Impacting Africa

Sarona Asset Management has been a key player in the African LP space, backing some of the continent's leading fund managers. Co-managing partner Vivina Berla sits down with *Private Equity Africa* to discuss ethos, strategies, risks and opportunities in Africa

What is Sarona's investment ethos?

All Sarona's activities rest on three pillars, one of which is private investing in frontier and emerging markets. This is where we see the best opportunities to generate attractive returns and have a positive impact on the communities and environments where companies operate.

During the past 10 years, private equity in emerging markets has significantly outperformed listed equities by more than 6% per annum. And the risks, volatility and others, have also been lower.

The second pillar is investing for financial returns. We founded Sarona to act as a bridge between large asset owners and fast-growing profitable companies across Africa, Asia and Latin America. We can only hope to mobilise large amounts of capital to make a real difference – by delivering financial returns that are as strong as they are decorrelated.

Lastly, we focus on ethical, social and environmental values. This third pillar is the one that defines our ethos most distinctly. We are excited by the growing pressure on asset managers and GPs to include ESG considerations in their investments and reporting. Sarona focuses on generating higher returns because of ESG and impact considerations, and not in spite of them.

What GP strategies do you tend to favour?

The common thread underlying all our GP commitments is a focus on local mid-market companies producing and delivering goods and services to a growing domestic demand. We tend to favour growth-stage investments across sectors such as education, healthcare, consumer goods and logistics.

Sarona is a Principles of Responsible Investing signatory and is dedicated to sustainability, therefore we tend to avoid investments in tobacco, gambling, hard liquor, weapons and extractive industries.

Our current strategy is very explicit and focused. We think we can add most value for the portfolio and for our investors when our 'sweet spot' includes GPs who are based locally, close to the companies in which they invest. We also favour GPs who have a combination of local and international experience and are able to understand and implement what is required to build successful businesses according to global standards.

GPs targeting mid-market companies that have high growth potential – those companies that require not only capital but also operational and strategic support to expand and improve their activities, are also favoured by us.

We also look at fund managers that are able to engage with promoters and align interests financially and sustainably for all stakeholders so as to implement a successful growth plan.

How is your allocation to Africa set to change over the next three years?

Sarona builds private equity portfolios diversified across fund managers, frontier and emerging markets, sectors, strategies and time. We are currently invested in regional and country specific GPs, in North Africa and sub-Saharan Africa.

As we increase our assets under management, we expect to increase the absolute amount we invest in the continent but we will remain diversified and do not plan to increase the percentage amount invested in the continent.

What are Africa's key risks in the near term?

Africa risks are not dissimilar from those present in other frontier and emerging economies. These include currency volatility, which has been a significant deterrent for investors. We do not see this subsiding in the next five years.

Sarona consciously mitigates the currency risk by diversifying across countries and time. We also seek to invest in GPs targeting fast-growing companies which can offset the currency depreciation by growing their revenues and EBITDA faster than the annualised devaluation over the holding period.

Political stability is a concern for most investors in frontier and emerging markets. The continent, with its 54 countries, is always at risk of something flaring up somewhere, even after years of improving trends. Trends such as democratisation, a reduced number of conflicts and peaceful transitions of power are encouraging, yet always vulnerable to reversals.

Governance malpractice is also a concern. We believe that a sustainable future for the public and private sector across the world – developed and developing – rests on effective and ethical governance at all levels. Africa is not an exception.

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But I wish to end on a positive note rather than with a list of risks. Frontier and emerging markets are expected to represent 50% of global GDP by 2030 and, as of today, in spite of some slow-down, they still represent 70% of global GDP growth. Investors ignore them at their peril.

Sarona believes that perceived risks in these countries are significantly higher than the real risks as observed by local managers. The way forward lies in identifying well experienced and ethical professionals who are able to make a positive difference to successful businesses.