

Case study: Financial Instrument of the Year

This award is for innovative financial instruments that form the underlying structure for impact investments including, for example:

- I. funding instruments aimed at institutional funders;
- II. impact delivery instruments to separate out innovation at large-scale funding level; and
- III. innovation in lending schemes to targeted beneficiaries

27four Investment Managers: The Black Business Growth Fund II

Founding date	27four – 2007; BBGF – 2019
Geography	South Africa
Sector	Financial services
SDGs	1 [no poverty], 3 [good health and wellbeing], 4 [quality education], 5 [gender equality], 8 [decent work and economic growth], 10 [reduced inequalities]
Web	https://www.27four.com/

Background

27four is a black female-owned multimanager with a strong track record accumulated over a decade of operating in the financial services sector.

Originality of design

27four developed a blended finance solution to deliver both commercial returns and impact such as job creation, transformation and economic growth for investors. The 27four Black Business Growth Fund II (BBGF II) raised grant funding from the Jobs Fund and retirement fund commitments. The primary focus of the BBGF II is to support emerging black private equity managers (BPEMs) with a focus on growth investing. The BBGF II makes commitments to emerging South African small and medium-sized enterprises (SME) and mid-market BPEMs, and similar investment vehicles. The fund also makes commitments to co-investments with a focus on growth capital investing. The BPEMs identified will be black-owned and managed, with the ethos of transforming the companies in their portfolios embedded in their respective investment strategies.

Meeting unfilled needs

The Jobs Fund funding provides subordinated capital which serves as downside protection for retirement funds backing emerging BPEMs instead of established managers. The Jobs Fund capital is comingled with retirement fund capital on deployment into BPEM funds but ranks behind return of capital and an agreed hurdle to retirement fund investors, thereby providing the requisite downside protection.

The unique downside protection mechanism:

- Provides up to 20% downside protection buffer to retirement funds, equivalent to a single commitment to one underlying BPEM fund.
- Reduces the J-curve with the normal initial dip covered by the Jobs Fund mechanism.

The project (BBGF II) considers the underlying fund's objectives on the transformation of its portfolio companies and whether actual objectives/targets are included in its mandate and in contracting with portfolio companies.

Theory of change

If the BBGF II invests financial, human, intellectual, and social and relationship capital in black private equity fund managers then its number and the rand value of funds invested in portfolio companies will increase.

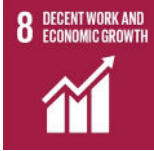
Impact thesis

At inception the project aimed to onboard six to seven BPEMs, indirectly investing in 40 to 50 portfolio companies by the end of the first quarter of 2024/25. The project expects to disburse R200m from the Jobs Fund alongside R1bn in matched funding.

SDG linkages



The BPEMS BBGF II invests in have committed themselves to driving transformation in their investee companies with a focus on increasing the representation and voice of women at all levels in companies. Additionally, most of the jobs the fund has created are occupied by women.



The jobs created by managers and their investee companies all meet labour law requirements for decent work in South Africa. All jobs except those based on commission meet minimum wage requirements as prescribed by the Department of Employment and Labour.



Through the creation of sustainable permanent jobs, the investments BBGF II has contributed to in turn contribute to the reduction of inequalities in South African communities by giving African – especially indigenous – people access to economic power and leverage.



By contributing to the creation of sustainable permanent jobs and short-term jobs, BBGF II is contributing to eradicating poverty in South Africa.



The project has invested in a primary and high school group that caters to lower and mid living standards measure communities in Bloemfontein. The project also contributed to the construction of a school in Fourways, Johannesburg. This is in addition to support extended to a tertiary institution seeking to expand to the African market.



The project has contributed to make investments in the healthcare sector with the outcome being an increase in access to quality healthcare in Soweto, Gauteng and Louis Trichardt, Limpopo.

Impact

This project aims to tackle three problems currently affecting BPEMs and, more broadly, employment levels in South Africa:

- i. The private equity industry is not transformed.
- ii. First time and emerging highly qualified and experienced black managers have limited or no private equity fund management track records and therefore struggle to raise capital compared to established players.
- iii. Job creation and transformation of the wider economy is not advanced in South Africa.

