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CEO Briefing Report

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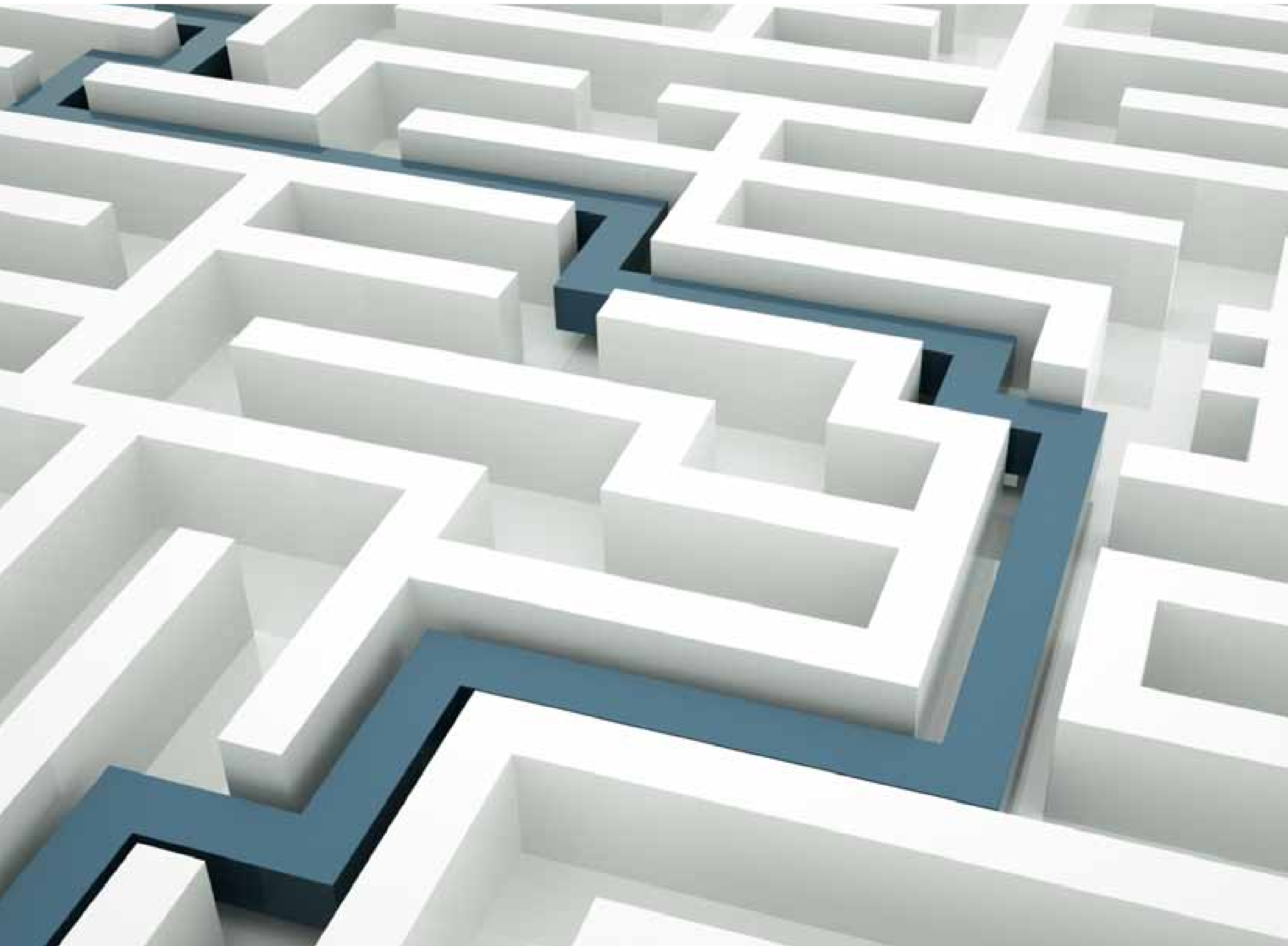

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FILLING THE TALENT POOL

Attracting experienced players is a major constraint for private equity development in Africa, and building the necessary skill-set for PE teams requires a creative mix of strategies. Africa investor scopes out the talent

The expansion of private equity across Africa has commanded international attention in recent years. But as the outlook for new funds and investment improves, industry observers question whether there are enough qualified professionals to fuel the growth wave. Researchers report that a dearth of talent to staff fund management teams could be a major constraint for the industry. Surveys show that, even as the industry's profile rises, international investors hesitate to commit capital to the continent until they see a larger pool of experienced managers to deploy it.

This presents a classic chicken and egg problem: a growing industry requires good people to meet demand for new staff; but experienced people are hard to find because the industry is so young. It takes a long time to season professionals over the five to seven-year private equity (PE) fund cycle. Outside of South Africa – where PE has one of the longest histories of any emerging market, stretching back to the 1980s – only a small group of fund managers has established serious track records. Partners at these firms are relatively immobile. Those who are willing to consider new ventures are in incredibly high demand.

