

DIRECTED RISK RESEARCH PROBLEM STATEMENT

Risk Theme	Private Equity & GDP/Country Growth Risk	Problem Nr.	PS16018
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Designation	Alternative Investments				
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PROJECT TITLE: Incorporating private equity into traditional investment strategies

PROJECT GOAL:

The project should aim to dissect the private equity investment market in South Africa and unpack the historical and structural reasons behind our relatively low level of private equity investment. The next step is to offer reasoned suggestions on how private equity can be incorporated into the so called “more traditional” investment strategies, as part of helping to increase the overall levels of PE investment.

HIGH LEVEL DESCRIPTION OF PROBLEM:

In South Africa, private equity investment levels are low relative to various industry measures. This could be as a percentage of GDP when compared to more developed nations, or relative to limits such as those set by Regulation 28 of the Pension Funds Act for example.

Such low levels of investment have implications for the growth and performance of the private equity industry as a whole, the suitability and performance of domestic liability driven investment portfolios (such as pension funds) as well as for the overall domestic economic growth.

PROJECT OBJECTIVES:

The ultimate aim of the paper is to help to increase the amount of assets allocated to private equity as an asset class in the country, as well as highlighting the benefits of doing so to various stakeholders.

This will involve documenting the whole PE value chain and key role players, as an initial step, as well as outlining the roles that actuaries can play in designing function strategies to align capital needs with institutional investment objectives.

Private equity has been seen as a new and “alternative” asset class, and has not received as much focus as other more traditional asset classes with respect to asset allocation. Helping to incorporate PE into more traditional investment strategies will help grow the asset class in South Africa and work towards solving many of the issues mentioned above.

OUTPUTS REQUIRED:

- A paper in the academic/financial literature

STRATEGIC VALUE TO DIRECTED RISK RESEARCH:

The paper will point out overall structural industry inefficiencies within the private equity space, as well as provide suggestions on how private equity investment can be increased and incorporated into more mainstream asset allocation and thinking. This will also contribute positively towards economic growth on a national level, as well as improve the performance/diversification/suitability of liability driven investments such as pension funds, in the middle of increasingly volatile global market conditions.