# Unlocking Capital for IVMs in Africa Case Study - Lilian Mramba

**Lilian Mramba**

*CIO, Grassroots Business Fund, (GBF)*

## What does track record mean to investors

IVMs often find themselves navigating the intricate landscape of track record building when seeking to raise funds. Although track record is frequently discussed in general terms, it is actually a multifaceted subject with varying interpretations amongst investors.

There is the track record of the company, i.e., Grassroots Business Fund; the team track record, which consists of how individuals in a team work together; and then the individual track record of each of the team members. Investors scrutinize each of these with their own degree of importance. Some investors consider the broader track record of a company and attribute it to the team, while other investors consider individual team track record and attribute it to the company.

An additional interpretation is that investors require that there be a demonstration of a track record for each fund. Concerns regarding the applicability of prior successes and the degree to which warehouse investments align with the fund's present thesis are contributing factors to the complexity. These nuances draw attention to the relational nature of track record investments and their close connections to the tastes of certain past investors, the passage of time, and the specific circumstances surrounding current fundraising initiatives.

Consequently, building a track record is very complex, requiring considerable time and effort as IVMs strive to establish a robust track record that meets the diverse expectations of potential investors.

## Challenges

**Demonstrating track record:** The need to validate one's track record through multiple avenues and investor requirements poses a significant challenge, contributing to extended timelines in the fundraising process.

**Limitations of warehousing facilities:** The constraints of our GBF warehousing structure hindered our ability to test the viability of the strategies we were raising funds for. For example, investors' criteria for a short tenure warehousing structure of 3-4 years and limited size frequently fail to produce results that meet our fund's objectives. GBF's strategy is anchored on flexible and patient capital of 5-7 years.

**High management costs:** Managing these warehousing facilities comes with substantial costs relative to their size. Unfortunately, investors may not always be prepared to cover these expenses in full.

## Nexus of advisory work and track record building

GBF has led the deployment of USD 6 million of concessionary loan funds to micro and small businesses for the Mastercard Foundation. Mastercard Foundation's COVID-19 Recovery and Resilience Program (CRRP) was designed to assist institutions and communities in Africa to respond to the short-term, negative effects of the COVID-19 pandemic while strengthening their resilience in the long run. GBF is currently managing a USD 65 million program for the Mastercard Foundation (Jiinue Growth Program). The CRRP program was the beginning of a close partnership for GBF ,which they have built on over the years.

In the nexus of advisory work and track record building, Lilian asserts, ***"the magic lies in the existence of both,"*** with GBF's fund-specific consulting work aimed at demonstrating their capacity to effectively deploy, manage, and utilize the CRRP money as well as their managing GBF. Lilian believes that maintaining strong investment sourcing, deployment, and management skills is crucial for successful fund advisory work. This complements GBF's existing fund thesis and impact, contributing to its credibility and track record with investors.

> *" Fundraising is a nuanced journey where no single achievement guarantees success. It's about fostering investor relationships, earning trust, and delivering on promises.*

# Unlocking Capital for IVMs in Africa Case Study - Moushmi Patel

## Moushmi Patel

*Co-founder and Investment Partner, Sanari Capital (a South African domiciled fund)*

## Challenges in building a track record

Sanari Capital is a South African-domiciled fund that has been primarily funded by institutional capital from South Africa. Sanari Capital's first cheque was from 27Four, a South African-based consultant who also provided Sanari Capital with a warehousing facility, enabling them to execute on larger investments to enhance their track record investments.

However, starting out in fund management posed several challenges. Investors typically looked for a robust team with diverse expertise and a proven track record. The team also faced skepticism from stakeholders regarding the team's capacity to manage the investment process comprehensively, including reporting and operational aspects. To meet these criteria, Sanari Capital had to expand its team, leading to the challenge of balancing team size relative to the size of funds raised. With a relatively large team compared to the funds being raised, Sanari Capital encountered sustainability challenges, leading to a cash burden on its operations. To maintain operational continuity, Sanari Capital pursued external debt funding. Despite these challenges, Sanari Capital secured commercial debt from ASISA (the Association for Savings and Investment South Africa) and later from The Jobs Fund. In recent years, Sanari Capital has received USAID grant funding which has helped recapitalize their balance sheet.

> *"We started with a small pot of capital - knocked on doors, got HNWIs[1], and built our track record on a deal by deal basis. The time taken to secure capital was significantly longer than that of our male counterparts, who were able to raise capital much quicker than us."*

## Challenges of ICs for IVMs

Emerging IVMs frequently face stringent requirements from investors. One of these expectations often involves a greater proportion of external Investment Committee (IC) members who have deep domain experience than internal fund IC members.