"There is huge competition for these

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people at the moment," says Richard Thackray, Lead Partner for EMEA PE at executive search firm Heidrick & Struggles. African PE firms are looking for professionals with a unique skill set. A typical search brief might say: seeking a West African, preferably Nigerian, educated in top schools, with PE and/or investment experience, who has a strong local network, and is ready to come in at the partner level. "It is nothing like doing a search in America or Europe," Thackray says. "If you have a long list of 20 names in London, it might come down to five names in Africa."

For top firms, talent can be found. But one first-time fund manager says he spent months scouring the globe for a lead partner with no luck: the right people either did not exist or would not relocate or saw the new fund as too risky. Many firms end up compromising their recruitment wish list in some way, often around age and experience. "You see people achieving a level of seniority at a much earlier age in Africa than in London," Thackray says.

Calling all repats

The opportunity that Africa presents for young professionals has been one driver of the so-called "repatriate" generation. Many Africans who have gone to school and worked abroad are coming back to the continent as opportunities diminish in the US and Europe and as the private sector grows across Africa.

"It's not just a question of the global crisis," says Patrice Backer, a repat himself who began his career at JP Morgan and went on to found Senegal-based PE firm Advanced Finance & Investment Group (AFIG). "Many African professionals read the newspaper and talk to the funds and realise things are moving in Africa independent of the crisis."

Financial services has gained attention as one of the fastest growing and better regulated industries in Africa. And many repats are ideal candidates for PE jobs because of their ability to build local networks – the key to creative deal sourcing in Africa – and apply solid financial training to the African context.

Even so, Africa has not seen the same repatriation rate as Asia because living standards fall far short of a life in London or even Johannesburg. While many Africa-focused PE firms are headquartered in Europe, the trend is toward opening in-country offices – a key factor in the success of managers such as Aureos, Tuninvest and Emerging Capital Partners (ECP).

Backer recalls considering this challenge when recruiting in AFIG's early days. He thought he would start with an office in Johannesburg to which talent trained abroad could be lured more easily than Dakar. But the firm's investment strategy revolves around West Africa, and Backer quickly realised he would need people with hands-on experience in the sub-region. AFIG hired staff with some Western training, but who had come back to West Africa years before to gain local knowledge in finance, operations, accounting and law. "Those skills were more important than the Western experience," Backer says.

> "Many African professionals…realise things are moving in Africa, independent of the crisis"

Home-grown firms such as Nigeria's African Capital Alliance (ACA) – one of Africa's oldest PE houses, founded in 1997 – have also cultivated strong teams by seeking a balance of both international and local experience and promoting from within over several fund cycles.

Finding the right mix

Facing a lack of PE-specific experience

in the market, African firms have built teams with a mix of skills to fill the holes. Many first-time fund managers will look for one anchor partner with PE experience who can be supported by colleagues with backgrounds in local and international investment banking, management consulting, industry operations and even non-profit development work.

"Investors in first-time funds are willing to back people with significant experience surrounded by people with something to bring to the table that is not private equity specific," says Martin Poulsen, former Chief Private Equity Officer at the African Development Bank who recently left to launch the agro-forestry-focused Moringa Fund. Investors want to see core deal structuring experience backed by a broader team skill set that matches the fund's investment strategy.

> A growing industry requires good people…but experienced people are hard to find because the industry is so young

Of course, the danger of relying on a few people with key experience is that losing staff can jeopardise a fund. Investors may require key man clauses and might withdraw funding if top partners go. This is a risk even for well-established firms. Kingdom Zephyr, one of the oldest names in African PE, recently closed its South African office following the departure of Chief Investment Officer, Panos Voutyritsas, prompting speculation regarding the firm's future.

Even so, many PE professionals say human capital is not holding the industry back. Cheick Sanankoua, co-President of Harvard Business School's Africa Business Club, sees a strong mix of African and non-African students alike interested in working for the best African PE firms, which offer relatively competitive salaries and the opportunity to learn and grow with a good team.

"You have tonnes of MBAs competing for these jobs between all the top business schools," he says. "There are

Fund type	Staffing strategy	Funds in the market
Heavy hitters	Partners drawn from top international and African private equity houses	Emerging Capital Partners, Helios Investment Partners, Carlyle, Satya Capital
Frontier funds	Partners may have development backgrounds and/or business and finance experience in frontier markets with strong local networks	Manocap (Sierra Leone), Brainworks Capital (Zimbabwe)
Local strength	Key partners may have international finance experience, but team strength built from local partners with local experience in finance and operations	African Capital Alliance, Advanced Finance and Investment Group, Trans-Century Ltd.
Impact investors	Many partners with development or non-profit background in emerging markets paired with Western finance experience	Acumen Fund, Willow Impact, Sarona Asset Management
SME funds	Build a large staff by sourcing locally and/or promoting from within to handle high deal volume on lower margins; focus on partners with former SME finance experience	Business Partners, Aureos Capital, Grofin
Euro connections	Run by European partners and funders, often with sector-specific experience that informs the investment strategy, who may partner with local associates	TBL Mirror, eVA Fund, Africa Media Ventures

