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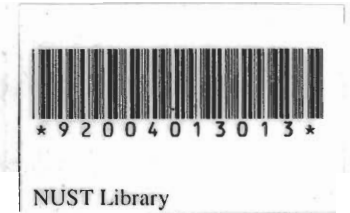


**DISSERTATION TITLE**

*Private Equity: Enhancing asset diversification and prospects for superior returns in Zimbabwe.*

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**UNIVERSITY : N.U.S.T**

**PROGRAMME : MSc FINANCE AND INVESTMENTS**

**DEPARTMENT : FINANCE**

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**PURPOSE OF DISSERTATION**

*A dissertation in Partial fulfillment of the Master of Science in Finance and Investments*

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## **EXECUTIVE SUMMARY**

Investment managers in Zimbabwe are heavily exposed to companies listed on the Zimbabwe Stock Exchange. There is thus significant concentration risk that comes with having all funds, or the bulk of it, in one asset class. The more established investment managers have portions of their funds invested in property but, in the majority of cases, these are no more than 30% of funds under management which leaves their investment portfolios heavily exposed to listed equity and property.

The study's major objectives were aimed at determining if the concept of private equity can be used by investment managers to diversify investment portfolios and enhance prospects for earning superior returns. In addition the study investigated the challenges that are faced by private equity investors in Zimbabwe and factors that are constraining growth of the sector.

Data for the study was gathered through questionnaires that were distributed to asset managers, self-administered pension funds, private equity investors, venture capitalists, life assurance and insurance companies. Secondary data was also gathered from the ZSE, company annual reports and the internet. Interviews were also carried out with some investment managers in private equity firms and the insurance industry.

The data gathered showed that investment portfolios with exposure to private equity had outperformed portfolios that were entirely exposed to listed equity during the period from 2004 to 2007. In 2008, the growth of the portfolio with private equity lagged behind the

all-listed equity portfolio because of the slowdown in economic activity (which adversely affected the valuation of private firms) while there was unprecedented increase in prices for listed shares as Zimbabweans sought to hedge against hyperinflation. There was consensus among the respondents that private equity provides returns superior to listed equity and other asset classes. Investment managers, however, faced a number of challenges that hindered them from making private equity investment. The challenges cited included lack of capital, inadequate human resources and the illiquidity of private equity as an asset.

The study concluded that investment managers can reduce concentration risk and enhance the performance of their portfolios through private equity portfolios.

The study recommended the formalization of the private equity market through the setting up of an association for all private equity investors. The recognition of private equity was also recommended as a way of promoting investments in the sector. The attractiveness of private equity can be enhanced if the asset is liquid and it was recommended that an exchange for small to medium enterprises be established so that it creates a ready exit mechanism for private equity investors.