ABC Private Equity Fund II

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Prospective Investors must rely solely on the terms and conditions contained in any definitive Fund agreement, if and when executed pursuant to this Memorandum. At the date of this Memorandum, the Fund has not yet been formed. Nothing in this Memorandum is or should be relied upon as a promise or representation as to future action on the part of the Fund or ABC. The issue of this Memorandum must therefore not be taken as any form of commitment on the part of ABC to establish the Fund or on the part of the Fund or ABC to proceed with any transaction or investment.

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Prospective Investors are invited to meet with representatives of ABC and to discuss with, ask questions of and receive answers from such representatives concerning the terms and conditions of a potential investment in the Fund, and to obtain any additional information, to the extent that such representatives possess such information or can acquire it without unreasonable effort or expense, necessary to verify the information contained herein. No person has been authorized in connection herewith to give any information or make any representations other than as contained in this Memorandum and any representation or information not contained herein must not be relied upon as having been authorised by ABC, or any of its directors, officers, employees, shareholders, agents or affiliates since no person has been authorised to make any such representations or to provide any such information. Unless otherwise indicated, financial information contained herein is as of 31 March 20xx.

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Republic of South Africa

The Fund is not a registered Collective Investment Scheme under the Collective Investment Scheme Control Act, 20xx, and nothing in this Memorandum should be construed as constituting offering to members of the public an opportunity to invest in a collective investment scheme in South Africa. The manager of the Fund will be authorised to render financial services to the Fund in terms of the Financial Advisory and Intermediary Services Act ("FAIS"), 20xx.

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1. DESCRIPTION OF TERMS

B-BBEE	-	Broad-Based Black Economic Empowerment
BEE	-	Black Economic Empowerment
DFI	-	Development Finance Institution
DTI	-	Republic of South Africa's Department of Trade and Industry
ESG	-	Environmental, Social and Governance
Fund	-	ABC Private Equity Fund II
Fund Managers	-	ABC Private Equity Fund Managers (Proprietary) Limited
General Partner	-	ABC Private Equity Fund II GP (Proprietary) Limited
IRR	-	Internal Rate of Return
JSE	-	JSE Securities Exchange Limited
Limited Partners	-	Investors in ABC Private Equity Fund II
LTM	-	Last Twelve Months
MBO	-	Management Buyout
MoC	-	Multiple of Cost
Partnership	-	ABC Private Equity Fund II En Commandite Partnership (Limited Partnership)
Predecessor Fund		ABC Private Equity Fund I
PIC	-	Public Investment Corporation Limited
RSA	-	Republic of South Africa
SoE's	-	State Owned Enterprises
The Codes	-	DTI's B-BBEE Codes of Good Practice
UNPRI	-	United Nations Principles for Responsible Investment

2. EXECUTIVE SUMMARY

2.1. Background

ABC Private Equity Fund II (the "Fund") is a private equity fund being raised by ABC Private Equity Fund Managers (Proprietary) Limited ("ABC" or the "Manager"). The Fund will be established as an *en commandite* partnership, with ABC Private Equity Fund II GP as the General Partner ("General Partner") and the PIC, and other investors, as Limited Partners. ABC Private Equity Fund II is targeting a fund size of Rxxx million. Commitments in excess of this amount may be accepted at the sole discretion of the General Partner up to a maximum of Rxxxm of commitments in aggregate ("Hard Cap"). First closing is targeted to occur on 30 July 20xx, or as soon as practicable thereafter ("First Close").

The sponsor of the Fund is ABC Private Equity Fund Managers (Proprietary) Limited, an independent private equity fund management company, which is 100% black owned and managed.

2.2. Market Opportunity

South Africa continues to represent an attractive market in which to pursue private equity investments. However there are significant headwinds faced by the domestic economy, including subdued economic growth, labour unrest in key sectors, constrained electricity supply and vacillating business confidence. Despite pedestrian forecast GDP growth, there are certain sub-sectors of the economy forecast to outperform the country mean, thus presenting private equity investment opportunities. Patient investors are likely to be rewarded appropriately in the long term for maintaining sound and enterprising investment programmes despite the noted headwinds at the moment. And private equity, by its nature, fits in very well with this theme of engaged, long term investing, with the local private equity industry in particular having a demonstrated track record of achieving attractive long term returns.

ABC believes that, in addition to the macro drivers, the private equity opportunity will also be driven by:

- continued demand for growth capital in the mid-market space;
- management/leadership succession driven demand for replacement capital and MBO capital;
    - secondary market for maturing investments held by other private equity investors;
    - secondary market for maturing BEE investments held by BEE investment companies;
    - continued growth in services sectors of the economy;
    - continued restructurings by large South African corporations of their non-core businesses;
    - continuing and accelerating wave of BEE transaction driven by the new Codes;

- continued substantial public infrastructure investment by the South African Government; and
- continued focus by South African and foreign corporates using South Africa as a base, into other African markets.

2.3. Disciplined Investment Strategy and Approach

The Fund's primary investment objective will be to capture the private equity opportunity outlined above and achieve superior medium to long-term capital appreciation through significant minority or control investments in established industrial and services companies. ABC believes that long-term capital appreciation in its investments is best achieved by building and growing great businesses through:

- appropriate and responsible financial structuring;
- creating alignment with investment partners and management;
- driving growth and profitability;
- promoting transformation and B-BBEE;
- promoting socially responsible and environmentally sustainable business practices; and
- promoting high standards of corporate governance and responsibility.

The Fund's investment strategy will be to:

- make later-stage growth capital investments of between Rxxm and Rxxxm into privately held predominantly South African companies;
- target buyouts and buy-ins of private and listed companies, where ABC believes it has the opportunity to accelerate growth alongside strong management teams;
- target partnering transactions, in which capital is provided in support of established entrepreneurs and management teams in profitable businesses that are positioned to take advantage of organic growth and acquisition opportunities, including platforms for build-up strategies;
- pursue buy-and-build opportunities, where high industry fragmentation in South Africa provides an opportunity for ABC to target platform acquisitions in certain industries to build a significant industry player;
- focus on the South African industrial and services market, albeit with a limited ability to make direct investments in the rest of the continent;
- arrange and/or lead and/or participate in syndicated/club deals with other private equity and private capital firms for larger investments;
- create a balanced and diversified private equity fund portfolio both in terms of size of investments made as well as industry exposure;

- maintain a disciplined approach when pricing investments and sourcing acquisition funding, where debt will be prudently used as an enhancer of returns; and
- employ an active value creation strategy underpinned by investing alongside strong like-minded management teams and in opportunities which exhibit strong growth potential.

The Fund will not invest in:

- Property and primary mining activities, or
- Venture capital, start-ups or loss-making turnarounds opportunities.

ABC believes it is best positioned to execute the above investment strategy and capture the indicated private equity opportunity through:

- a strong and growing franchise and transaction sourcing capability;
- strong and broad transaction execution and fund management capabilities;
- a strong philosophy of aligning interests of investors, partners, portfolio company management teams with ABC;
- a proven ability to execute value creation strategies; and
- being one of the few credible, black owned and controlled independent private equity managers.

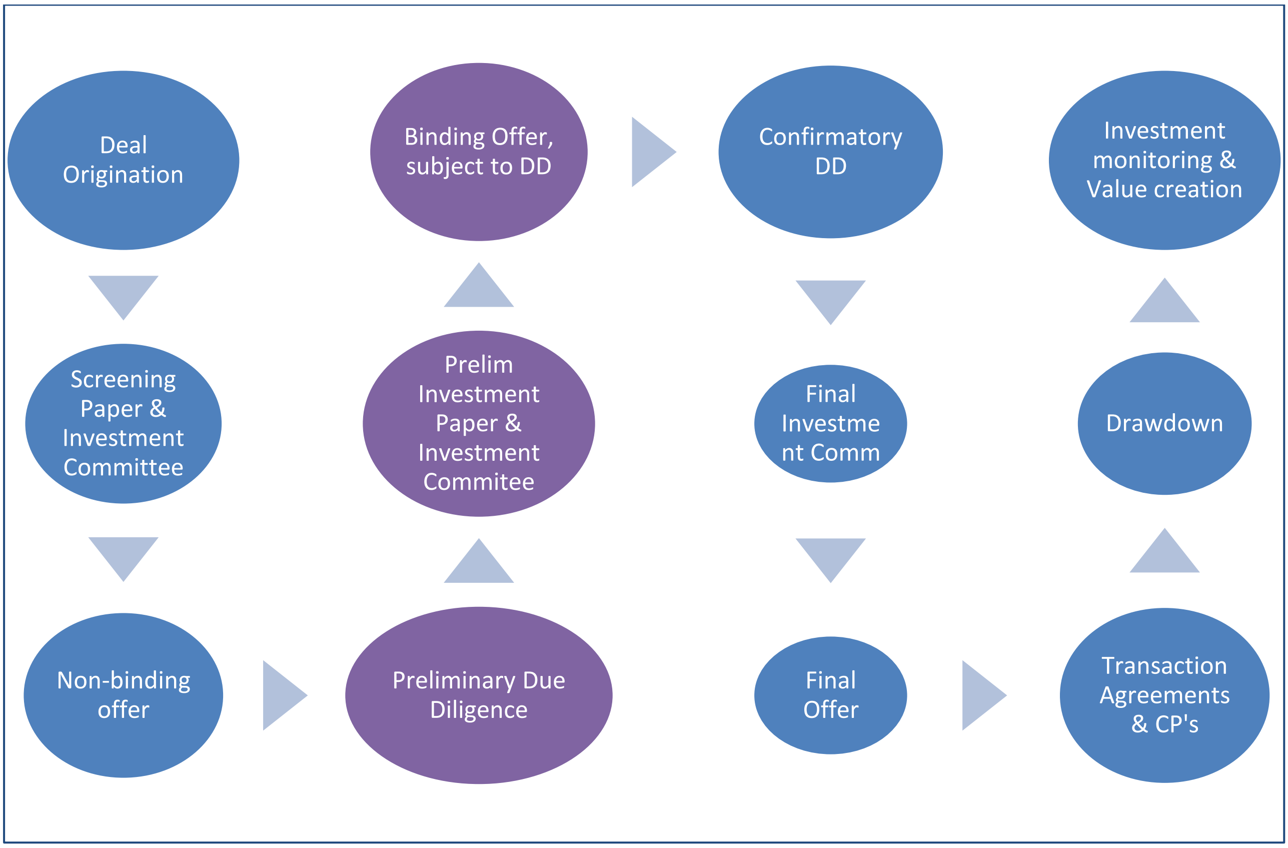
The Fund will drive Broad Based Black Economic Empowerment ("B-BBEE") in its portfolio companies, and measure progress thereon, through the pillars of B-BBEE, as set out in the Codes.

The Fund's target returns are a target gross IRR of xx% and a target gross Multiple of Cost of x.

2.4. Rigorous Investment Process

The Fund will follow a robust and structured investment decision making process that is inclusive, consultative and accountable in nature, which is diagrammatically represented below.

Diagram 1: ABC investment process



2.4.1. Proactive Investment

ABC has a proven ability to proactively sources transactions through in-house research and proprietary industry networks and relationships. ABC also has a proven track record of methodical and disciplined participation in sale processes.

ABC's record, and that of its principals, has made it a preferred partner for businesses, vendors, entrepreneurs and other private equity investors. The team will continue to proactively source transactions through research-based idea generation, as well as formal and informal relationships within its network. The Manager's networks and relationships extend to financial and tax advisers, lawyers and consultants, corporations, entrepreneurs, banks, SOE's, DFI's and government departments and agencies.

