Alternative capital partnerships under way

Ben Kodisang, founder and CEO of ALT Capital Partners, is anything but the new kid on the block. He talks to *Property Review* about utilising his knowledge, expertise and energy to "find new ways of defining conviction and defying convention, which effectively is disruptive to normal working methods". In layman's terms? He tells us about his new venture and the exciting opportunities that await

By Mark Pettipher

"I am inspired by the opportunity to create and build up an alternative investment business that aspires to attract foreign and local investment partners who are actively seeking to participate in the 'Africa rising' narrative," says Kodisang.

His LinkedIn profile describes ALT Capital Partners as a company with "a deep purpose that seeks to exceed the investment expectations of our investors while catalysing growth and development in the African economies we operate in. We believe that success comes from forging strong partnerships, having local and deep knowledge in our chosen field and always thinking globally."

ALT Capital Partners is a specialist investment business that focuses only on private markets. Its focus is on credit, property investment, agri-investment, infrastructure, housing, healthcare, private equity and venture capital. Simply put, the business lends money to corporates, joins forces with specialist funds and developers, finds investment partners and invests in assets that will deliver returns to stakeholders.

"ALT Capital's strategy is to look at three investment risk activities: low risk, which will offer up to three percent return on investment; moderate risk, offering up to five percent; and high risk, with seven percent and upwards," says Kodisang.

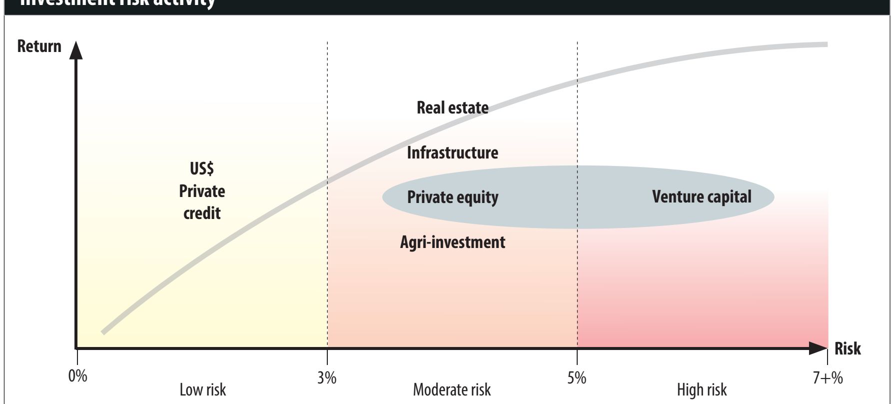
"Within each risk activity are different investment partners. In the low risk column, we have private credit – what I call 'nearly cash'. In the middle or moderate risk column is where most of our investments lie – including real estate, infrastructure, private equity and agri-investment. In the third, high-risk column, you'll find venture capital.


Ben Kodisang, founder and CEO of ALT Capital Partners

"Each fund or asset that we create and invest in is set up and governed as a separate legal entity. The fund mandates the management company, ALT Capital Partners, which in turn employs the team of experts required to run and manage the assets.

"On the whole, each company is funded by receiving fees up to a carry bar of a nine percent hurdle. Thereafter we share 20% of the investment return."

Investment risk activity



To illustrate, Kodisang elaborates: "In the majority, we are dealing with institutional investors – and they know what they want. Take working with a pension fund as an example: they will employ a consultant who understands the ins and outs of the fund, what the demographics are, and the age of the beneficiaries. The fund will be clearly governed. Whether it's a defined contribution or a defined benefit, the fund has defined liabilities – and, once it is established what those liabilities are, an investment policy statement is agreed upon and set up. Thereafter, once the affairs of the fund are known, an expectation of income return is set.

"We then talk to that manager and understand the fund's requirements, and direct the funds to one (or all three) of our investment categories."

ALT Capital is a custodian of other people's money. It's licensed to attract money and invest it accordingly. "Having broken down my vision into three categories, let me unpack them," says Kodisang. "In terms of real estate, as far as South Africa is concerned, we are undergoing a correction. Wherever you look, the listed sector (as a lead indicator) shows a downward trend of 20% (this year). On a three-year cycle, it is down by four percent. On the physical market, a lot of office capacity has been created. As a result, office vacancies are tracking upwards. Retail was stable, but we are experiencing an over-subscription; malls and retail spaces are increasingly coming under pressure. To put it bluntly, South Africa is full.

"As a private credit provider, ALT Capital Partners – registered in Mauritius is a US-dollar fund – doesn't have the same requirements as a bank. We raise money from investors. There is a cost involved and a mandated expectation of return on capital, so we find businesses to give credit to. Most developers have issues in raising capital for their projects; we examine the issues and solve the problem. We invest.

