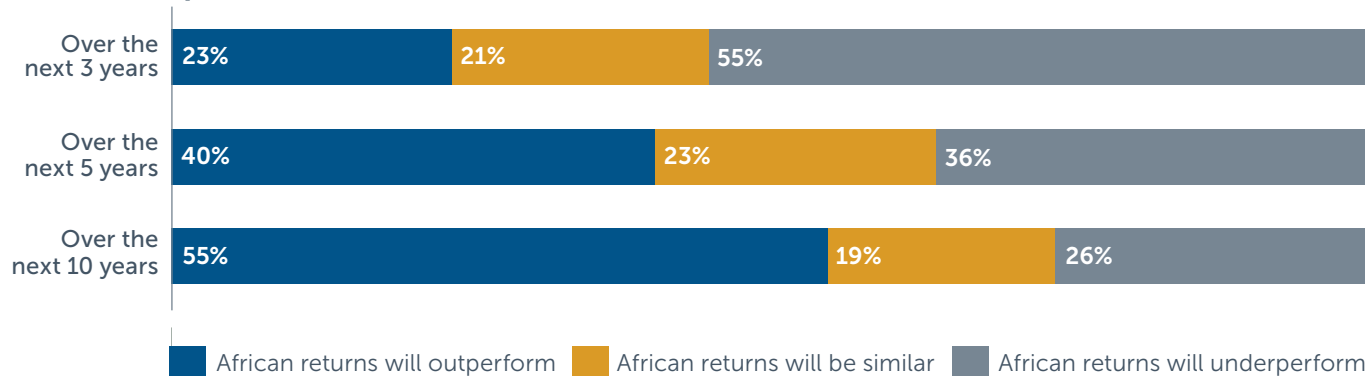
In relation to developed markets, LPs believe that African PE returns will outperform over the next five and ten years, but are less optimistic in the short term.

**Figure 18: LPs' expectations about PE returns in Africa relative to other markets**

### Relative to emerging and frontier markets



### Relative to developed markets



# RESEARCH METHODOLOGY

AVCA surveyed 60 LPs from across the globe between June 2018 and November 2018. Participants were selected to represent a broad cross-section of investors.

The sample contains a diverse mix of LPs, such as pension funds, DFIs, endowments, foundations and sovereign wealth funds. Respondents range from organisations managing less than US\$500mn total assets under management (AUM) to those with over US\$50bn AUM.

The survey was undertaken via an online questionnaire and incorporates the views of African and non-African investors who are currently invested in PE in Africa, as well as those who were not yet invested. Questions included LPs' views, plans and expectations for African PE.

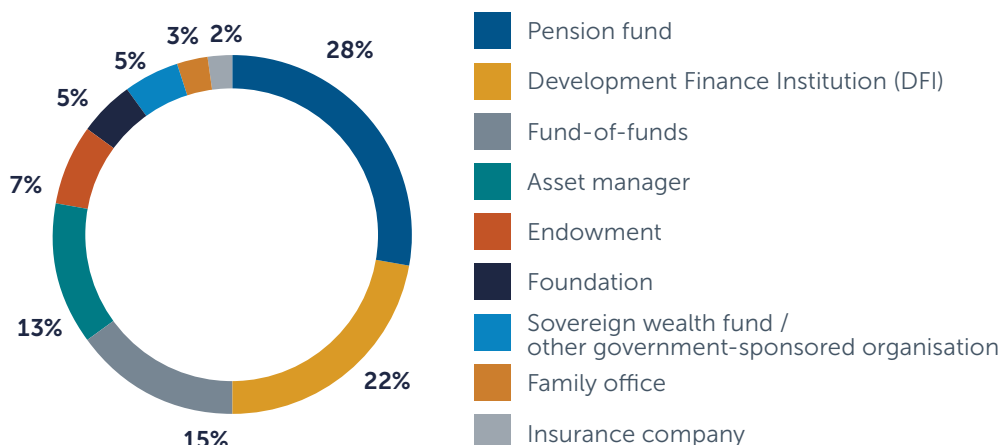
## Survey definitions and abbreviations

- Assets under management abbreviated to "AUM"
- Development Finance Institutions abbreviated to "DFIs"
- Emerging markets encompasses the private equity markets of all countries outside of the United States, Canada, Western Europe, Japan, Australia and New Zealand
- General Partners abbreviated to "GPs"
- Limited Partners abbreviated to "LPs"
- Private Equity (abbreviated to "PE") encompasses leveraged buyouts, growth capital, and venture capital and mezzanine investments