SME spotlight: Business Partners Limited

Investment strategy: BP provides risk capital to SMEs through US $300,000-$500,000 transactions
BP South Africa staff: 90 investment professionals completing 750 investments per year
BP South Africa portfolio: 3,200 active investments
BP International recently launched SME funds in Kenya, Madagascar, Rwanda, Mozambique, Namibia, Zambia, Zimbabwe and Malawi

Business Partners' low margin, high volume investment approach requires a cost-efficient staffing strategy. The firm hires relatively inexperienced young investment professionals – people with perhaps two to three years' experience working on credit/risk at a bank – who go through an intensive in-house training programme. After one year of training, the new recruits become productive partners.

Business Partners International has been working to translate this approach outside of South Africa, with new SME funds in countries like Kenya and Rwanda. BPI hires only local staff, who benefit from the knowledge pool of the wider BP network. While the South African economy is quite different from other African countries, BPI finds that the profit and cost drivers of small business growth are similar.

not enough PE firms to absorb all the interested qualified candidates."

New funds are coming into the market; more than 50 PE funds targeting Africa have been launched since 2010, according to Africa Assets data. The number of professionals with PE experience is growing, as is the quality of industry professionals in Africa who offer valuable business operation skills.

"The bench of these African operators will be heavily fished by private equity in the coming years," Thackray says.

About the money

While a young African PE industry may rely on a milieu of fresh talent, the industry's future will be built on fund managers able to establish strong team track records. One of the key challenges for African PE is to move away from reliance on funding from development finance institutions (DFIs).

Only a few funds outside of South Africa have attracted significant private capital. Helios Investment Partners and ECP are notable examples. Both teams began with a base of experience gained from the world's top PE firms: ECP with its roots in EMP Global, and Helios as the brainchild of Tope Lawani and Babatunde Soyoye, both alumni of buyout giant TPG Capital. Both teams have raised nearly US $2 billion over multiple funds.

Their success has set the bar high in terms of performance and team composition. To attract similar capital, other firms will need to build teams with strong PE experience, and demonstrate returns that outperform other asset classes and can compete with PE in other emerging markets. Global PE firm Carlyle has drawn the team for its first sub-Saharan Africa fund from top African PE firms including ECP, Ethos and Standard Chartered PE. Satya Capital, launched by African telcoms mogul Mo Ibrahim, has also tapped top investment houses and PE firms for talent. Industry observers expect that Satya and Carlyle will attract private institutional capital.

It is to firms like these that the top talent will flock in Africa. As salaries remain a function of overall assets under management – which determine management fees – even the largest African funds won't compete on compensation with Europe for years to come. However, young professionals are certainly taking a long-term view; those who come in on the ground floor now of what will become Africa's top firms in ten to 20 years will build personal fortunes.

Without a big name or track record to rely on, most first-time African fund managers will have to be more creative in sourcing talent, and will remain reliant on DFIs. But many of these firms are planning to target institutional money for their second funds. Managers say they will develop expertise from within so that today's associates become tomorrow's partners.

This strategy has been highly successful for Nigeria's ACA. Three of the firm's seven partners were first hired as principals with no PE experience, but solid backgrounds in local finance and industry. The team closed its third generation fund, CAPE III, at $400m last year, with a mix of capital from DFIs and private institutional investors from North America, Europe and Africa.

Women in Private Equity: Genevieve Sangudi

-Managing Director
-Carlyle Group, Sub-Saharan Africa Fund
-Base: Lagos, Nigeria

Experience:
-Partner and Managing Director, Emerging Capital Partners
-Business development and global brand marketing strategy, Proctor & Gamble

Education:
-MBA, Columbia Business School
-Masters in International Affairs, Columbia University School of International and Public Affairs

"I always had this longing to come back home and play a role in the development of the continent," says Genevieve Sangudi, one of Africa's so-called "repat" generation of young professionals who are leading the continent's top private equity firms. Sangudi grew up in African countries including Liberia, Kenya and Cote d'Ivoire, watching television stations that were regularly taken over by soldiers. But by the time she had left college and was looking for ways to return to Africa as a young businesswoman, the coups d'etat of her youth had given way to business opportunities. "That period was over," she said. "We can't underestimate the transition that countries across the continent have made." Sangudi is also one of many strong women leaders in African private equity. Although women only hold 7.6% of the top private equity positions in Africa, compared to over 10.6% in Asia, their influence is growing. And Africa is home to many powerful women in the public and private spheres. "My experience as a female investor in Africa has been positive – there are a lot of other problems I have faced, but in that regard it has been really rewarding and refreshing," Sangudi says.

Region/country	Proportion of women in senior roles
Africa	7.6%
Americas (South, Central, Caribbean)	6.3%
Asia	10.6%
China	15.6%
India	5.8%
MENA	7.9%

Source: Preqin

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