"Our funding concentrates on being a US-dollar fund with a focus on Africa (but excluding South Africa). Our objective is commercial property, consisting of retail, offices and specialised industrial such as logistics.

"We're not developers, but we will partner with developers. ALT Capital is an investment fund. We're an unlisted real estate investment trust (REIT); as such, we will outsource bought property assets to management companies such as Broll or JHI.

"Because we are investors, we don't get involved with the day-to-day management of the properties. We leave that up to the appropriate management company or specific mancos who are good at what they do. The ethos here is that we do what we're good at: finding and raising capital, and creating portfolios to achieve returns from across the three risk categories by investing in developing African states."

The ALT Capital infrastructure partnership is fairly well established. Kodisang has entered into agreements with Bayakha Investment Partners. Bayakha Investment Partners is an authorised, black-owned specialist infrastructure fund manager licensed by the Financial Services Board as a Category II financial services provider.

Established in 2015, Bayakha was created as a direct response to the growing need for fund management firms with the capabilities to identify and deliver financial and impact-returning infrastructure investments.

Like ALT Capital, Bayakha combines alternative asset-class management capabilities with a focus on addressing the specific funding challenges of black-African market participants, to ensure that its investments transform both the structure of the economy and the dynamics of infrastructure access.

Jointly, their mission of playing a catalytic role in the development of the African continent by solving capital-intensive developments is a clean fit with ALT Capital Partners.

Through Bayakha, ALT Capital has a strategic relationship with Pele Energy Group, a diversified group focused on delivering structural transformation. This is delivered through Knowledge Pele (a research, advisory and development implementation firm), Pele Green Energy (an independent power-producing company that specialises in renewable energy), and Pele Natural Energy (an independent power-producing company specialising in conventional energy).

On the social infrastructure side, ALT Capital is developing a partnership with Marang Capital, who is establishing a pipeline of urban and peri-urban healthcare facilities.

Under infrastructure investments, ALT Capital is conceptually working to develop integrated housing aimed at the entry-level urban residential market, which involves taking office stock and converting it to cost-effective residential units.

> A corporate investor that has funds set aside for social CSI or other enterprise developments can take advantage of the government's S12J Income Tax Act

The fund is also looking to cater to a middle-income market in townships. The concept would be to restore dignity to people by providing rental stock that is high-density and good quality, that looks good and that is affordably priced. By working in collaboration with the communities, it is envisaged that these precinct units would be of a standardised modular design that could be applicable to infrastructure demands from Cape Town to Cairo.

Moving to private equity, ALT Capital has also partnered with Adinah Capital Partners. Adinah partners with entrepreneurs with a view to making long term unlisted market investments. The private company, start-up venture and tactical opportunities funds have enabled Adinah to invest in companies at various stages of their growth cycles, as well as in a range of sectors and under varying market conditions. The private equity portfolio includes established businesses in the manufacturing and service space with the intent of providing a business with sufficient patient capital for management teams to create new business initiatives, launch new products, enter new markets, acquire other businesses and become market leaders in their niches.

Adinah has identified the shortage of risk capital in the start-up sector of the market in South Africa. Through its S12J VCC fund and with select investors, Adinah makes early stage venture-capital investments focussed on South African technology start-ups with continental and global growth potential. More importantly, Adinah assists in the mentoring of start-up founders and CEO's, and assists in the incubation, administration and commercialisation of concepts and new business ideas.

"In unique cases, a corporate investor that has funds set aside for social CSI or other enterprise developments can take advantage of the government's S12J Income Tax Act by investing with us through private equity or venture capital," says Kodisang. "Investors are entitled to deduct the full amount of their investment from their income in the applicable tax year. This tax relief mitigates investment risk and significantly enhances potential returns.

"True partnership to me is utilising what we know about companies. It goes beyond just taking an equity cheque. There needs to be value-adding. We need to thoroughly understand the business and adapt our expertise to the business. By total immersion in it, we will help it grow and yield returns.

"We understand that economic growth is dependent on the stimulation and growth of small to medium enterprises. Private equity is there to help.

"Last but not least, ALT Capital is looking for ways to help stimulate agri-investment. Farming is largely in the hands of family-owned concerns or co-operative societies. Here we see an opportunity to establish institutionalised and sustainable farming. As an agri-fund, we would look to partner with agricultural universities and identify the farmers of the future. A farming institution would have the same manco structure as any of our other investments. It is treated as any other business.

"By creating institutionalised farms, we would be able to protect the food chain. We would be able to take what might be subsistent farming to the next level, and develop sustainable large food-source farms."