2.4.2. Consistent Investment Criteria

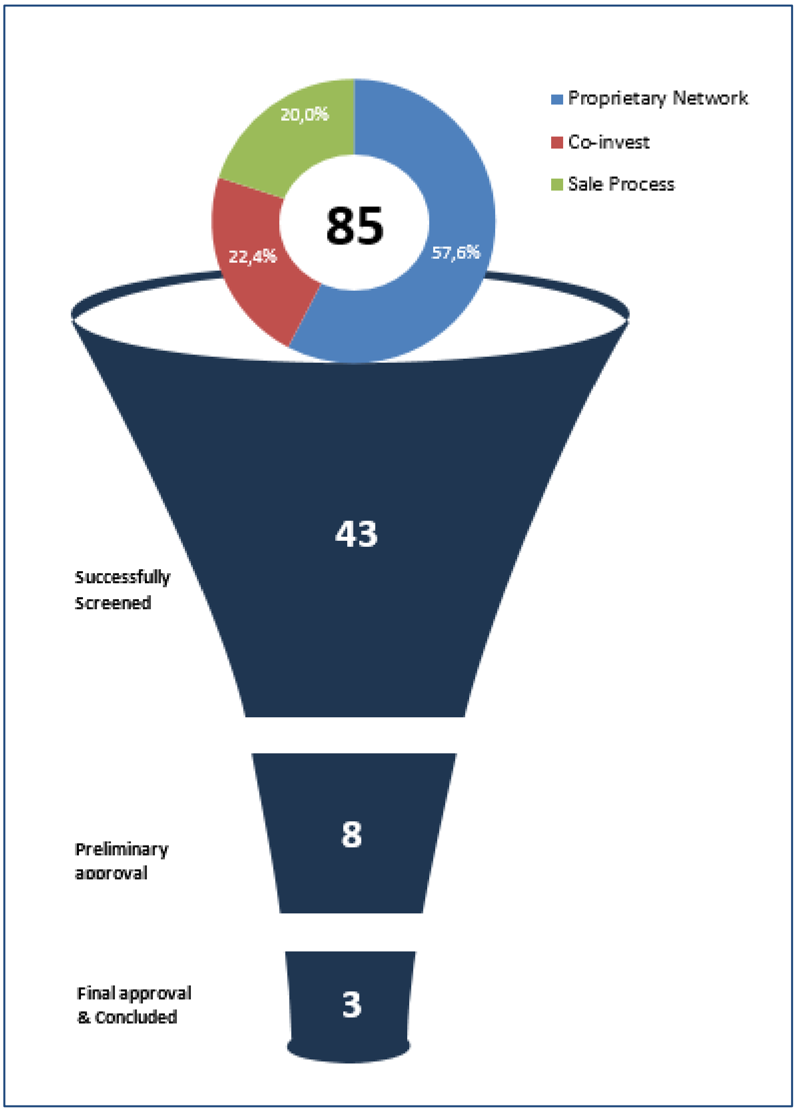
The investment criteria that will deliver on the Fund's chosen investment strategy, includes targeting businesses that exhibit the following characteristics:

Diagram 2: Investment criteria

2.4.3. Due Diligence and Investment Execution

ABC subjects prospective investment to a thorough due diligence process. The team seeks to identify not only the potential for growth and value creation, but also the challenges to achieving that potential. ABC has a structured and rigorous decision-making process that includes comprehensive preliminary and final investment recommendations being made to the Investment Committee for approval. ABC also utilises expert industry consultants, environmental specialists and financial and legal advisors to supplement its own diligence. The team integrates rigorous environmental, social, and governance principles into the evaluation of investment opportunities and portfolio management processes.

Diagram 3: ABC due diligence and execution rate



ABC has a demonstrated and successful track record of structuring, executing and closing different transaction structures.

2.4.4. Active Portfolio Management

ABC works closely with each portfolio company's management team to implement a strategic growth plan, increase operating cash flows and build long-term equity value and has a track record of facilitating significant operational and strategic initiatives. ABC expects to build value through improvements in strategy, market positioning, financial controls and reporting, operational processes, corporate governance and environmental practices. ABC captures these improvements by focusing on:

- Strategic Focus and positioning - building greater competitive advantages for business by driving product development, customer and market development, and developing key performance metrics;
- Growth Initiatives – considering expansion into new markets, the development of new products and services, and effective sales and marketing;
- Financial Management – establishing best practice standards of financial controls, reporting, and forecasting.
- Human capital and leadership – aligning the organisational leadership and management with industry best practice and development;
- Incentive Structures - aligning incentive structures with the strategy across the organisation;
- Operational Efficiency - focusing on extracting efficiencies in the cost base; and
- Governance - establishing good corporate governance and BEE practices.

2.4.5. Positioning Investments for Exit

ABC assesses likely exit strategies prior to investment but, given the fluid nature of the market, ABC maintains a flexible approach to exit throughout the holding period of an investment. In order to best position portfolio companies to attract maximum interest from domestic and international strategic buyers or financial buyers, ABC focuses on building portfolio companies with professional management and strong growth prospects into market leaders with strong governance and management practices. ABC will also consider exits through public equity markets as appropriate.

2.5. Investment Performance – Proven Track Record

ABC has built a strong reputation and track record through its management of ABC Private Equity Fund I ("Predecessor Fund"). Since inception in March 20xx, the Predecessor Fund has made 3 investments in high quality private equity investments. None of investments in the Predecessor Fund have been fully realised. A summary of ABC's performance in its Predecessor Fund as at 31 March 20xx is presented below.

Company Name	Date of Investment	Investment Cost (Rm)	Value Realized (Rm)	Value Unrealized (Rm)	Total Value (Rm)	Gross IRR	Gross Multiple of Cost
AAA	October 20xx	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**
BBB	May 20xx	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**
CCC	August 20xx	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**
Total Portfolio		**xx**	**xx**	**xx**	**xx**	**xx**	**xx**
Total Portfolio Net IRR						**xx**	**xx**

2.6. Demonstrable Partnering with Other Private Equity Firms

Part of ABC's investment strategy is to partner with other private equity and private capital firms in pursuit of larger investments, and ABC has a demonstrable track record in this regard. Both as a demonstration of this record and also an indication of the level of ABC's industry credibility, ABC, in its current portfolio of investments, has been able to partner with other credible private equity firms.

2.7. Strong BEE Credentials

ABC is committed to meaningful and sustainable BEE, whose fundamental objective is to advance economic transformation and the economic participation of black people in the South African economy. Consistent with this commitment and as evidenced in its track record in the Predecessor Fund, ABC practicably procures services from black owned and controlled service providers and from black professionals within established non-black owned and controlled service providers including such services as audit services, legal services, advisory services, IT services, etc.

2.8. Investment Rate and Fundraising

Based on its historical investment rate, current deal pipeline and considering a reserve for follow-on investments and management fees, ABC believes it is prudent timing to begin fundraising for its second private equity fund. ABC is currently working on transactions that may lead to full investment in the Predecessor Fund by 30 July 20xx.

2.9. Investment and Management Team

The ABC investment team consists of experienced and credible private equity professionals who have a track record of working together as a team in the Predecessor Fund and, previously, at XYZ. ABC is led by a stable management team with a history of successfully working together, and have demonstrated a solid track record of successful investment strategy execution.

The team represents one of the more experienced black private equity teams in South Africa and collectively have over xx years of private equity experience, both in South Africa and in the rest of Africa, at market leading South African and international private equity firms. The partners are black South African nationals with extensive experience in private equity transactions, deep market knowledge and broad networks across the South African corporate, industrial, financial and public sectors, and a network in other African territories. Each of the partners plays an active role in identifying attractive investment opportunities, completing the investment recommendation and execution process, monitoring of portfolio companies, value-add at portfolio companies and advising as to the most advantageous timing and method for realising investments.

2.10. Overview of Carried-Interest Philosophy

The intellectual capital collectively possessed by the team is the most important asset of any private equity investment management firm. It is ABC's mission to invest in people, by hiring qualified people, training them and encouraging them to provide their best thinking to the firm for the benefit of the investors in the funds ABC manage, and compensating them in a manner designed to retain and motivate them and align their interests with those of the investors in the funds ABC manage.

As such the majority of the carried interest pool from the Fund will be allocated to the investment team and a minority to the Manager. The allocation of the carried interest will align the interests of the investment team with investors and provide incentive for the investment team through the life of the Fund. The team carried interest would be allocated amongst the team at the inception of the fund subject to vesting, with a portion remaining unallocated and reserved for later allocation to cater for potential changes in the team. Allocation would be based on a recognition of contribution to the success of the Fund through the life of the Fund.

2.11. ESG, Governance and Reporting

The proposed governance structures of the Fund will be in line with private equity industry best practice. In respect of Environmental, Social and Governance matters ("ESG"), the Manager incorporates appropriate standards in evaluating investment opportunities, using the South African legal framework in this regard as a baseline. As the Fund develops, the Manager will use the ESG framework developed by the Africa Venture Capital Association and Commonwealth Development Corporation to evaluate opportunities and establish appropriate ESG standards within portfolio companies.

The General Partner will establish an Advisory Board composed of selected representatives of the Limited Partners ("Advisory Board"). The Advisory Board will advise the General Partner on various matters, including issues involving conflicts of interest.

The Fund will provide audited financial statements to the Limited Partners annually, unaudited financial statements semi-annually and descriptive investment information for each portfolio company quarterly. The fourth quarterly report will include an annual report on the affairs of the Fund, portfolio valuations based on the International Private Equity and Venture Capital Valuation guidelines (as endorsed by the South African Venture Capital & Private Equity Association).

In line with one of its main investment objectives and as evidenced in the Predecessor Fund, the Fund will, practicably, procure services from black owned and controlled service providers, including the audit and advisory services outlined above.

2.12. Risk Factors

An investment in the Fund involves a significant degree of risk. Accordingly, there can be no assurance that the Fund's return objectives will be realised or that there will be any return of capital. The Fund will have risks that are typically associated with private equity investment such as high illiquidity, restrictions on transfer and withdrawals, difficulty in locating suitable investments, dependency on key personnel, investment in minority interests and difficulty in valuing investment portfolio.

Accordingly, the Fund is suitable for investment only by sophisticated investors that are aware of the risks and that have the ability and willingness to accept the lack of liquidity inherent in the Fund and the risk of total loss of capital resulting from portfolio investments. For a more detailed description of risk factors, see section 11.

2.13. Conclusion

ABC is an experienced private equity fund manager and investor, with an experienced and credible team of private equity professionals. ABC has been able to partner with leading private equity institutions in its current portfolio.

ABC's investment team has a track record of working together as a team in the Predecessor Fund. The investment team constantly seeks to identify and convert opportunities, ensuring that the most appropriate strategy is executed. ABC believes its active ownership and involvement with its portfolio companies has been critical to its success, as it strives to align and challenge management teams to create and build value. ABC prides itself on its ability to invest across industries and transaction types, while adhering to a disciplined investment approach to finding and creating value, and building market-leading South African companies. ABC's investment team, investment strategy and proven capability will ensure that ABC continues on its growth trajectory to be a leader in the South African, and in time, African private equity market.

3. THE PRIVATE EQUITY OPPORTUNITY

3.1. South African Macro Outlook

South Africa continues to represent an attractive market in which to pursue private equity investments given the continued dynamic changes in South Africa's political, economic and social structure, its world class and well capitalised corporations, strong financial institutions, strong infrastructure and infrastructural investment and a liberalised trade regime. In highlighting the key strengths and investment opportunities in the South African economy, one must also acknowledge the significant headwinds faced by the domestic economy, such as subdued economic growth, labour unrest in key sectors, constrained electricity supply and vacillating business confidence. The forecast real growth of 2.0% per annum for the South African economy in 20xx and 2.1% in 20xx continues to be below the long term average of approximately 3.0% per annum.

Whilst South Africa's forecast GDP growth of 2.0% p.a. - 2.1% p.a. over the short to medium term seems pedestrian when compared with other markets, there are certain sub-sectors of the economy forecast to significantly outperform the country mean, thus presenting private equity investment opportunities. Patient investors are likely to be rewarded appropriately in the long term for maintaining sound and enterprising investment programmes despite the noted headwinds at the moment. Private equity, by its nature, fits in very well with this theme of engaged, long term investing and the local private equity industry in particular has a demonstrated track record of achieving attractive long term returns to back this up.[1]

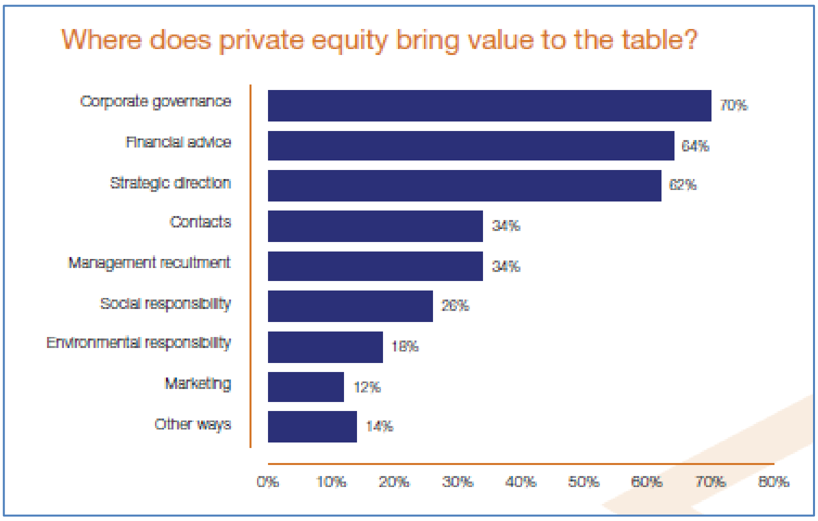
3.2. The Private Equity Opportunity

Over the last decade, the South African private equity industry has grown significantly, with over R171.1 billion in funds under management as at 31 December 20xx[2]. The industry occupies a specialised niche with a significant role in the overall South African economy. Although private equity is best known for maximising investors' returns, it also has an important role in economic development. As a long-term provider of risk capital, it contributes to economic development by building sustainable businesses, increasing private sector participation in the economy, attracting private capital to the region and adopting world-class levels of corporate governance. As an active participant in the companies they invest in (via a controlling interest or significant minority interest), private equity firms are also best placed to agitate for changes, improvements and compliance in company activities.