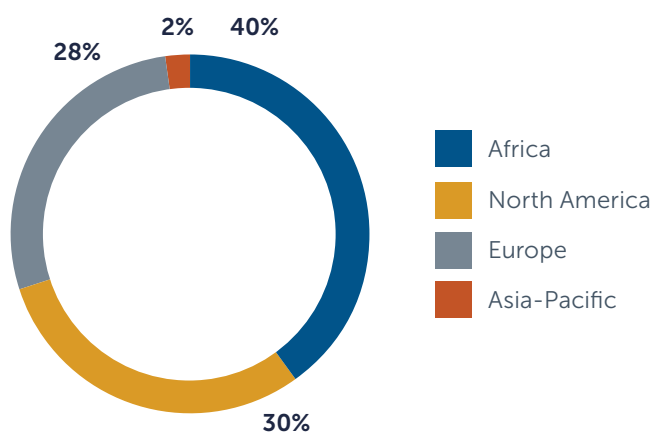


# Respondent Profile

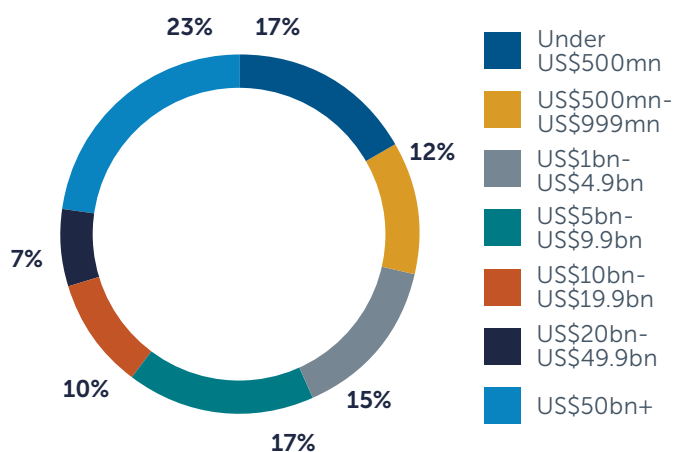
Type of organisation



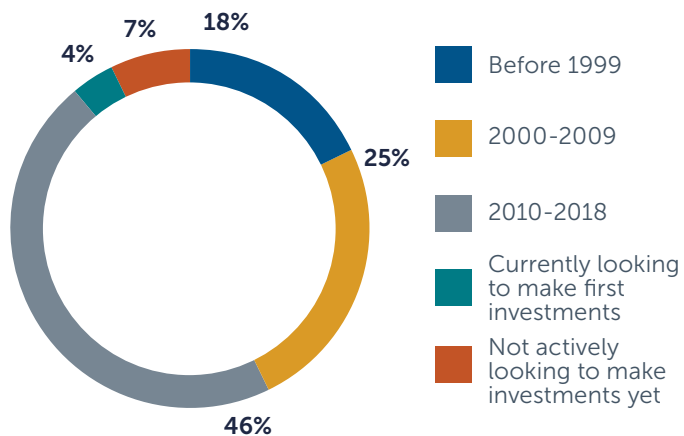
Head office location



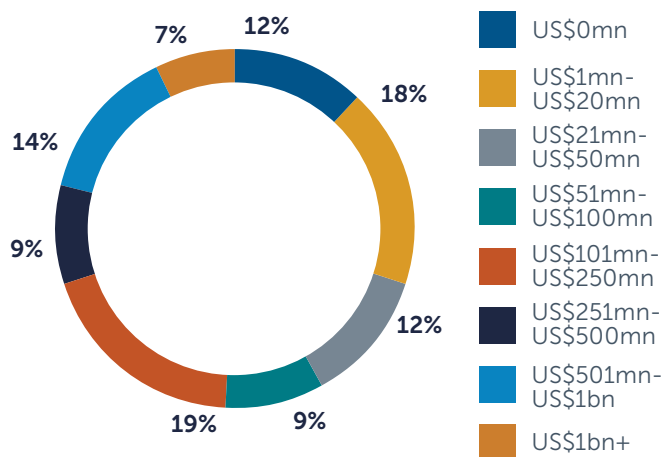
Total assets under management (all asset types)



Year organisation first started investing in African PE



LPs' current commitments to African PE



# Championing Private Investment in Africa



African Private Equity and  
Venture Capital Association

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# 1<sup>st</sup> – 5<sup>th</sup> April 2019

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The African Private Equity and Venture Capital Association is the pan-African industry body which promotes and enables private investment in Africa. AVCA plays an important role as a champion and effective change agent for the industry, educating, equipping and connecting members and stakeholders with independent industry research, best practice training programmes and exceptional networking opportunities. With a global and growing member base, AVCA members span private equity and venture capital firms, institutional investors, foundations and endowments, pension funds, international development finance institutions, professional service firms, academia, and other associations. This diverse membership is united by a common purpose: to be part of the Africa growth story.

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