

TAKING A CHANCE ON VC

The share of pension fund assets invested in venture capital remains negligible, at no more than 0.2%.

BY STEPHEN TIMM

South Africa may have the largest pension fund industry on the continent, with over R6tn in assets under management, but the local venture capital (VC) sector has long battled to get a slice of these funds to invest in the country's fast-growing tech startups.

On top of this, changes to Regulation 28 of the Pension Fund Act, which took effect in January 2023, allowing pension funds to allocate up to 15% of their funds under management to private equity and VC, have made little difference.

Now, more than three years on, the share of pension fund assets invested in VC remains negligible. While no official figures exist, some local VCs like Knife Capital and Fireball Capital put it at no more than 0.2%.

Other than the Public Investment Corporation (PIC), which in 2019 committed R500mn to the original R1.4bn SA SME Fund set up in 2016 alongside more than 50 JSE-listed corporates, and a further R500mn to its current VC Fund of Funds, there have been few other commitments from pension fund managers to VC funds.

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Keet van Zyl, Knife Capital

Knife Capital partner Keet van Zyl says while Regulation 28 increased the amount pension funds may allocate to private equity, it failed to create demand for VC.

The biggest issue, he says, is perceived risk, driven partly by a lack of

understanding of VC as an asset class. To that he adds lack of liquidity and limited historical performance data.

Individual VC fund commitments can also be too small to move the needle for a large pension fund. "A R50mn or R100mn commitment can require significant diligence and governance effort while being immaterial to the overall portfolio," he says.

Lumka Mlambo, a fund principal at the SA SME Fund, says these challenges are compounded by VC funds often having to compete with private equity that fund larger buyout, growth or infrastructure deals, which may be easier for a board to underwrite.

With the SA SME Fund now looking to raise R2bn for a second VC fund of funds, with a first close set for early 2028, the fund's CEO Ketso Gordhan and others have begun lobbying for pension funds to invest in VC.

Gordhan pointed out during a webinar held in July by Batseta, the council of retirement funds, that pension funds can no longer afford to ignore VC as an asset class, given that

many retirement funds are faced with a shrinking local equity market due to growing delistings.

Even an investment of just 1% of pension fund assets in VC, he argues, could significantly boost the local VC capital pool.

The webinar coincided with the launch of two studies by the SA SME fund, Southern African Venture Capital and Private Equity Association and Endeavor, which detail the performance of local VC exits.

One of the studies revealed that the 226 VC exits between 2009 and 2026 netted investors a collective R4.9bn, or 2.0 to 2.45 times their original capital invested. These returns, said the study, compare favourably with those achieved in the US and the UK.

A second study from the three organisations detailed 18 exits where the median multiple on invested capital reached 3.5 times over an average investment period of seven years. Almost 60% of these exits were profitable.

Mlambo says the VC industry hopes the two new studies will address the lack of exit data. Local fund managers have historically been reluctant to share exit data because of confidentiality undertakings, so no consolidated picture existed previously, she adds.

She reckons a key reason behind local VC returns being in line with those in the UK and US is that local managers tend to invest at lower valuations, due to the scarcity of capital here compared to the UK or US. It means that even a modest exit outcome can still deliver a strong multiple, she says.

A fund-of-funds model – employed by the SA SME Fund, Fireball Capital (which raised R930mn in a fund with a first close in November 2024), as well as the PIC – is one way to ensure pension funds have easier access to VC, Mlambo says.

This is because such funds allow asset managers to allocate a single large commitment with one due diligence process and one reporting relationship,

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**Lumka Mlambo,
SA SME Fund**



while having exposure across multiple funds with deals across various stages.

In addition, the fund-of-funds also carries the monitoring, capital call administration and reporting that would otherwise sit with trustees or pension funds, she adds.

But Heleen Goussard, executive director of investment management company Riscura, says while a fund-of-fund model would help to reduce the risk of investing in VC, it's definitely not a more lucrative option for pension funds, given the additional fees funds that they would have to pay to invest in such a model.

Despite this, she remains positive that the local VC sector is developing, but stresses that the sector still needs more fund-of-funds before pension funds can be encouraged to invest.

Her sentiments are echoed by Old Mutual Alternative Investments client

director Navin Lala, who says retirement funds are not adverse to VC as an asset; rather, they're just not familiar enough with it.

Old Mutual Alternative Investments doesn't currently have any allocation in VC, but Lala says that investment in more well-known and less risky asset classes such as infrastructure, private debt, hybrid capital and private equity remains the asset manager's primary focus.

For now, venture capitalists will have to continue the hard slog of convincing asset managers to take a bet on VC and hope pension funds take to it.

Says Knife Capital's Van Zyl: "What is needed is more education of trustees and consultants, better industry data and benchmarking, more realised returns and investment structures that work for large institutions."

Until then, venture capitalists can only keep at it. **■**