[1] RisCura-SAVCA South African Private Equity Q3 20xx Performance Report

[2] 20xx KPMG and SAVCA Venture Capital and Private Equity Industry Performance Survey

There is a significant impact by private equity firms in improving lives and livelihoods through increasing GDP, employment and developing capital markets both in South Africa and across the continent. Two studies conducted by the Development Bank of South Africa ("DBSA")[3] in 20xx and 20xx, respectively, found that private equity-backed companies achieved growth rates in employment, turnover and profit that are above the average of comparable listed firms. Equally important, the reports confirm the dramatic improvements of elements within the BEE scorecard post the investment by private equity funds. The impact of private equity is wide on the South African economy and contributes to some of the key targets of the South African Government's National Development Plan – in growth, employment, exports, social responsibility, governance, broadened asset ownership, investment in R&D and innovation, and improved competitiveness of South African firms.



Source: DBSA & SAVCA

The DBSA study also revealed the dramatic impact of private equity investment on B-BBEE. In fact, 54% and 37% of portfolio companies represented in the 20xx and 20xx studies, respectively, responded that the introduction of BEE ownership was only made possible through private equity investment. Additionally, post-investment, there were improvements, though less, in other areas of the Codes scorecard.

There are only a handful of black private equity managers and funds in existence. It is the Manager's belief that this represents a window of opportunity for growth in the number and size of black owned and managed private equity fund managers to position themselves in the mid-to-large market deal space.

[3] The Economic Impact of Venture Capital and Private Equity in South Africa – DBSA & SAVCA (20xx and 20xx)

It is the Manager's belief that current and expected future market conditions in South Africa are particularly attractive for private equity investing. The private equity opportunity is underpinned by South Africa's macro-economic factors such as:

- Sound fiscal and monetary policies,
- Well-established democracy and democratic institutions,
- Improving social conditions, expanding middle class and poverty alleviation strategies,
- South Africa's demographic dividend,
- Sophisticated legal framework and capital markets,
- Strong financial services and banking infrastructure,
- Unprecedented public infrastructure investment,
- Emerging pools of black capital and black entrepreneurs, and
- Increasing focus by South African and foreign corporates in other African markets.

The changes to Regulation 28 of the Pension Funds Act of 19xx (as amended), have also increased allowable pension fund allocations to private equity from 2.5% (collectively with private equity funds-of-funds and hedge funds) to a revised 10% specific allocation for private equity funds only. This revision is, albeit slowly, changing the private equity fundraising and investment landscape as the private equity asset class becomes a component of pension fund portfolios in pursuit of optimal diversification.

4. INVESTMENT OBJECTIVES AND STRATEGY

4.1. Investment Objectives

The Fund's primary investment objectives will be to:

- achieve superior medium to long-term capital appreciation through control investments (majority or significant minority) in a portfolio of industrial and services companies;
- promote and drive growth, capacity expansion, innovation and job creation in portfolio companies;
- promote and drive transformation and B-BBEE in portfolio companies; and
- promote socially responsible and environmentally sustainable business practices in portfolio companies and poverty alleviation strategies in communities in which they operate.

4.2. Investment Strategy

The Fund's investment strategy will be to:

- predominantly make later-stage growth capital investments of between R50m and R150m into privately held South African companies;
- target buyouts of private and listed companies, where ABC believes it has the opportunity to accelerate growth alongside strong management teams;
- target partnering transactions, in which capital is provided in support of established entrepreneurs in profitable businesses that are positioned to take advantage of organic growth and acquisition opportunities, including platforms for build-up strategies;
- pursue buy-and-build opportunities, where high industry fragmentation in South Africa provides an opportunity for ABC to target platform acquisitions in certain industries to build a significant industry player;
- focus on the South African industrial and services market, albeit with an ability to invest in rest of Africa;
- make equity and equity-linked investments and target returns in excess of 25% gross IRR and 3.0x gross MoC ;
- arrange and/or lead and/or participate in syndicated/club deals with other private equity and private capital firms for larger investments;
- co-invest alongside larger private equity funds and investors;
- hold investments for periods of between three- to seven-years in line with a pre-defined exit strategy that is developed at the time the investment is made;
- create a balanced and diversified private equity fund portfolio both in terms of size of investments made as well as industry exposure;

- maintain a disciplined approach when pricing investments and sourcing acquisition funding, where debt will be prudently used as an enhancer of returns; and
- employ an active value creation strategy underpinned by investing alongside strong like-minded management teams and in opportunities which exhibit strong growth potential.

4.3. Investment Criteria

The Fund's investment criteria will*, inter alia*, include:

- Demonstrable market opportunity;
- Demonstrable growth opportunities;
- Meaningful and significant shareholding by the management team;
- Demonstrable opportunity for post-investment value creation through active investment management;
- Proven history of financial performance including profitability and cash generation ;
- Identifiable exit strategy at the time of investment;
- Demonstrable opportunity for BEE strategies; and
- Demonstrable opportunity to mitigate any significant social, governance and environmental risks.

4.4. Management Partnering

It is the cornerstone of ABC's investment approach to partner with and facilitate management teams into meaningful equity participation in the businesses they lead, to ensure appropriate incentives and alignment of interests. As a rule, ABC requires management teams to invest personal capital, material to their personal net worth, in order to align their interests with those of ABC and its investors.

ABC believes portfolio company management teams must meet absolute standards of integrity, capability and commitment. Although ABC generally seeks to back strong existing management teams, it will, where appropriate, also partner with new teams of proven managers, to acquire and grow companies.

4.5. Transaction Types

The Fund will focus on:

- Growth capital to fund organic growth and growth by acquisition;
- Buyout capital for management buy-outs/buy-ins and leveraged buy-outs; and
- BEE capital as a fully funded BEE partner and enabler of BEE buy-ins.

5. INVESTMENT PROCESS

ABC's investment appraisal process is thorough and robust and is geared towards the early development of the investment case, minimising the disruptive impact of a potential transaction on management teams and the businesses being evaluated, and also providing early comfort to sellers that the transaction can, in fact, be concluded.

The same investment principal/team manages the investment process of a prospective investment from due diligence and initial valuation through to investment recommendation and execution, to post-investment value-creation and up to exit stage. This long-term involvement with an investment fosters a sense of accountability by the team, a stable relationship with portfolio company management, an in-depth knowledge of the company and industry, and a strong basis for adding value post-investment.

5.1. Origination

The Manager proactively sources transactions through in-house research, through proprietary industry networks and relationships and through participating in sale processes. The Manager's networks and relationships extend to financial and tax advisers, lawyers and consultants, corporations, entrepreneurs, banks, SOE's, DFI's and government departments and agencies.

The Manager's origination process involves*, inter alia*,:

- Using the team's proprietary business, professional and social networks to source leads;
- Actively sourcing from ABC's network of associates and acquaintances in corporate finance, legal firms, audit firms, etc.;
- Targeting incumbent management teams to assess their potential interest in partnering with ABC in a management buyout;
- Analysing major South African corporations and multinationals, which continue to unbundle and restructure their non-core businesses, to identify potential investment opportunities;
- Targeting BEE investment companies to offer them, as a BEE qualifying investor, a liquidity event for some of their investments;
- Actively engaging other private equity funds to co-invest alongside them in their transactions/investments;
- Actively engaging other private equity funds to source secondary private equity transactions;
- Invitations to participate in auction processes;
- Following press reports intensively and continuously in search of attractive investment opportunities or emerging trends;
- Marketing ABC through positive publicity and marketing;

- Tapping into supply chain opportunities of established companies in respect of their commercial and BEE requirements (e.g. procurement and enterprise development); and
- Analysing major state-owned entities which are divesting non-strategic assets, to identify potential investment opportunities.

5.2. Screening

In the first step of the investment decision making process, the investment team prepares a short screening paper on a potential investment opportunity/target. The screening paper outlines the investment opportunity, the underlying business and the potential investment transaction including its fit with the Fund’s investment strategy. Following a successful presentation of the screening paper to the full investment team, the responsible investment team will make a non-binding offer to the target/sellers, setting out the broad parameters of the proposed transaction i.r.o. valuation, management participation, exclusivity, etc.

5.3. Preliminary Phase & Investment Committee

Following acceptance of the terms of non-binding offer, the team conducts an initial due diligence (“Initial DD”) for a xx - xx week period to enable the team to obtain sufficient information and insights to build an investment case and proceed with obtaining preliminary approval for a transaction from the Investment Committee. This Initial DD would typically include meetings with the target’s executive management team, site visits to the target’s offices and facilities, meetings with the target’s key customers and key suppliers, and consultations with external industry experts. The team would also require access to any vendor due diligences, if such were available at this stage.

ABC views this as the most critical stage of the investment process, as it is where the team must gain conviction on their investment case, set out the investment case, including a strategic plan for value creation and value realisation strategies, the major risks to the investment case and the corresponding mitigants, and their view on the management team. The due diligence at this stage is deep and seeks to surface hidden vulnerabilities and unseen potential of the investment being considered. The investment proposal paper submitted at this stage is very detailed and would include:

- business review
- industry and competitor analysis
- background and skills of management
- financial review
- investment rationale, key risks and mitigants
- valuation
- capital structure

- management deal and incentives
- projected returns
- exit alternatives
- proposed additional due diligence process

The investment proposal paper is subjected to rigorous debate at the Investment Committee in which the assumptions are stress-tested. The preliminary approval procured from the Investment Committee after the Initial DD period ("Prelim Approval") would then enable the team to make a binding offer to the target/sellers, subject to limited conditions precedent.

5.4. Final Phase, Due Diligence & Investment Committee

The Initial DD and Prelim Approval would then be followed by a subsequent phase of confirmatory due diligence ("Confirmatory DD") to enable the outstanding aspects of the due diligence assessment to be completed, which typically require a further xx – xx week period. The Confirmatory DD will include an update to the vendor due diligence, if available, updated for any additional issues raised in the Prelim Approval, and completion of, *inter alia*, financial, legal, tax and environmental due diligences. During this phase, the team also requires further access to all relevant information, including direct access to customers, suppliers (including service providers) and further access to the management team.

Final Investment Committee approvals are then obtained xx - xx weeks after completion of the Confirmatory DD process. This phase would also include the conclusion of definitive legal agreements to implement the transaction.

5.5. Investment Committee

The Investment Committee currently comprise of the two partners in ABC and two non-executive members. In time, the Investment Committee will grow to include new members of the investment team.

5.6. Investment Structuring

The Manager believes a clear understanding of the long-term funding required for organic growth, capital spending and add-on acquisitions is crucial in determining an optimal capital structure, and is committed to providing portfolio companies with appropriate financial resources to support significant long-term growth. The Manager also has a strong bias towards capital structures which minimise risk and maximise investment returns through:

- Employing a variety of investment instruments when making investments in portfolio companies, principally equity, shareholder loans and junior debt to maximise blended returns while maintaining a relatively low ratio of third-party debt to total capitalisation. Such shareholder loan and junior debt instruments will typically be amortised in full over the first xx to xx years of an investment, thereby reducing capital risk, providing an early return to investors and maintaining the Fund's level of equity interest in the portfolio company;

- Employing reasonable third-party senior and mezzanine debt in order to support the portfolio company's growth strategy, to minimise risk and to maximise investment returns;
- Accessing tax and structured finance experts, where relevant, to maximise investment returns; and
- Structuring portfolio company management ownership plans to align management's interests with those of other shareholders and provide incentive structures that provide maximum potential for superior investment returns.

5.7. Portfolio Company Management & Post-Investment Value Creation

The Manager leverages the experience and skills of its management, board and its well-established network to add significant value to portfolio companies by actively participating in the strategic management of these companies. As a minimum, the Manager seeks board representation at each portfolio company, and where practicable, participates in various business development, transformation, environmental and social executive committees.

In addition to providing strategic input at board level and driving the investment objectives outlined in section 4 of this Memorandum, the Manager partners with its portfolio companies by assisting them in the implementation of their transformation processes which includes, inter alia, assistance with the identification of black professionals with the relevant, specialist skills for appointment to appropriate executive positions at its portfolio companies.

