

Private equity

## LeapFrog targets private equity gains in Africa and Asia

Founder of emerging markets specialist believes capitalism can be a force for good

ATTRACTA MOONEY

In a case of unfortunate timing, Jim Roth and Andy Kuper launched LeapFrog Investments, the private equity group specialising in emerging markets, on the eve of the Lehman Brothers collapse nearly a decade ago.

The US bank, collapsed and heralded in the financial crisis. At a time of huge market dislocation when investors were fleeing, the pair faced the daunting task of raising money from insurers, pension funds and wealthy individuals.

But their sales pitch had an edge. The London-based company had big-name backers, including Bill Clinton, the former US president who announced LeapFrog's arrival during a keynote speech at his Clinton Global Initiative foundation in 2008. Pierre Omidyar, founder of Ebay, the online auction company, and the foundation set up by George Soros, the billionaire hedge fund manager, also provided early capital.

"Support of high-profile individuals and investors has been extremely helpful," says Mr Roth, founding partner of a group that now oversees \$1bn across two funds.

"[It] was the most difficult of any fundraising I have done. It really was a case of Adam Smith's, 'Money, says the proverb, makes money'. When you have a little, it is often easy to get more. The great difficulty is to get that little."

LeapFrog, which backs financial companies in Africa and Asia, claims to be the world's first billion-dollar private equity group dedicated to impact investing – investments made in businesses and organisations to generate social and environmental improvements as well as financial returns.

Last year, the group made its first investment in the healthcare sector, taking a \$22m majority stake in GoodLife Pharmacy, a Kenyan healthcare chain. The investment has been placed in a third fund.

LeapFrog has backed 17 companies across finance and health that operate in 23 countries, employing more than 100,000 people and providing insurance and other services for 91m people.

But the world of asset management is a far cry from Mr Roth's initial plans for his life. With a degree in development economics and a stint at the UN, Mr Roth once looked likely to spend his career in the charity sector. But the Rhodes



University graduate says the time he spent at a township in the Eastern Cape in South Africa during his PhD, researching how people on low incomes used financial services, convinced him that capitalism could have "transformative social impact".

"It is probably an usual background for a fund manager," the 48-year-old South African native says, adding that those years "It was an interesting and significant period of my life and informed a lot of what happened in the founding of LeapFrog. It was quite a seminal experience."

According to Mr Roth, there was a widespread belief that credit was the most important financial resource to help people break out of poverty and create a stable middle class.

But his research found that for people in the South African township, insurance was far more important. "That segment of people didn't have a safety net [of family money] to fall back on. The consequences of any adverse event are just much more severe if you are poor, and so you place a lot more attention on having insurance. I found people used insurance very extensively."

Years later, Mr Roth drew on his experience in the township when creating LeapFrog. LeapFrog initially focused on backing businesses operating in the insurance sector, particularly so-called micro-insurance for the protection of people who live on less than \$4 a day.

Mr Roth, who is based in Scotland, where he lives with his wife, Claire Cowie, a lecturer in linguistics at the University of Edinburgh, and two children, says: "I was always interested in thinking about how you can harness the power of markets to have a positive social impact and alleviate poverty."

The private equity business has attracted cash from big insurers and pension funds, such as Axa, Met Life

and Swiss Re, that are looking to tap into emerging market growth.

"The [financial] crisis changed investors' views of emerging markets. In the immediate aftermath of the crisis with its origins in developed markets, emerging markets appeared less risky in comparison."

Since the crisis, large investors have turned to private equity in a bid to generate higher returns in a low-yield environment, with the sector attracting \$2.8tn in cash over the past five years, according to Preqin, the data provider.

The popularity of private equity has sparked concerns that investors will be left nursing large losses if buyout firms struggle to deploy record levels of cash. So-called dry powder that private equity companies have to invest hit a record of \$754bn in 2016, according to Pitchbook, the data provider.

Mr Roth admits there is more competition for deals in emerging markets compared with a decade ago, because big investors, such as TPG, Carlyle and Abraaj, have begun backing African companies.

But he says LeapFrog avoids some of that competition by targeting smaller companies and specialising in deals worth less than \$50m.

"[Big private equity groups] typically want bigger deals, because they have so much dry powder...if you do lots and lots of small deals, it is very difficult," he says.

"We've done small deals, and that works for us because we can build [those companies] up and sell them to the people with the dry powder. We see dry powder really as an opportunity."

At the same time, company valuations are rising as private equity groups and strategic buyers compete for assets.

This year, Bain & Company, the research group, found that private equity companies are paying higher prices for



**Born** March 15 1969

**Total pay** Not disclosed

**Education:**

1988-94: BCom (hons), Rhodes University, South Africa

1995-96: MA (development economics), University of Manchester

1997-2005: PhD, University of Cambridge

**Career**

1996-97: Financial specialist, Development Planning and Research, South Africa

1999-2004: Senior financial specialist, International Labour Organisation, Geneva

2004-05: Chief technical adviser, International Labour Organisation, India

2005-07: Microinsurance consultant for global insurers, Microinsurance Centre

2007 to present: Co-founder and partner, LeapFrog Investments

businesses than during the last boom in 2007.

But Mr Roth downplays concerns that private equity groups are overpaying, at least in emerging markets. "[High prices are] very often justified by very high levels of growth," he says.

According to LeapFrog, the companies it has backed have grown 46 per cent per year since the group's initial investment, making this a high-risk, high-reward sector.

LeapFrog is in the process of harvesting businesses from its first fund. So far it has sold two, including its majority stake in Express Life, the Ghanaian life insurer, to Prudential. Mr Roth is reluctant to discuss the deal, but a person close to it said the internal rate of return, a measure of the profitability of an investment, was more than 70 per cent.

In 2014, Apollo, a LeapFrog investment that tailors livestock insurance policies for Kenyan farmers, was sold to Swiss Re.

"So far everything we have sold and everything under consideration at the moment, we are selling for significantly higher multiples than what we came in at," he says.

He adds that none of the businesses LeapFrog backed have failed, though it has not been plain sailing. "You always have problems with the businesses. There's good and bad. They ebb and flow. If it was all good, then it would be fantastic," he says.

Despite high valuations, increased competition for assets and the risks of investing in emerging markets, Mr Roth says he is confident there is still a great deal of money to be made in Africa and Asia. "People are leaving poverty; they are entering the middle class," he says.

**LeapFrog Investments**

**Founded** 2007

**Assets under management** \$1bn

**Employees** 75

**Offices** London, Johannesburg and Singapore