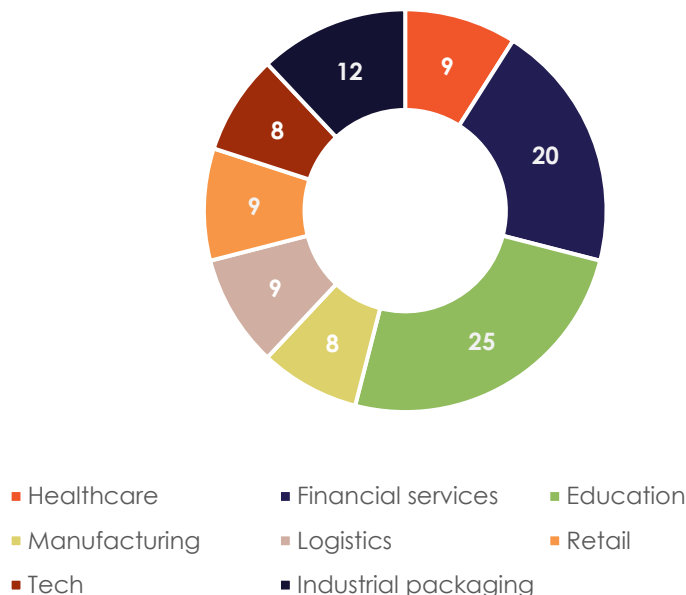
The primary aim of investments by the Jobs Fund is linked to job creation while limited partners (LPs) or matched funders mainly concern themselves with returns. The project accelerates the funding available for black businesses for the purpose of job creation, transformation and wider socioeconomic impact. The BPEMs are required to infer black ownership and drive transformation through their investments in line with regulatory considerations.

Outcome indicators

- Employment creation
- Number of new permanent full-time positions/jobs
- Number of new short-term full-time positions/jobs skills development
- Number of trained beneficiaries (completed training)
- Economic growth
- Value of management fee (revenue) paid to BPEMs and due diligence fees paid to third-party service providers
- Number of portfolio companies invested in by BPEM funds
- Number of BPEMs achieving annual transformation targets as set out in the Amended Financial Services Sector Codes
- Number of BPEMs supported through funding
- Number of BPEMs reaching first close
- Number of BPEMs reaching final close
- Operations matched funding ratio

The fund has performed very well to date (since inception in July 2019), with the net internal rate of return (IRR) and TMB at 18.3% and 1.27x. As of 28 February 2023, the BBGF sector exposure was as follows:

Figure 1: BBGF II sector exposure by percentage



As of 27 March 2023 there had been 547 new permanent jobs created through the project. Job creation is verified annually by an independent auditor. New permanent job creation spans all nine provinces of South Africa, with most of the jobs being occupied by black women and skilled and semi-skilled individuals. The project has also created 218 short-term jobs from inception to date. These short-term jobs indicate the project's ability to give initial exposure to an industry for individuals without access to permanent jobs,

allowing them to accumulate experience they can use in their search for permanent employment. The short-term jobs are also largely occupied by black women. The project has maintained an average ratio of 1.55 new permanent jobs created per R1m of capital drawn into the BBGF II.

The project has also assisted managers with nonfinancial support. This included:

- Assisting managers with fundraising in the market (only postconditional commitment)
- Contracting terms improvement for retirement funds
- Deal reviews and challenge provided to managers on how institutions look at re-mandate fit
- Warehousing to build track record
- Team and individual contributor sourcing
- Improvement in due diligence processes
- Limited Partnership Agreement guidance and support
- Advisory board guidance around governance
- Due diligence processes with others providing insight into how to approach analysis
- Impact investing and ESG support
- Reporting improvements
- Marketing

Financial performance

Table 1: Financial performance of BBGF II

Total distributions to investors	-
Number of investments funded	5
Number of co-investments	-
Number of underlying portfolio company investments	14
Number of exists/partial exists	1
Cost of current investments	R280,876,813
Fair value of current investments	R380,464,474
Total net asset value of the fund to partners	R365,024,945
Total net asset value of the fund to partners (after Jobs Fund first loss)	R373,155,099

Potential for replicability

The exposure of BBGF II in multiple sectors indicates the potential of the replicability of the model across different sectors. The model has resulted in the creation of jobs in different provinces in South Africa. This points to the potential replicability of the model in other markets.

Risks

The project has faced several challenges including the long and often opaque processes of asset consultants and retirement funds, which have resulted in protracted deployment rates across BPEMs in the portfolio.

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