The Manager, in partnership with the portfolio company management, develops a long-term (xx-to-xx year) value creation / business plan that focuses on sales growth, margin improvement, capex investment, employment creation, B-BBEE and ESG that includes:

- Hands-on monitoring and development of portfolio companies through active participation, review and appropriate incentivisation;
- Augmenting management teams by identifying and attracting top executives and/or non-executives with relevant experience to facilitate operational value creation from the Manager's wide network of strategic, industry and management experts;
- Actively facilitating and driving sustainable transformational change within underlying portfolio companies in terms of employment equity, skills development and procurement. This will also

include ensuring the application and continuous monitoring/management of B-BBEE Codes and making transformation a key priority for management teams;

- Ensuring that all strategic priorities are properly addressed;
- Driving a responsible ESG business practice; and
- Developing an exit plan as part of the initial investment thesis, which plan will be agreed with all stakeholders including the management team upfront.

As part of its portfolio company management and post-investment value creation processes, the Manager conducts periodic reviews of each portfolio company and adjust both near-term and long-term objectives to accommodate changing macroeconomic conditions, new portfolio company challenges and opportunities and shifting industry dynamics.

The Manager, where appropriate, also seeks to introduce non-executive directors with relevant industry experience to the boards of portfolio companies. The appointment of such non-executive director(s) typically includes an opportunity for them to invest in the equity of the company, which investment is typically not material to the total investment. ABC has an informal network to access the relevant senior executives in this regard.

5.8. Exit and Realisation Management

In evaluating a potential investment, the Manager assesses the prospects of achieving an attractive exit through one of:

- a sale to a strategic buyer,
- a sale to another financial buyer,
- a recapitalisation,
- a management buyout, or
- an initial public offering.

Primarily, exits that will be pursued will be via trade sales made to strategic buyers who frequently acquire companies at valuations above those of financial buyers; other third party buyers will include BEE investment companies. However at times, financial buyers offer exits with less execution risk, which may be cheaper and quicker to conclude than sales to strategic buyers or navigating the more complicated IPO markets. A well prepared exit plan should be not too difficult to execute in reasonable market conditions. Rash exits will be avoided in periods of low M&A activity, market volatility, stressed credit markets or extended periods of low market valuations.

Re-leveraging portfolio companies by introducing additional third party debt will also be considered, thereby enabling a substantial capital distribution to the Fund. During the investment period for a portfolio company, capital will be realised through current income and partial realisations of capital, including interest on junior debt, interest on shareholder loans, dividends on equity, early repayment of junior debt or partial returns of shareholder loans or equity.

5.9. Portfolio Construction

The Fund will, through equity and equity-related instruments make investments of between Rxxm and Rxxm. The Manager will seek a high level of diversification for the Fund by investing across diverse industries within the portfolio, on the assumption that industries follow uncorrelated cycles, and by deploying capital over an investment period of up to xx years, thereby achieving a degree of investment vintage diversification. The Manager will also seek, to a limited degree, geographic diversification through investment in companies headquartered outside of South Africa.

The Fund will not invest more than xx% of total Commitments in any one portfolio company and will not invest more than xx% of total Commitments in portfolio companies headquartered outside of South Africa in aggregate.

5.10. Portfolio Management and Fund Operations

The Predecessor Fund has xx investor/s, and given the simple portfolio reporting environment there is currently no specialised reporting and portfolio management system being used, as all reports are spreadsheet and word processor driven. As the Manager evolves to a multi-investor and multi-fund environment, the Manager will establish systems and install software to optimise the management of the investment portfolio and the management of the Fund's operations. These systems will be used for portfolio monitoring and valuation purposes and will maintain and control financial, administrative and legal information on portfolio companies. The systems will also assist in the management of the Fund operations such as commitments, capital calls, distributions, quarterly investor reports and general investor relations and communications. The Manager has already identified some potential systems, which will fit this purpose.

6. INVESTMENT PERFORMANCE AND INVESTMENT CASE STUDIES

Since inception in March 20xx, the Predecessor Fund has made three investments in high quality private equity investments. The following are summaries of the investments made by ABC in ABC Private Equity Fund I. None of investments in the Predecessor Fund have been fully realised. The summaries illustrate the investment strategy and investment performance that ABC has executed in the Predecessor Fund and will pursue in Fund II.

A summary of ABC's performance in its Predecessor Fund as at 31 March 20xx is presented below.

Company Name	Date of Investment	Investment Cost (Rm)	Value Realized (Rm)	Value Unrealized (Rm)	Total Value (Rm)	Gross IRR	Gross Multiple of Cost
AAA	October 20xx	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**
BBB	May 20xx	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**
CCC	August 20xx	**xx**	**xx**	**xx**	**xx**	**xx**	**xx**
Total Portfolio		**xx**	**xx**	**xx**	**xx**	**xx**	**xx**

ABC has been able to, in a short period, achieve a gross IRR of 24% and a Multiple of Cost of 1.3x in its Predecessor Fund as at 31 March 20xx. The Predecessor Fund's average investment holding period as at 31 March 20xx is xx months.

6.1. Autotrader

i. Transaction Overview

Date of Investment	October 20xx	**Holding Period to Date**	1.5 years
Total Investment	R 63.9 million	**Initial Equity Interest**	24.5%
Entry EBITDA Multiple	5.3x	**Gross IRR**	17.0%
Total Value Realized	R 0.0 million	**Multiple of Invested Capital**	1.3x
Total Value Un-Realized	R 80.7 million	**ABC Representatives**	XXX

ii. Business Description

- Headquartered in Johannesburg, Autotrader provides classified advertising for motor vehicles and related products through its online and mobile platforms and print magazines
- Autotrader assists dealers by enabling them to sell more cars through lead generation alongside providing market intelligence tools to help them source the rights cars at the right price

iii. Source of Transaction

- Sale process

iv. Investment Thesis

- Market leading service provider to car dealers in South Africa
- Online and print market leader in vehicle classifieds with strong, credible digital growth prospects
- High levels of cash conversion
- Strong management team
- Achieve growth through investment in new products and revenue streams

v. Value-Add Strategy

- Maintain leading market position as a service provider to Trade dealers with strong customer-focused operations
- Consolidating leading consumer facing brands by increasing traffic across all digital platforms
- Increasing online market share through heightened penetration in the customer base, and increasing the yield per dealer through inflation price increases and up-selling customers to premium packages
- Explore new adjacent products
- Exploring acquisitions in related products such as a dealer-to-dealer platform, and an entry into Namibia, and other African countries via a digital only offering

vi. Exit

- Exit is anticipated to be achieved through a sale of the entire business to a trade playr or financial investors in 2019x, at 'base case' proceeds of ZAR 163 million at a 7.7x NOPAT exit multiple

vii. Operating Results

ZAR million	Pre-Acquisition		Post-Acquisition	
YE December, 31	**20xx**	**20xx**	***20xx***	**9M 20xx**
Sales	241.5	227.3	237.6	188.7
EBITDA	104.3	102.2	109.2	79.8
Operating Profit	99.7	97.4	102.2	NA

6.2. Waco Africa

i. Transaction Overview

Date of Investment	May 08, 20xx	Holding Period to Date	xx years
Total Investment	R 10.3 million	Initial Equity Interest	Effective 1%
Entry EBITDA Multiple [1]	5.1x	Gross IRR	104%
Total Value Realised	R0.0m	Multiple of Invested Capital	1.9x
Total Value Un-Realised [2]	R19.4m	ABC Representatives	XXX

[1] *Based on LTM to 31 December 20xx*

[2] *Valuation as at 31 March 20xx*

ii. Business Description

- Waco International, based out of South Africa (SA), is a global service provider of formwork, shoring, scaffolding, industrial maintenance services, relocatable modular buildings, portable sanitation and hygiene solutions in 4 continents (Africa, Australia, Europe, and South America) and 11 countries.
- Subsidiaries include:
  - Form-Scaff - manufactures, rents and sells framework, shoring and scaffolding systems in SA
  - SGB-Cape - supplies, erects and dismantles elevated access scaffolding for large mining, petrochemical, power and industrial clients
  - Sanitech - leading mobile sanitation provider in South Africa
  - Kwikform - largest Australian access scaffolding contractor servicing the building construction and industrial maintenance markets
  - Waco UK - offers design, manufacture and erection of temporary and permanent modular building solutions for hire and for sale in the United Kingdom

iii. Source of Transaction

- Proprietary network and active sourcing of secondary private equity opportunity

iv. Investment Thesis

Form-Scaff

- Well positioned to defend its leading position in SA through the sheer size of its rental fleet
- Products are fairly commoditised with high price elasticity of demand
- As the largest integrated manufacturer-renter, it enjoys strong negotiation power

SGB-Cape

- Market leader with the largest fleet, the most branches, the best reputation for quality and safety
- Core revenues are derived from plant maintenance, which is recurring
- Enjoys higher margins than a typical contractor

Sanitech

- Only national toilet hire business with a leading position in each regional market in which it operates, which gives it scale and a competitive advantage in terms of assets utilisation and efficiency
- Consistent high cash generation and EBITDA margins in excess of 30%

v. Value-Add Strategy

- Playing an active role in business development by representing on the WACO Africa Board of Directors
- Look for strategic acquisitions and organic growth with the target of doubling EBITDA to ZAR 1 billion over xx years' time
- Introduced Waco Africa's local partners in Ghana, and seeking to do same in other African territories

vi. Exit

- Exit is anticipated to be achieved through an initial public offering

vii. Operating Results

ZAR'000	Pre-Acqusition	
YE June, 30	**20xx**	**20xx**
Sales	3076.4	3891.1
EBITDA	395.4	572.1
Operating profit	305.7	449

6.3. One Digital Media

i. Transaction Overview

Date of Investment	August 06, 20xx	**Holding Period to Date**	xx years
Total Investment	R 21.2 million	**Initial Equity Interest**	18%
Entry EBITDA Multiple	4.0x	**Gross IRR**	26%
Total Value Realized	R 0.8 million	**Multiple of Invested Capital**	1.2
Total Value Un-Realized	R23.7 million	**ABC Representatives**	XXX

ii. Business Description

- One Digital Media ("ODM") is the largest provider of digital media solutions in South Africa (SA), with over 10,000 screens and other digital devices in more than 2,000 retail stores across the country
- It offers a wide range of digital solutions that enable retailers and store owners to create a compelling in-store shopping experience.
- ODM offers clients an integrated solution, from network design, sourcing of hardware, installation and maintenance of networks to scheduling and production of content. Key customers include KFC, Cell C, Spur, Woolworths, Spar, Famous Brands and Food Lovers Market.

iii. Source of Transaction

- Co-invest

iv. Investment Thesis

- Digital signage is a high growth industry globally and in South Africa
- ODM is the largest digital signage player in South Africa, managing a network of over 10,000 screens situated at over 2,000 client sites.
- Strong, long-standing relationship with its clients
- Strong history of annuity income, cash generation and conversion supported by sustainable margins, asset utilisation and efficient cost management
- The 24-hour exposure and relative cost effectiveness of outdoor media provides a solid platform for continued top-line growth

v. Value-Add Strategy

- Continuing expansion of its market share and consolidating its market position via:
  - New customer introductions
  - Driving public sector digital signage market
  - Driving digital signage markets in other African territories
- Exploring acquisitions in related products

vi. Exit

- Exit is anticipated to be achieved through a sale of the entire business to a diversified ICT services business or to a media / content driven business.

vii. Operating Results

ZAR million	Pre-Acquisition		Post Acquisition			
YE June, 30	20xx	20xx	20xx	20xxB	20xxF	20xxF
Sales	134.6	134.4	139.5	158.2	171.0	185.5
EBITDA	37.1	37.8	34.2	37.8	41.1	44.6
Operating Profit	10.3	11.1	8.2	NA	NA	NA

Notes:

EDITDA: Historic number are pro forma and exclude once-off, discontinued-operatoins and non-recurring items

7. INDICATIVE DEAL FLOW

The Manager has been able to demonstrate superior transaction sourcing capabilities. To date, c.xx potential transactions have been proactively sourced, mostly using the proprietary network of the team and active sourcing of secondary private equity opportunities. The Manager's record, and that of its principals, has made it a preferred partner for businesses, vendors, entrepreneurs and other private equity investors.

