SSNIT INVESTMENTS SERIES

FOURTH EDITION

INTRODUCTION

In this edition of the SSNIT Investments Series, we present an overview of the Trust's Private Equity Investments, also managed by the Equities Department. Private Equity Funds are investment vehicles formed by investment managers known as General Partners (GPs), with the purpose of raising capital to make multiple investments in specified industries or geographic regions. The GPs mostly invest directly in potentially high growth companies which have not gone public (not listed on any stock exchange). The investment capital is typically obtained from Pension Funds, Endowments Funds, high net-worth individuals and institutions. The pooled funds become a Private Equity (PE) Fund and the investors are Limited Partners (LPs) in the Fund.

BRIEF ON PRIVATE EQUITY FUNDS

Private Equity activities have formed an integral part of the global economic landscape over the past three decades. This asset class has been integrating with, and complementing the corporate world in terms of financial discipline, efficiency and geographical expansion. Its returns-based approach has also brought about the restructuring and repositioning of a number of companies, and the successful listing of many of today's public corporations. Aside generating attractive returns, the Private Equity Asset Class offers valuable resilience against market cycles. For instance according to a report by Pictet Alternative Advisors (2014), equity markets fell by about half their values during the global financial crises of 2008-2009 but private equity investments generated net positive returns, and while the Private Equity industry has rebounded quickly from the crises, equity markets are yet to fully recover.

Types of PE Funds

PE Funds typically pursue a transformational, value-adding, active investment strategy. However, a combination of strategies may be adopted depending on the stage of the investee company's life cycle. There are three principal financing stages in a company's life cycle that Private Equity Funds address, namely, Leveraged Buyout, Start-Up/Venture Capital and Growth Capital.

a) **Leveraged Buyout:** A leveraged buyout (LBO) Fund combines investor funds with borrowed money to acquire companies and improve their profitability. The financial leverage can allow the company to acquire larger companies than it would otherwise be able to afford. The private equity fund usually takes a majority stake in the company or buys it outright, allowing it control over the firm's strategy and direction.

b) **Venture Capital**: Venture Capital (VC) Funds invest in start-ups and early-stage companies with high growth prospects. Unlike leveraged buyout funds, PE Funds typically take only a minority stake in start-up companies, leaving control in the hands of the company management. It's a riskier strategy because the companies often have little or no track record, but it can deliver spectacular rewards.

c) **Growth Capital:** Growth Capital is similar to venture capital, but targets more mature companies. As with VC, the Private Equity Fund provides a company with the cash to fuel growth, and takes a minority stake in return. It's less speculative than venture capital, because the firms have a longer history and are often already profitable.

Industry Performance

The performance of the Private Equity asset class has been spurred by solid valuation gains on portfolio holdings, especially over the long term. Private Equity companies have also relied on repeatable strategies to source good deals and create value, and are known to manage a company's balance sheet much more aggressively than their public company counterparts. These have resulted in Private Equity firms' continuous outperformance of traditional equity indices over longer term investment horizons. A review of available performance indices put Private Equity returns at about 4.0% (net of fees and inclusive of dividends) above listed equity returns.

The consistency and strength of private equity returns over the long term has resulted in sustained investor confidence in the investment type. The asset class has gained immense popularity especially among Pension Fund Managers given their critical need for higher long-term investment returns.

Industry Risks

Like any other financial instrument, it is reasonable to assume that the higher return opportunity must come at a greater cost to the investor. Investors of the asset class face among others, liquidity risk, exposure uncertainty risk, and conflict-of-interest risk, in addition to general market/operational risks. The industry is also not immune to the macroeconomic uncertainties that have clouded the investment horizon in recent years. Investors therefore expect Fund Managers to deliver higher expected returns than publicly traded securities as compensation for the greater risk borne.

It is worth noting that, the Private Equity asset class has proved resilient, having demonstrated the ability to withstand shocks and recover quickly. Investor appreciation of these risks is key in minimizing the overall effect on shareholder wealth and extensive due diligence is recommended.

OVERVIEW OF SSNIT PRIVATE EQUITY INVESTMENTS

The Trust's Private Equity Portfolio comprises five (5) Funds namely; Canada Investment Fund for Africa (CIFA), Emerging Capital Partners Africa Fund III (ECP Fund III), Pan African Infrastructure Development Fund for Africa (PAIDF), Fidelity Equity Fund II (FEF II) and Wholesale Microfinance Facility (WMF).

These Private Equity investments form part of the other Alternative Investments Asset Class, with a total value of GH¢94.97 million (representing 1.09% of the total investment portfolio) as at the end of June 2017. A summary of payments made by the Trust towards its Private Equity investments, as of June 2017, is given in Table 1.

Table 1: SSNIT's Private Equity Investments

NAME		VALUE (GH¢'M)
1	ECP Africa Fund III PCC	45.64
2	Pan African Infrastructure Development Fund	32.23
3	Fidelity Equity Fund II	10.56
4	Wholesale Microfinance Facility	4.24
5	Canada Investment Fund for Africa	2.30
TOTAL		**94.97**

Source: SSNIT Final Accounts

The five (5) Private Equity Funds that SSNIT has invested in are at various stages of operation and focus mainly on investment opportunities on the African continent. A summary of the Funds is given as follows:

1. **CIFA**

   The Canada Investment Fund for Africa (CIFA) is a US$211.30 million generalist Fund focused on providing growth capital towards investment opportunities on the African continent, especially in the larger markets (South Africa, Nigeria, Egypt, Morocco/Algeria, East Africa and Francophone West Africa). The Fund, which commenced operation in year 2005 with an expected term of eight years, is at the divesting stage. CIFA is managed by Actis Capital LLP. **SSNIT has committed US$5 million to CIFA**.

2. **ECP Fund III**

   Emerging Capital Partners Africa Fund III (ECP Fund III) is a US$533 million multi-sector Fund focused on investing in high growth African companies pursuing regional strategies. The Fund commenced operation in 2008 with an expected term of ten years. ECP Fund III is managed by Emerging Capital Partners. **SSNIT has committed US$10 million to ECP Fund III**.

3. **PAIDF**

   The Pan African Infrastructure Development Fund for Africa (PAIDF) is a US$630 million Fund focused on infrastructure development projects on the African continent. The Fund commenced operations in year 2007 and has an expected term of fifteen years. The Fund is managed by Harith Fund Managers (Proprietary) Limited. **SSNIT has committed US$10 million to PAIDF**.

4. **FEF Fund II**

   Fidelity Equity Fund II (FEF II) is a US$23.23 million generalist Fund set up to operate in Ghana, Sierra Leone and Liberia. The Fund began operations in year 2007 with an expected Fund life of ten years. The Fund is under the management of a locally constituted team, Mustard Capital Partners. All of the Fund's investments have been in Ghana. SSNIT has committed **US$5 million to FEF Fund II**.

5. **WMF**

   Wholesale Microfinance Facility (WMF) is an investment vehicle that provides funds (debt and equity) to microfinance institutions in Ghana. WMF is managed by Cyrano Ghana Limited, the local representation of the Peru based Cyrano Fund Management Company. **SSNIT has committed GH¢4.24 million to WMF.**