This emphasis originates from concerns about unrestrained authority within a company. As a result, independent non-executives are increasingly valued, particularly among new IVMs. This strategy is based on the need to establish strong checks and balances, which reduces the risks associated with emerging IVMs.

## The role of teams and the skepticism of investors

The role of the team and its dynamics played a crucial part for Sanari Capital during the fundraising process for their second fund. Despite having a predecessor fund that served as a track record, demonstrating the team's longevity and competence in investment and portfolio management, investors were cautiously assessing the team's readiness to undertake a larger fund size. Sanari Capital opted to expand its team by bringing in additional partners to de-risk this. This move raised further questions from investors regarding the team's cohesion and track record. Consequently, most investors chose to wait until the later stages of the fund close, preferring to observe how the new partners integrated and performed over time.

This cautious approach created a "wait and see" scenario for Sanari Capital, necessitating them to continuously prove themselves not only before the initial close but also throughout the fundraising process. With all the partners having worked together for three years now, investor confidence in Sanari Capital's capabilities has been demonstrated by the USD 65 million in funds closed.

> *It was a lot of hard work, a lot of sleepless nights, and to carry a debt burden, without certainty of being able to close, it's quite stressful! They say it takes 10 years of hard work to be an overnight success. That's what it has been for us.*

# Unlocking Capital for IVMs in Africa Case Study - Kim Kamarebe

**Kim Kamarebe**

*Founder and Partner,*
*Inua Capital*

## Moving beyond track record investments

### Track record and in-situ team

When engaging with potential investors, the recurring feedback often focuses on the necessity of having both a complete team and a proven track record. However, this overlooks the practical constraints faced by many IVMs, particularly those operating in local contexts without access to HNWI [1] networks or government support.

This presents a challenge, as it sidelines experienced local IVMs, turning the fundraising process in Africa into an inequitable popularity contest devoid of merit-based considerations and performance fundamentals.

### Challenges beyond track record investments

In fund management, the process of securing money goes beyond simply presenting a track record portfolio. Personal networks, existing ties, and a sense of comfort and alignment with IVMs are all common elements that investors consider when making investment decisions. However, navigating this landscape becomes especially difficult for certain IVMs who lack shared backgrounds, experiences, or networks. Implicit biases can arise, making it even more challenging to diversify the profiles of IVMs in Africa.

There is a prevalent misconception that emerging IVMs lack the necessary experience and expertise. Similarly, there may be unfounded stereotypes regarding the investment capabilities of African female first-time and emerging IVMs or younger first-time fund managers. Even those with a background in finance and investment face skepticism regarding their aptitude as investors in the fund management space. Addressing these issues is critical for both IVMs and investors.

## Exits in the African continent

In Africa, exits can be challenging. However, the paucity of sustainable and well-managed SMEs should create an opportunity for investors who create value from their investments. If an investor allocates resources and time to building a strong business, exit options, e.g., larger ticket investors, open up.

Kim shares that exit has not been an issue for her, as she is a hands-on investor who spends substantial time de-risking the SMEs by implementing systems, processes, certifications, and building the capacity of the broader management team to deliver good growth. Kim says, ***"There will always be a market for an exceptional company.".***

## The role of reputation as a fund manager

Kim struggled to secure her first capital for her vehicle for years. Despite facing hurdles in her efforts to close a fund, she persisted. She leveraged the funds of former colleagues who believed in her capacity to make exceptional investments to launch investments, sacrificing management fees in the process to prove that concept. This initial venture was a private vehicle, supported by people who had seen Kim's track record in finance and knew her passion for Africa. Thus, the importance of reputation cannot be overstated. It is vital for a fund manager to build and maintain an excellent reputation while also delivering on their mandate, however small-scale. It ensures that one's name is the first to be recognized during market discussions.

Given the considerable costs associated with the fundraising journey, self-funding is often a necessity. Bootstrapping a fund raise with (side) advisory work or consulting is a practical strategy that many, like Kim, employ. By leveraging existing expertise and networks in advisory roles, IVMs can generate additional capital to sustain operations, a team, and fund expenses while fundraising, thereby keeping the momentum alive as they pursue fund management.

> *"Don't stop pursuing your fund management dream, even if it gets tough. Mine was not a straight-line journey, but I got there in the end."*