The Manager will continue to proactively source transactions through research-based idea generation, as well as formal and informal relationships within its network. The Manager's current active transaction pipeline is as follows:

	Business Description	Investment Type	Deal Source	Potential EV	Potential Equity Investment
A	Chemical Manufacturer	Buy-in	Proprietary network	xxx	xxx
B	Packaging	Buyout	Non-core from SA Corporate	xxx	xxx
C	Services	MBO	Proprietary network	xxx	xxx
D	Manufacturing	Buy-in	Auction	xxx	xxx

In the medium-to-long term, the Manager believes opportunities are likely to present themselves out of the following macro investment themes:

- The changing South African socio-economic and political environment;
- Government's continued pro-growth policy adjustments;
- South Africa's young and emerging demographic profile;
- Government's active promotion and support of long-term industrialisation and industrial diversification which will lead to higher growth opportunities for the South African industrial sector;
- Continued growth of mass consumer and increasing personal disposable income, albeit at a slower pace than before;
- Continued government investment and infrastructure investment;
- Recovery of the commodities cycle that will create opportunities for industries that service and supply the commodities sector;
- The increasing outward expansion of "South Africa Inc." into the rest of Africa, and international companies using South Africa as the gateway to other African markets;
- Significant number of quality under-challenged assets in conglomerates;

- New generation of entrepreneur-driven growth businesses; and
- Increased integration of South Africa with other BRICS countries (Brazil, Russia, India and China).

Although the abovementioned drivers will support private equity investment opportunities, the Manager believes there are risks attached to the private equity investment opportunity set, the main risks being:

- Constrained electricity supply and its impact on the economy;
- High rates of unemployment and high levels of poverty;
- Potential protracted periods of low GDP growth and high inflation;
- Tightening of fiscal and monetary policies and their impact on GDP growth;
- Impact of structurally slower global economic growth on South Africa;
- Impact of the lifting of quantitative easing by the G-7 central banks, and the resultant capital flight from open, emerging markets such as South Africa;
- Higher or volatile energy prices;
- Financial market fluctuations, market dislocation and the impact on valuations, and access to credit and exit environments;
- Currency volatility and its impact on South Africa's export competitiveness;
- Increased regulation of the SA private equity industry and its impact on investment costs and transaction costs; and
- Increased competition in the mid-market private equity space.

8. MANAGEMENT AND INVESTMENT TEAM

The Manager's investment team consists of experienced and credible private equity professionals who have a track record of working together as a team in the Predecessor Fund and, previously, at Brait Private Equity. Testament to its experience and credibility, the team has received backing from one of the leading private equity investors in South Africa, RMB Ventures, and has been able to partner with leading private equity institutions such as Ethos Private Equity, RMB Ventures, RMB Corvest and Stockdale Street (which houses the South African private equity interests of the Oppenheimer family) in its portfolio companies.

The investment and management team also represents one of the more experienced black private equity teams in South Africa and collectively have over xx years of private equity experience at market leading private equity firms and over xx years of financial services experience. Each of the principals plays an active role in identifying investment opportunities, completing the investment recommendation process, monitoring and advising portfolio companies and advising as to the most advantageous timing and method for realising investments. Members of the team have been involved in the whole spectrum of private equity fund management – from founding a fund management company, and raising and formation of a private equity fund, to transactions where they have originated investment opportunities, completed the investment recommendation and execution processes, completed financial structuring models, negotiated on transactions, actively participated in value enhancement strategies and successfully exited investments.

The investment team and management team currently comprises of the 2 partners. In time, the team will comprise of an additional 1-2 investment partners/principals, 2-3 investment associates and a financial officer for the Fund, based on the current target Fund size. The Manager is cognisant of its responsibility to contribute to the advancement of black women in private equity and will prioritise this responsibility as it grows its investment and management team. The Manager has identified an investment principal and 2 investment associates, who will be approached in due course. The partners are black South African nationals with extensive experience in private equity transactions, deep market knowledge and broad networks across the South African corporate, industrial, financial and public sectors and a network across the African continent.

The Fund is a second pool private equity fund being raised by the Manager. As such, the Manager is able to demonstrate an independent track record of successful private equity investment fundraising and private equity investment management, which has spanned the following areas:

- Fund formation and fundraising;
- Valuation and industry benchmarking;
- Public to private transactions;
- Growth capital investment; and
- Sale and exit processes.

8.1. Brief Profiles of the Management and Investment Team

i. **XXX**
   - **Add Profile**
   - **Summary Investment & Transaction Experience**

ii. **YYY**
   - **Add Profile**
   - **Summary Investment & Transaction Experience**

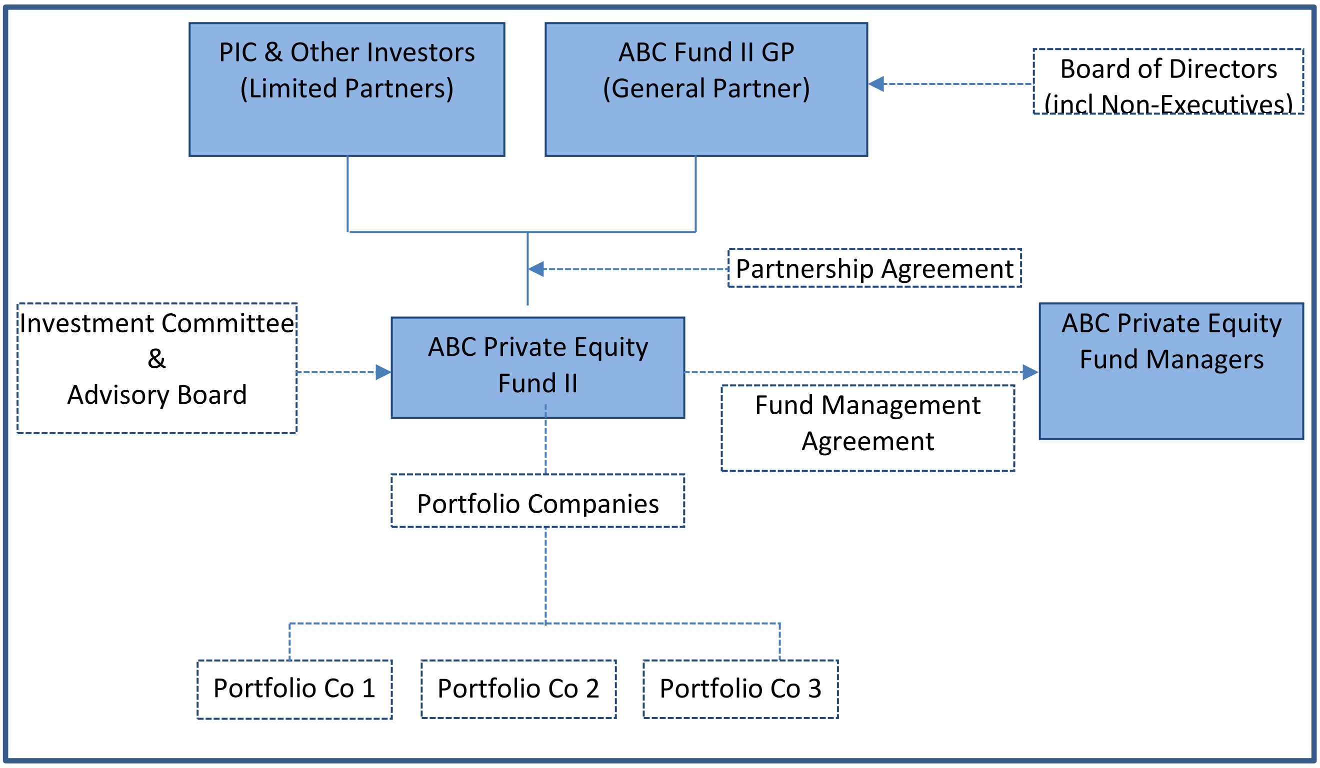
9. FUND DETAILS

9.1. Legal Structure of the Fund

ABC Private Equity Fund II will be established as an *en commandite* partnership. The General Partner of the Fund will be ABC Fund II GP (Proprietary) Limited and the limited partners will be the PIC and other investors. In an *en commandite* partnership, the Limited Partner is not represented as a partner in the partnership and does not act for the partnership. The Limited Partner is thus afforded protection against third parties from liability for the partnership and thus limits its liability arising from the partnership to its capital commitment, provided that the Limited Partner does not hold itself out and is not held out as participating actively in the business of the partnership or as being able to bind the partnership in any way.

The relationship between the General Partner and the Limited Partners will be governed by the Partnership Agreement, whose principal terms are covered in section 10 of this Memorandum.

Diagram 3: Illustrative fund structure and manager relationship



The General Partner will be incorporated as a private company. Non-executive directors will be appointed to the Board of Directors and some of the subcommittees, including the investment committee, and the governance structures will be in line with the requirements of the Companies Act, 71 of 2008 (as amended).

9.2. Additional Investors

Additional investors will be able to invest in the Fund at any time prior to the lapsing of a xxx month period after First Close. New investors will be required to make a minimum capital commitment of Rxxx million to the Fund, and any commitments less than this amount may be accepted at the sole discretion of the General Partner. New investors will be treated as though they made their commitments at First Close. Thus new investors joining the Fund at subsequent closings will make a capital contribution that will comprise of their proportionate share of organisational expenses, management fees on their commitments (retrospectively calculated from First Close) and any drawdowns already made (collectively “Pro-rata Capital Contribution”). In addition, new investors’ Pro-rata Capital Contributions will be grossed up by an interest rate of prime interest rate plus 200 basis points (prime + 2%) over the period between the first drawdown in the Fund and a new investor’s first drawdown date. The PIC, and, if applicable, other existing new investors, will then be paid their share of a new investor’s Pro-rata Capital Contribution, net of any costs and fees. Such payment will be added back to the PIC’s undrawn commitments and, if applicable, other existing new investors’ undrawn commitments and be available for drawdown again.

9.3. The Fund Management Agreement

The General Partner will, on behalf of the Fund, appoint the Manager and will enter into a Fund Management Agreement. Under the agreement the Manager will render certain investment and management services, which will*, inter alia*, include:

- Marketing and promotion of the Fund;
- Identification of investment opportunities that comply with the Fund’s investment policies;
- Making investment proposals to the Investment Committee;
- Performing due diligence investigations on investment opportunities which are appropriate for review;
- Investment structuring, negotiation of investment documentation and ongoing monitoring and management of the Fund’s investments;
- Active management of underlying portfolio companies;
- Negotiating exits or divestitures from investments;
- Making follow-on investments;
- Making capital drawdowns from investors and distributions to investors;
- Administrative services for the Fund with regard to debt service, cash management (administrations, disbursements, collections), maintenance of records and reporting (quarterly reporting);

- Performing valuation of investments and reporting regularly to investors; and
- Liaising with external auditors regarding the annual audit of the Fund.

9.4. Management Fees

In consideration for the investment and management services to be rendered by the Manager in terms of the Fund Management Agreement, the Manager will receive a management fee. During the Commitment Period, management fees of 2% plus VAT of aggregate Commitments, will be paid semi-annually in advance to the Manager. After the expiration of the Commitment Period, management fees of 2% plus VAT of aggregate drawn Commitments, will be paid semi-annually in advance to the Manager.

9.5. Governance

The Fund, General Partner and the Manager will establish governance structures and committees consistent with the Companies Act, 71 of 20xx (as amended) and, as far as practicable, the Code of Governance Principles (King III), and consistent with private equity industry best practice. Board committees will include an audit committee and an environmental, social and ethics committee. In respect of ESG, the Manager will, as soon as practicable, become a signatory to the UNPRI.

The General Partner will establish an Advisory Board composed of selected representatives of the Limited Partners. The Advisory Board will advise the General Partner and resolve issues involving conflicts of interest.

9.5.1. General Partner Board of Directors

Members of the Board of Directors of the General Partner will be nominated by ABC, and will include two members of the management team and at least two non-executive members. In addition to the management representatives, it will include some highly regarded persons with experience and networks across the corporate, industrial, public and financial services sectors to complement the executive management team. Certain individuals have been identified for a position as non-executive directors, and will be approached in due course. The identified non-executive directors include individuals with impressive track records and valuable experience in business leadership, investment management and investment thought leadership.

9.5.2. Advisory Board

The General Partner will establish an Advisory Board composed of a PIC representative and selected representatives of other Limited Partners. The Advisory Board will advise the General Partner and resolve issues involving conflicts of interest.

The Advisory Board will not have any power to approve or disapprove any investments or to manage the partnership. No fees shall be paid or expenses reimbursed to the members of the Advisory Board other than all reasonable out-of-pocket expenses.

9.6. Re-investment and Follow-on Investments

Reinvestments will be limited to realised capital gains and revenue, but not amounts returned to the Limited Partners by way of distribution of capital gains or income. Follow-on investments may be made during the investment period, and for up to two years after the end of the investment period and can, in the latter case, only be made from a reserve of up to 10% of the Fund’s capital.

9.7. Legal Compliance

The Manager will ensure compliance with all applicable statutory and regulatory requirements prior to any disbursements.

