

## OUR INVESTMENT STRATEGY: ALIGNMENT WITH STAKEHOLDERS PAYS OFF

Futuregrowth Development Equity Fund investment strategy in action: our Transaction Capital journey delivers ongoing financial and socioeconomic returns

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Futuregrowth's Development Equity Fund (DEF) is an open-ended private equity fund with a focus on assets that support investment in infrastructure, development and social upliftment. With a 14.83% per annum performance since its inception in September 2006 – a performance on par with other commercially-oriented closed-ended private equity funds – the DEF is managed with a defensive strategy of blending exposure across a variety of assets, sectors and stage-of-life investments. The result is a Fund of R3.4 billion assets under management and exposure to 57 different investee companies across 29 sectors. This diversified composition has aided the fund performance during the challenging COVID times, as well as the prior five years where the South African economy faced muted growth prospects.

With a sizeable number of investments in the DEF, one of our core investment strategies has been to identify solid owner-managed investee companies with significant skin in the game. This tends to result in a strong alignment of interest in terms of capital exposure among the shareholders and managers of these companies.

### Our Transaction Capital journey

A good example of one such investment is in Transaction Capital, where Futuregrowth has had an investment journey of over 16 years, a period that took the company from an unlisted investment through to its listing on the JSE, and continuing thereafter to be a capital provider to its underlying businesses. This investment journey spans not only the DEF but also originates from the initial debt funding of some of the underlying businesses across our developmental debt funds.

Futuregrowth initially started its journey by providing debt funding to SA Taxi, one of the unlisted assets of JMR Capital, back in 2006. SA Taxi's core business was in the provision of asset-backed finance leases to SMME minibus taxi operators in South Africa, but they also expanded their offering to provide access to vehicles, insurance, data services and other allied services in this segment. This investment has not only had a strong developmental impact in the creation of SMMEs (taxi-operators), but also in much-needed access to transport for the majority of South Africans.

The entrepreneurial founders of JMR Capital (i.e. Jawno, Mendelowitz and Rossi) had individually and collectively founded various businesses in the credit and payment services sector, and had subsequently grown by acquisitions and mergers to invest across three business pillars of a) asset-backed finance, b) unsecured lending services and c) credit/payment services. Futuregrowth had been instrumental in providing funding to these founders in this growth journey as part of our key philosophy of backing the jockey. In 2007, Transaction Capital came into being when JMR Capital and other management shareholders swapped their shares in select underlying portfolio companies for Transaction Capital shares. As Transaction Capital continued to grow and expand, Futuregrowth's

funding grew alongside its funding needs into the underlying businesses, whilst still ensuring a strong alignment of interest with the founding shareholders of the business.

Six years post our initial funding into SA Taxi - in June 2012 - Transaction Capital successfully listed on the JSE at R8.00 per share with a market capitalisation of R4.7 billion. In the run-up to the listing, Futuregrowth was a provider of pre-IPO funding to the company, an investment decision that was aided by our experience with the company and its track record.

Transaction Capital has continued to evolve over the years, divesting from its unsecured lending business in 2014 (and returning R1.2 billion to shareholders), to - most recently - acquiring WeBuyCars in 2021. Futuregrowth has remained a key funder of the underlying businesses, as evidenced by the empowerment funding provided in 2019 for the acquisition by SANTACO of shares in SA Taxi Finance Holdings. This resulted in the beneficiaries benefitting from a strong alignment of interest with a key service provider in the market, with the proceeds from dividends (after the repayment of debt) being used for various initiatives such as the upgrading of taxi ranks, increased security, driver education initiatives, and a growth in the alignment of this body with the taxi industry as a whole.

## Foundations for sustained success

Reflecting back on our journey with Transaction Capital, aside from a strong due diligence process on the business model, one of the foundations was the strong alignment with the original founders of the business – who are still invested in Transaction Capital to this day. With Futuregrowth’s mandates sufficiently broad to cater for the crossover from an unlisted to a listed investment (and providing both debt and equity) a number of Futuregrowth’s funds hold exposure to the listed entity Transaction Capital.

This journey illustrates a key differentiator of Futuregrowth’s - and the DEF’s - investment process: namely, that we are able to identify strong business models and owner-manager teams, and are able to invest through life cycles and asset classes (and in the case of the DEF) without the need to be forced to an exit, as would be required with a closed-ended fund.

Transaction Capital describes itself as “catalysts of unconventional potential” who “invest in and operate high-potential businesses in markets with historically low levels of client service and trust”. As such, we view Transaction Capital as strongly developmental and with a solid governance framework. With a management team attuned to opportunities in their business pillars, we continue to engage and support this business through the cycle, and continue to look for opportunities for the ongoing alignment of stakeholders.

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