9.8. Reporting

The Fund will provide audited financial statements to the Limited Partners annually within 90 days of each year-end, unaudited financial statements semi-annually within 60 days of the end of each semi-annual period and descriptive investment information for each portfolio company quarterly. The fourth quarterly report will include an annual report on the affairs of the Fund, portfolio valuations based on the International Private Equity and Venture Capital Valuation guidelines (as endorsed by the South African Venture Capital & Private Equity Association), a review of each investment and a statement of each respective Limited Partner's capital account. In line with one of its main investment objectives and as evidenced in the Predecessor Fund, the Fund will, practicably, procure services from black owned and controlled service providers, including the audit services outlined above.

9.9. Taxation

The PIC and other Limited Partners will be liable for all taxation in respect of their investment in the Fund and distributions made or accruing to them. The Fund will at all times comply with the relevant tax and other legislation, within the different jurisdictions in which it may, at any time, operate. In view of the particularised nature of tax consequences, each prospective investor is advised to consult its own tax adviser with respect to the specific tax consequences of being a Limited Partner in the Fund.

9.10. Legal Issues

The Fund is an "*en commandite*" (or limited) partnership in terms of which the Limited Partners (i.e. the PIC and other investors) will occupy the position of partners only insofar as the General Partner is concerned, but not in relation to outsiders. Consequently, although a partnership does not under common law enjoy separate legal personality, in practice the liability of the Limited Partners will be limited (in the sense that their liability cannot exceed their Committed Capital) provided that they do not hold themselves out and are not held out as participating actively in the business of the Fund or as being able to bind the Fund in any way.

The Manager will ensure that the Fund is managed on such a basis that an investment in the Fund by a pension fund will comply with the Conditions for Investment in Private Equity Funds issued by the Registrar of Pension Funds.

9.11. Fund Formation and Set up

The Manager will draft the structure of the Fund, create the required vehicle/s for the Fund, appoint legal and tax advisors to assist with fund formation, attend to all statutory and regulatory registrations and lodgings, set up bank accounts and set up frameworks for drawdowns and distributions. The Fund will pay all costs related to structuring the Fund, setting up the required vehicles, the legal advisory costs, tax advisory costs and any other advisory cost or costs related to fund formation and setting-up.

9.12. Physical Location and Premises

The Manager is located at 1st Floor, 3 Exchange Square, 87 Maude Street, Sandton, 2196. The Manager intends to have its main office in Johannesburg for the duration of the Fund. The Fund will be located on the same premises as the Manager.

9.13. Fund Debt Facility

The Manager will assess the merits of including a third party debt facility alongside the Fund. The facility would be used to optimise the management of capital inflows and outflows from the Fund investors. Typically these facilities will be secured against the Fund's undrawn commitments and will be limited to 30% of the Fund's undrawn commitments. This facility would not be secured against the underlying portfolio companies and hence would not put additional financial strain on the portfolio company balance sheets. The facility would, however, enhance the Fund's return profile via a financial leverage mechanism at the Fund level.

10. SUMMARY OF INVESTMENT TERMS

The following information is presented as a summary of certain of the partnership's terms and conditions and is qualified in its reference to the ABC Private Equity Fund II Partnership Agreement ("the Partnership Agreement"), a draft copy of which is currently being prepared and which will be provided to the PIC at a later stage.

The Fund and Fund Name	ABC Private Equity Fund II ("The Fund")
Fund Type	Closed-end Fund, En Commandite Partnership (Limited Partnership)
Nature of the fund	Generalist Private Equity Fund
General (Unlimited) Partner	ABC Fund II GP (Proprietary) Limited, which will be responsible for operating the Fund, and will act in accordance with the Partnership Agreement.
Limited Partners	Public Investment Corporation Limited ("PIC") and all other investors in the Fund, other than the General Partner.
Investors	The General Partner and all the Limited Partners.
Manager	ABC Private Equity Fund Managers Proprietary Limited (will be appointed by the General Partner).
Fund Target Size	R750 million. Commitments in excess of this amount may be accepted at the sole discretion of the General Partner up to a maximum of R900m of commitments in aggregate ("Hard Cap").
Investment Strategy	The Fund will, through equity and equity-related instruments, predominantly make growth capital investments of between R50m and R150m into privately held established businesses with experienced executive management, attractive business fundamentals and long term prospects for profitability, growth and cash generation. The Fund will seek to create alignment with management teams of the businesses it invests in, by facilitating meaningful ownership in the businesses they lead. The Fund will focus on: • Growth capital to fund organic growth and growth by acquisition; • Buyout capital for management buy-outs/buy-ins and leveraged buy-outs; and • BEE capital as a fully funded BEE partner and enabler of BEE buy-ins.
Region	The Fund will have a general focus on the South African industrial and services sectors, albeit with an ability to invest in companies headquartered outside of South Africa, in sub-Saharan Africa. The Fund will limit its investment in such portfolio companies headquartered outside of South Africa to no more than 30% in aggregate of total Commitments.

First Close & other closings	First closing is targeted to occur on 30 November 20xx, or as soon as practicable thereafter (“First Close”). Additional staged closings may be held at the discretion of the General Partner.
Final Closing	The final closing will be held xx months after First Close (“Final Close”).
Minimum investor commitment	R50 million. Commitments less than this amount may be accepted at the sole discretion of the General Partner.
Commitment Period	Commitments may be drawn down to make Investments at any time up to the fifth anniversary of the Final Close (“Commitment Period”). Upon expiration of the Commitment Period, all Investors will be released from any further obligation with respect to their unfunded Commitments, except as necessary to: i)cover expenses, liabilities and obligations of the Fund, including Management Fees, ii) complete investments by the Fund in transactions that are in process, and iii) make follow-on investments in existing portfolio companies.
Term	The term will be xx years from Final Close. However, it may be extended for up to a maximum of two consecutive xx-year periods at the discretion of the General Partner subject to approval of the Advisory Board to allow for orderly exit and dissolution of the Fund.
Drawdowns	Commitments will be drawn down as needed during the Commitment Period, with not less than seven (7) business days’ prior written notice (“Drawdown Notice”). The initial drawdown for each Limited Partner, to be made no more than 30 days after First Close (or subsequent closing) will include the Limited Partner’s proportionate share of: (i) Management Fees retrospective to First Close; (ii) organisational and other expenses attributable to the Fund; and (iii) the original cost of any Investments made prior to such drawdown.
Default	If any Limited Partner (“Defaulting LP”) fails to pay an amount specified in a Drawdown Notice by the due date for such payment, the Limited Partner will be in Default. Any late payment of a drawdown shall bear interest. The General Partner may, on notice, call on the Defaulting LP to remedy the Default and if the Default has not been remedied within five days, then in addition to all other remedies of the General Partner, and on written notice by the General Partner to the Defaulting LP: 1. the Defaulting LP shall forfeit the amounts of capital already contributed to the Fund by such Defaulting LP (“Funded Commitments”), plus any returns thereon, in which event such forfeited Funded Commitments shall form part of the Fund assets and shall forthwith be allocated amongst the remaining Partners pro rata to their Commitments; 2. the Defaulting LP shall forfeit its rights to participate in any future Investments of the Fund; and 3. the Defaulting LP’s rights in respect of any matter affecting the Fund shall be cancelled.

Preferred rate	8% per annum
Carried interest	20% after return of Capital and Preferred Return of 8% with "catch-up" provision.
Management Fees	During the Commitment Period, the Fund will pay the Manager management fees of 2% plus VAT of aggregate Commitments, payable semi-annually in advance. After the expiration of the Commitment Period, the Fund will pay the Manager management fees of 2% plus VAT of aggregate drawn Commitments, payable semi-annually in advance. The Manager will pay all ordinary operating expenses of the Fund for salaries, rent and similar expenses (including travel and maintenance of the Manager's offices) in connection with the investigation of investment and disposal opportunities for the Fund and monitoring of the Fund's investments, except as set out below under Other Expenses.
Distributions	Proceeds, pursuant to the disposal of Investments, any dividends or interest income, will be distributed in the following order of priority: 1. a return, in proportion to funded Commitments, of the invested capital, fees and expenses allocable; 2. a preferred return, compounded annually, on the above amounts, which will be at the rate of 8%; 3. 80% to the General Partner and 20% to the Limited Partners in proportion to funded Commitments as a "catch-up" provision until the General Partner has received 20% of all distributions after a return of the invested capital, the preferred return, fees and expenses allocable; and thereafter 4. 80% to the Limited Partners in proportion to funded Commitments and 20% to the General Partner.
Diversification	The Fund will: (i) not invest more than 25% of total Commitments in any one portfolio company as a permanent Investment, provided that the Fund may invest up to 30% of Commitments in a single portfolio company in connection with an underwriting or for a period of one year where the Manager reasonably believes that the Fund's Investment will be reduced to below 25% of aggregate commitments within one year; (ii) not invest more than 20% of total Commitments in any one portfolio company headquartered outside of South Africa; (iii) limit its investment in such non-South African portfolio companies to no more than 30% in aggregate of total Commitments; and (iv) not invest more than 10% in aggregate of total Commitments in publicly listed securities.
Sector Focus	All sectors, excluding tobacco, liquor, gambling and arms and armaments.
Investment Committee	All transactions will be approved by the Investment Committee of the General Partner (the "Investment Committee"). The Manager will not consider transactions that have not been approved by the Investment Committee. The procedures governing the Investment Committee will include safeguards against reputational risk and ensure conformity with the Partnership Agreement, including the investment guidelines attached thereto.
Co-Investment Policy	Where possible and appropriate, the General Partner intends, but will be under no obligation, to provide co-investment opportunities to the

	PIC, before making such opportunities available to other Limited Partners and non-Limited Partners. Co-Investments will be permitted by investment vehicles organised for the benefit of ABC and the Investment Team, respectively, and such co-investment will be made on materially the same terms and conditions as the investment made by the Fund, as far as practicable.
Funding Instruments	The Fund will employ a variety of investment instruments when making Investments in portfolio companies, principally equity, shareholder loans and junior debt to maximise blended returns.
Bridge Financing	The Fund may provide interim financing in debt or equity form and may underwrite equity securities for resale to other investors in order to facilitate an Investment ("Bridge Financing"). A Bridge Financing, when added to the amount of the permanent investment by the Fund in a portfolio company may not exceed 30% of total Commitments. The principal amount of a Bridge Financing, to the extent that it is refinanced or otherwise paid within one year following the date of closing of such Bridge Financing, may be held for reinvestment or distributed and, if so distributed, will be added back to undrawn Commitments and be available for drawdown again.
Borrowing and Guarantees	The Fund will be permitted to borrow the lower of: (i) 30% of total Commitments; or (ii) total undrawn Commitments. Such borrowings may be secured on the assets of the Fund, including undrawn Commitments. The Fund will be permitted to enter into guarantees or undertakings in connection with a portfolio company. The resultant liability when added to the amount invested in a single portfolio company should not exceed 30% of aggregate Commitments. The Fund shall not, unless agreed to by the Advisory Board, provide security for a period exceeding xx months.
General Partner Commitment	Investment vehicles organised for the benefit of ABC and the Investment Team will invest between them at least 0.5% of total commitments.
Target Returns	Target Gross IRR of 25% and Target Gross Multiple of Cost of 3.0x.
Transaction and other Fees	The Manager may charge transaction fees, investment banking fees or other similar fees (collectively, “Fee Income”) payable by a portfolio company in connection with an Investment. All Fee Income first will be used to pay any out-of-pocket transaction expenses incurred by the Manager attributable to all transactions to date, whether or not consummated, and 50% of any remaining portion will be credited against the Management Fee.
Abort Costs	If a proposed investment does not proceed, all operating expenses incurred in connection with that proposed investment (“Abort Costs”) will be borne by the Fund to the extent that such costs cannot be offset against fees received in connection with such proposed investment. The Manager will make every effort to limit such Abort Costs.
Directors’ and Monitoring Fees	Directors’ and monitoring fees may be paid by a portfolio company to the Manager or their employees. All such directors’ and monitoring fees will be first used to pay related expenses, and 50% of any remaining portion will be credited against the Management Fee.
Other Expenses	The Fund will pay all costs and expenses relating to its activities, including the Management Fee, legal, auditing, consulting and accounting expenses (including expenses associated with the preparation of the Fund’s financial statements and tax returns),

	expenses of the Advisory Board, insurance and other expenses associated with the acquisition, holding and disposal of its Investments (except as set out under "Management Fees"), third-party expenses in connection with transactions not consummated and extraordinary expenses (such as litigation).
Fund formation and set-up costs	The Fund will bear the expenses incurred in the formation of the Fund (including legal and accounting expenses, and travel expenses) up to an amount equal to the lesser of 1% of aggregate Commitments or R5 million.
Advisory Board	The General Partner will establish an Advisory Board composed of selected representatives of the Limited Partners. The Advisory Board will advise the General Partner and resolve issues involving conflicts of interest. The Advisory Board will not have any power to approve or disapprove of any Investments or to manage the Fund or any such Investments. No fees shall be paid or expenses reimbursed to the members of the Advisory Board other than all reasonable out-of-pocket expenses.
Reports to Limited Partners	The Fund will provide audited financial statements to the Limited Partners annually within 90 days of each year-end, unaudited financial statements semi-annually within 60 days of each semi-annual period end and descriptive investment information for each portfolio company quarterly.
Limited Partner Meetings	The Fund will hold annual general meetings offering Investors the opportunity to review and discuss the Fund's investment activities. The Investment Team will also make themselves available to Investors during the year as necessary.
Transfers and Withdrawals	A Limited Partner may not sell, assign or transfer any interest in the Fund, nor may it withdraw from the Fund or withdraw any amount from the Fund, except in each case under certain limited circumstances and then only with the prior written consent of the General Partner, which consent may be withheld at the General Partner's sole discretion.
Key-Person Provision	The Manager will appoint an additional principal to the investment team prior to Final Closing ("Principal"). A Key-Person Event will arise if, at any time during the Commitment Period (the "Key-Person Period"), any two of XXX, XXX and the Principal cease to be substantially involved in the Manager or in the affairs and business of the Fund and any Successor Funds or predecessor funds. If a Key-Person Event occurs, then the General Partner shall give prompt written notice of such event to the Limited Partners, and the Fund and the General Partner shall promptly suspend making any new investments (other than as may be required to honour outstanding contractual commitments) and, within 90 days after the occurrence of such Key-Person Event, the General Partner shall present to the Advisory Board in writing the basis on which the General Partner proposes to continue the affairs of the Fund. In the event that such proposal is approved by a simple majority of the Advisory Board within 60 days after presentation, the Fund shall resume its investment activities as provided in the Partnership Agreement. In the event that such proposal shall not be presented during such 90 day period or shall not be approved by the Advisory Board within 60 days after the presentation, then the following shall apply: 1. the Fund shall be prohibited from making any new Investments (other than as may be required to honour outstanding contractual commitments); and

	2. if Limited Partners representing at least 75% of total Commitments shall so elect, by written notice to the General Partner, the Fund shall be dissolved.
Indemnification	The Fund will indemnify the General Partner, the Manager, the Investment Team, members of the Advisory Board and the employees, agents, advisors, affiliates and personnel of both the General Partner and the Manager against claims, liabilities, costs and expenses, including legal fees, judgments and amounts paid in settlement, incurred by them by reason of their activities on behalf of the Fund or the Partners. Investors will not be individually obligated with respect to such indemnification beyond the amount of their Commitments.
Insurance	The Manager shall, and shall cause the Fund, in each case at the Fund's expense, to take out on behalf of or in relation to the Fund (including on behalf of Investment Committee members and Advisory Board members) and on its own behalf, directors' and officers' liability insurance and such other insurance policies as the Manager, in its sole discretion, deems necessary in relation to the Fund. Such insurance policies may extend past the term of the Fund.
Side Letters	The Fund or the Manager may enter into side letters or other written agreements with individual Limited Partners which have the effect of establishing rights or provisions under, or altering or supplementing, the terms of the Partnership Agreement. Such provisions may include, without limitation, rights with respect to fees, expenses, excuse or exclusion from investments, transfers of Shares, tax and other reporting, and other notice requirements, and other representations, warranties or diligence confirmations.
Follow-On Investment Funds and Conflicts of Interest	Unless approved by Limited Partners representing at least 50% of total Commitments, the Manager will not form another pooled investment fund with the investment objective of making investments mirroring the investment objectives of the Fund until the earlier of (i) the end of the Commitment Period and (ii) such time as the Fund is 65% invested (including a reserve for investment commitments, follow-on financings, operating expenses, Management Fees and Abort Costs.). The Manager will refer potential conflicts of interest to the Advisory Board for its review and resolution. Any investment opportunity that is presented to the Manager [or any of its Affiliates] during the Commitment Period which the Manager believes is suitable for the Fund, (other than investment opportunities relating to existing investments which were made/advised upon prior to the formation of the Fund by the Manager or any of its Affiliates) will be offered to the Fund. The Fund may engage Affiliates of the Manager to provide investment banking and advisory services in respect of Investments if the fees to be paid are established on an arms-length basis in accordance with customary industry standards. Prospective investors should carefully review the matters discussed under Section 12– "Potential Conflicts of Interest."
Functional Currency	The Commitments will be denominated in South African Rand and the returns and distributions will be calculated in Rand. Generally Investments will be made in Rand or the local currency of the Portfolio Company.
Legal Counsel	Cliffe Dekker Hofmeyr Inc.

Auditors	SNG - Sizwe Ntsaluba Gobodo Incorporated
Financial year-end	June, or as determined by the Manager

11. RISK FACTORS

Investment in the Fund involves a significant degree of risk and is suitable only for sophisticated investors who fully understand and are capable of bearing the high risks of an investment in the Fund. Prospective investors should carefully consider the following factors, among others, in making their investment decision. There can be no assurance that the Fund will be able to achieve its investment objective or that investors will receive a return of their capital. In addition, there will be occasions when the General Partner and its affiliates may encounter potential conflicts of interest in connection with the Fund. Prospective investors in the Fund should carefully evaluate the following risks and potential conflicts of interest before making an investment in the Fund.

11.1. Nature of Investment

An investment in the Fund is risky and requires a long-term commitment, with no certainty of return. Many of the Fund investments will be highly illiquid. Accordingly, investments may often be difficult to value and there can be no assurance that the Fund will be able to realise such investments in a timely manner. Consequently, the timing of cash distributions to investors is uncertain and unpredictable. Distributions may also take the form of distributions of securities to the investors; however, except upon the liquidation of the Fund, only marketable securities will be distributed. In addition, the value of Fund investments may fall below the amount of contributions made to the Fund and an investor may not be repaid the total amount contributed by it to the Fund.

11.2. No Assurance of Investment Return

Neither the General Partner nor the Manager can provide assurance that it will be able to choose, make and realise investments in any particular company or portfolio of companies. There can be no assurance that the Fund will be able to generate returns for its investors or that the returns will be commensurate with the risks of investing in the type of companies and transactions described herein. There can be no assurance that any investor will receive any distribution from the Fund. Accordingly, an investment in the Fund should only be considered by persons who can afford a loss of their entire investment. Past activities of investment entities associated with the Manager provide no assurance of future success.

11.3. Difficulty of Locating Suitable Investments

The Fund may be unable to find a sufficient number of attractive opportunities to meet its investment objectives. There is no guarantee that the Fund will be able to achieve full investment during the Commitment Period and, accordingly, the Fund may only make a limited number of investments. Since these investments may involve a high degree of risk, poor performance by a few could significantly affect the return to the investors.

11.4. Risks in Effecting Operating Improvements

In some cases, the success of the Fund's investment strategy will depend, in part, on the ability of the Manager to restructure and effect improvements in the operations of a portfolio company. The activity of identifying and implementing potential operating improvements at portfolio companies entails a high degree of uncertainty. There can be no assurance that the Manager will be able to successfully identify and implement such improvements.

11.5. Market for Investments

The market for the Fund's investments may be volatile. Periods of economic and political uncertainty may result in further volatility in the value of the Fund's investments. There can be no assurance that the Fund's investments will not be sold at prices below their acquisition costs.

The Fund intends to invest in companies the securities of which may not now and may never be publicly traded or listed on a securities exchange. Companies whose securities are unlisted are not subject to the same disclosure and other investor protection requirements that are applicable to companies with listed securities. These Investments may be difficult to value and to sell or otherwise liquidate, and the risk of investing in such companies is generally much greater than the risk of investing in listed or publicly traded companies.

11.6. Investments Longer than Term

The Fund may make investments which may not be advantageously disposed of prior date the Fund will be dissolved, either by the expiration of the Fund's term or otherwise. Although the Manager expects that investments will be disposed of prior to dissolution or be suitable for in-kind distribution at dissolution and has a limited ability to extend the term of the Partnership, the Fund may have to sell, distribute or otherwise dispose of investments at a disadvantageous time as a result of dissolution. Although upon the dissolution of the Partnership the Manager (or the relevant liquidator) will be required to use its reasonable best efforts to reduce to cash and cash equivalents such assets of the Fund as the Manager or such liquidator shall deem it advisable to sell, subject to obtaining fair value for such assets and any tax or other legal considerations, there can be no assurances with respect to the time frame in which the winding up and the final distribution of proceeds to the Limited Partners will occur.

11.7. Non-Controlling Investments

The Fund may hold a non-controlling interest in certain portfolio companies and, therefore, may have a limited ability to protect its position in such portfolio companies, although as a condition of investment in a portfolio company, it is expected that appropriate shareholder rights generally will be sought to protect the Fund's interests.

11.8. Leveraged Investments

In certain cases, the Fund will invest in companies that are expected to incur substantial additional debt to finance acquisitions, capital expenditures or other expansions. Although the Fund will seek to monitor such leverage, the leveraged capital structure of such portfolio companies will increase their exposure to adverse economic factors such as rising interest rates, downturns in the economy or deterioration in the condition of a portfolio company or its industry.

In the event that a portfolio company is unable to generate sufficient cash flow to meet principal and interest payments on its indebtedness, the value of the Fund's equity investment in such portfolio company could be adversely affected.

To the extent there is not ample availability of financing for leveraged transactions (e.g., due to adverse changes in economic or financial market conditions or a decreased appetite for risk by lenders) the Fund's ability to consummate certain transactions could be impaired.

The Fund may at any time borrow funds for any purpose, including to make Investments on a leveraged basis, subject to certain limitations described in Section 10 – "Summary of Investment Terms – Borrowing and Guarantees." The interest expense and other costs incurred in connection with such borrowing may not be recovered by income and gains from investments purchased by the Fund. Income and gains realised with borrowed funds may cause the value of the portfolio held by the Fund to increase at a faster rate than would be the case without borrowings. If, however, investment results fail to cover the cost of borrowings, the value of the portfolio held by the Fund also could decrease faster than if there had been no such borrowings. Additionally, if the investments fail to perform to expectation, the interests of investors in the Fund will be subordinated to such leverage, which will compound any such adverse consequences. Further, to the extent income received from investments is used to make interest and principal payments on the borrowings, the investors in the Fund may be allocated income, and therefore tax liability, in excess of cash received by them in distributions. Borrowings may be made on a portfolio basis in which borrowings for several Investments are cross-collateralised, so that multiple investments may be subject to the risk of loss from the financing for a single investment.

11.9. Investment in Restructurings

The Fund may make investments in restructurings which involve portfolio companies that are experiencing or are expected to experience financial difficulties. These financial difficulties may never be overcome and may cause such portfolio company to become subject to business rescue, insolvency or liquidation proceedings. Such investments could, in certain circumstances, subject the Fund to certain additional potential liabilities which may exceed the value of the Fund's original investment therein. For example, under certain circumstances, a lender who has inappropriately exercised control over the management and policies of a debtor may have its claims subordinated or disallowed or may be found liable for damages suffered by parties as a result of such actions. In addition, under certain circumstances, payments to the Fund and distributions by the Fund to the investors may be reclaimed if any such payment or distribution is later determined to have been a fraudulent conveyance, preferential payment or similar transaction under applicable business rescue and insolvency laws. Furthermore, investments in restructurings may be adversely affected by statutes relating to, among other things, fraudulent conveyances, voidable preferences, lender liability and the court's discretionary power to disallow, subordinate or disenfranchise particular claims.

11.10. Investments in Technology Industries

The Fund's portfolio companies may operate in technology industries. Concentration in those industries may involve risks greater than those generally associated with more diversified funds and may experience significant fluctuations in returns. The technology sector is challenged by rapidly changing market conditions and participants, new competing products and services and improvements in existing products and services. A number of the Fund's portfolio companies may compete in this volatile environment. There is no assurance that products or services sold by such portfolio companies will not be rendered obsolete or adversely affected by competing products and services or other challenges. Instability, fluctuation or an overall decline within technology industries may not be balanced by investments in other industries not so affected. In the event that the technology sector declines, returns to Investors may decrease.

11.11. Additional Capital

Certain of the Fund's portfolio companies may be expected to require additional financing to satisfy their working capital requirements. The amount of such additional financing needed will depend upon objectives of the particular portfolio company. Each such round of financing (whether from the Fund or other investors) is typically intended to provide a portfolio company with enough capital to reach the next major corporate milestone. If the funds provided are not sufficient, a company may have to raise additional capital at a price unfavourable to the existing investors, including the Fund. In addition, the Fund may make additional debt and equity investments or exercise warrants, options or convertible securities that were acquired in the initial investment in such company in order to preserve the Fund's proportionate ownership when a subsequent financing is planned, or to protect the Fund's investment when such portfolio company's performance does not meet expectations. The availability of capital is generally a function of capital market conditions that are beyond the control of the Fund or any portfolio company. There can be no assurance that any portfolio company will be able to predict accurately the future capital requirements necessary for success or that additional funds will be available from any source.

11.12. Contingent Liabilities on Disposal of Investments

In connection with a disposal of an investment in a portfolio company, the Fund may be required to make representations about the financial affairs of such portfolio company. The Fund may also be required to indemnify the purchaser of such portfolio company who suffers losses to the extent that any such representation turns out to be incorrect. Such an arrangement may result in the incurrence of contingent liabilities by the Fund. In that regard, Limited Partners may be required to return amounts distributed to them to fund the Fund's obligations, including indemnity obligations, subject to certain limitations set forth in the Partnership Agreement. In addition, the Fund may sell investments in public offerings. Such offerings can give rise to liability if the disclosure relating to such sales proves to be inaccurate or incomplete.

11.13. Investment with Third Parties

The Fund may invest with third parties, including members of the investment team, through consortiums of private equity investors, joint ventures or other entities. Such investments may involve risks in connection with such third-party involvement, including the possibility that a third-party co-venturer may have financial, legal or regulatory difficulties, resulting in a negative impact on such investment, may have economic or business interests or goals which are inconsistent with those of the Fund, or may be in a position to take (or block) action in a manner contrary to the Fund's investment objectives. In addition, the Fund may in certain circumstances be liable for the actions of its third-party co-venturers. In those circumstances where such third parties involve a management group, such third parties may receive compensation arrangements relating to such investments, including incentive compensation arrangements.

11.14. Risk of Fund Exposure Outside South Africa

It is likely that some portfolio companies may have exposure to other territories in sub-saharan Africa outside South Africa through exports or subsidiaries. In addition, the Fund will be able to invest up to 30% of the aggregate Commitments in portfolio companies headquartered outside of South Africa. See Section 10 — "Summary of the Investment Terms – Diversification".

Although many countries in the rest of Sub-Saharan Africa have exhibited strong economic growth in recent years, there can be no assurance that this growth will continue, and there are major political, economic, social, tax and regulatory risks applicable to indirect and direct investment exposure to countries in the rest of Sub-Saharan Africa, including (i) potential price volatility in and relative illiquidity of some securities markets; (ii) the absence of uniform accounting, auditing and financial reporting standards, practices and disclosure requirements and less government supervision and regulation; (iii) certain economic and political risks, including potential exchange control regulations and restrictions on investment and repatriation of capital, the risks of political, economic or social instability and the possibility of expropriation or confiscatory taxation; (iv) the possible imposition of taxes on income and gains recognised with respect to such securities; and (v) less developed laws regarding corporate governance, fiduciary duties and the protection of investors.

While the General Partner intends, where deemed appropriate, to manage the Fund in a manner that will minimise exposure to the foregoing risks, there can be no assurance that adverse developments with respect to such risks will not adversely affect the assets of the Fund that are exposed to such countries.

11.15. Recycling; Reinvestment

During the Commitment Period, the Manager will the right to generally recall distributions from an investment where capital has been returned within 12 months of contribution as a result of a sale or other disposal of such investment, including a return of capital used to fund a Bridge Financing that was repaid, refinanced or otherwise the subject of a disposition within 12 months and as otherwise described in the Partnership Agreement. In addition, any amount drawn down to pay the Management Fee, or Other Expenses will, to the extent the investor receives subsequent distributions, be subject to recall by the Manager. Accordingly, during the term of the Fund, the investor may be required to make funded Commitments that, in the aggregate, exceed its Commitment. In addition, to the extent such recalled or retained amounts are reinvested in investments, the investor will remain subject to investment and other risks associated with such investments.

11.16. Restrictions on Transfer and Withdrawal

The interests in the Fund have not been registered under any securities laws. There is no public market for the interests in the Fund, and none is expected to develop. In addition, the interests in the Fund are not transferable except with the consent of the General Partner, which may be withheld in its discretion.

11.17. No Right to Control the Funds' Operations

Investors will have no opportunity to control the day-to-day operations, including investment and disposal decisions, of the Fund.

11.18. Reliance on Key Personnel

The Fund will be managed exclusively by the General Partner and the Manager, and, except as may be set forth herein or in the Partnership Agreement, investors will not be able to make investment or other decisions regarding the Fund. Accordingly, the success of the Fund will depend upon the ability of the investment team and other individuals employed by the Manager to source, select, complete and realise appropriate investments.

The General Partner will have considerable latitude in its choice of Portfolio Companies and the structuring of investments. The Manager is depending upon the expertise of its key employees in providing advice with respect to investments in South Africa and elsewhere. If the services of the senior members of the investment team were lost, the Fund could be adversely affected. There can be no assurance that any members of the investment team will continue to be associated with the General Partner or its affiliates throughout the life of the Fund.

11.19. Reliance on Portfolio Company Management

Each portfolio company's day-to-day operations will be the responsibility of such company's management team. Although the Manager will be responsible for monitoring the performance of each investment and intends to invest in companies operated by strong management, there can be no assurance that the existing management team, or any successor, will be able to operate the portfolio company in accordance with the Manager's plans.

11.20. Hedging Policies/Risks

In connection with the financing of certain investments, the Fund may employ hedging techniques designed to reduce the risks of adverse movements in interest rates, securities prices and currency exchange rates and may under certain circumstances structure investments using total return swaps or other derivative instruments. While such transactions may reduce certain types of risks, such transactions themselves may entail certain other risks. Thus, while the Fund may benefit from the use of these hedging mechanisms, unanticipated changes in interest rates, securities prices, or currency exchange rates may result in a poorer overall performance for the Fund than if it had not entered into such hedging transactions. In the event of an imperfect correlation between a position in a hedged instrument and the investment that it is intended to protect, the desired protection may not be obtained, and the Fund may be exposed to risk of loss. In addition, it is not possible to hedge fully or perfectly against any risk, and hedging entails its own costs which will be borne by the Fund.

11.21. Tax Considerations

An investment in the Fund involves tax considerations which may differ for each investor in the Fund. Each investors is advised to consult its own tax advisors.

11.22. Drawdown Defaults

If an Investor fails to make capital contributions to the Fund when due and the capital contributions made by non-defaulting investors and borrowings by the Fund are inadequate to cover the defaulted capital contribution, the Fund may be unable to pay its obligations when due. As a result, the Fund may be subjected to significant penalties that could materially adversely affect the returns to the investors (including non-defaulting investors). If an investor defaults, it may be subject to various significant remedies and consequences as provided in the Partnership Agreement and in Section 10–- "Summary of the Investment Terms – Default".

11.23. Dilution from Subsequent Closings

Investors making Commitments at closings subsequent to First Close may participate in existing investments of the Fund, diluting the interest of existing investors therein. Although such investors will contribute their pro rata share of previously made Fund draws for investments (plus an additional amount thereon), unless the Manager in its sole and absolute discretion determines that a pro rata capital contribution from Limited Partners (together with additional amounts thereon) at a subsequent closing would not appropriately reflect a material change in the value of an investment then held by the Fund, there can be no assurance that this payment will reflect the fair value of the Fund's existing investments at the time such additional investors subscribe for Interests.

11.24. Diverse Investor Group

The investors in the Fund may have conflicting investment, tax and other interests with respect to their investment in the Fund. The conflicting interests of individual investors may relate to or arise from, among other things, the nature of investments made by the Fund, the structuring or the acquisition of investments and the timing of disposals of investments. As a consequence, conflicts of interest may arise in connection with decisions made by the Manager, including with respect to the nature, structuring or disposal of investments, that may be more beneficial for one Investor than for another investor, especially with respect to investors' individual tax situations. In addition, the Fund may make investments which may have a negative impact on related investments made by the investors in separate transactions outside of the Fund. In selecting, structuring and disposing of investments for the Fund, the Manager will consider the investment and tax objectives of the Fund and its investors as a whole, not the investment, tax or other objectives of any investor individually.

11.25. Changes in Law

Changes in legal, tax and regulatory regimes may occur during the life of the Fund which may have an adverse effect on the Fund, its investments and/or investors in the Fund.

12. POTENTIAL CONFLICTS OF INTEREST

Investors should be aware that there will be occasions when the Manager and its affiliates may encounter potential conflicts of interest in connection with the Fund. If any matter arises that the Manager determines in its good faith judgment constitutes an actual conflict of interest, the Manager may take such actions as it determines reasonably and acting in good faith may be necessary or appropriate to ameliorate the conflict (and upon taking such actions the Manager will be relieved of any liability for such conflict to the fullest extent permitted by law and shall be deemed to have satisfied its fiduciary duties related thereto to the fullest extent permitted by law). These actions may include, by way of example and without limitation, disposing of the security giving rise to the conflict of interest, presenting the conflict to the Advisory Board or appointing an independent fiduciary. By acquiring an interest in the Fund, each investor will be deemed to have acknowledged the existence of any such actual or potential conflicts of interest and to have waived any claim with respect to any liability arising from the existence of any such conflict of interest. The following discussion enumerates certain potential conflicts of interest:

12.1. Fees Payable to the Manager

The Manager may earn fees and other compensation from target companies, purchasers or sellers upon the closing of investments by the Fund as compensation for advice on valuing, structuring, negotiating and arranging financing for such transactions and may earn fees in connection with unconsummated transactions. Other compensation may include warrants to purchase an equity interest or other securities in the company for which the transaction is being undertaken. The Manager also may provide a range of financial services to companies in which the Fund invests, including strategic and financial advisory services, and the Manager generally will be paid fees (which may include warrants or other securities) for such services. Except with respect to Other Fees (as defined in Section 10 –- “Summary of Investment Terms – Transaction and other Fees”), none of the Manager’s fees for any of the foregoing will be shared with the Fund.

The fee potential inherent in a particular investment or transaction could be viewed as an incentive for the Manager to seek to effect an investment or transaction for the Fund (see Section 8 – - “Summary of Investment Terms – Transaction and other Fees”). However, the Manager believes that that its Commitment and Carried Interest incentive results in the Manager being more economically motivated by the return on the Fund’s capital than any fee income that may be generated from affiliate transactions.

12.2. Carried Interest

The existence of the Carried Interest may create an incentive for the Manager to make riskier or more speculative investments on behalf of the Fund than would be the case in the absence of this arrangement, although the Manager's commitment of capital to the Fund should somewhat reduce this incentive. If distributions are made of property other than cash, the amount of any such distribution will be accounted for at the fair market value of such property as determined by the Manager in accordance with procedures set forth in the Partnership Agreement. An independent appraisal generally will not be required and is not expected to be obtained.

12.3. Allocation of Investment Opportunities

Subject to the terms set forth in Section 10 – "Summary of Investment Terms – "Co-Investment Policy", prior to the expiration or termination of the Commitment Period, investment opportunities that become available to the Manager will be allocated first to the Fund, provided, that any amount of such opportunity in which the Fund is unable to participate (including, for example, in situations where such participation would violate one of the investment limitations of the Fund) may, in the Manager's discretion, be offered to the PIC, before making such opportunities available to other Limited Partners and non-Limited Partners. Co-Investments will be permitted by investment vehicles organised for the benefit of the Manager and the Investment Team, respectively, and such co-investment will be made on materially the same terms and conditions as the investment made by the Fund, as far as practicable.

12.4. Joint Venture Partners

Some of the third-party operators and joint venture partners with whom the Manager may elect to co-invest the Fund's capital have pre-existing investments with the Manager. The terms of these pre-existing investments may differ from the terms upon which the Fund invests with such operators and partners. To the extent a dispute arises between the Manager and such operators and partners, the Fund's investments relating thereto may be affected.

12.5. Side Letters

The Fund or the Manager may enter into arrangements with individual Limited Partners as described in Section 10– "Summary of Investment Terms – Side Letters" with respect to the Fund without any further act, approval or vote of any other Limited Partner, which would have the effect of establishing rights under, altering or supplementing the terms of the Partnership Agreement with respect to such Limited Partner in a manner more favourable to such Limited Partner than those applicable to other Limited Partners. Such rights or terms pursuant to such arrangements may include, without limitation, fee arrangements with respect to such Limited Partner, reporting obligations of the Manager, waiver of certain confidentiality obligations, consent of the Manager to certain transfers by such Limited Partner or rights or terms necessary in light of particular legal or regulatory characteristics of a Limited Partner.

12.6. Accrued Interest

The Fund may invest in portfolio companies by way l negative cash implications for Investors over and above their commitments to the Fund.

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