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AFRICA AM
ASSET MANAGEMENT

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The African continent is huge, but only a few of its 54 countries have stock markets, with some of those being in their infancy. As such, there are only five stock listings on the Rwanda Stock Exchange, which is not really representative of the country's economy. Fortunately, as we discover in this issue's market feature, the East African nation is a very exciting place with many opportunities in the unlisted space (*pp. 20-21*).

But Rwanda is one of the smallest African countries, whereas there are many opportunities elsewhere. From a global private equity perspective, Africa is "increasingly attractive" to international investors and as the asset class matures, further new entrants, as well as spin-off teams from existing managers, are likely, says Alex Wolf, vice president at HarbourVest Partners, which has committed more than $640m to Africa (*pp. 17-19*).

And the subjects of our profile feature, Chinesom Ejiasa and William Pearce of the US development finance institution OPIC, are very much focused on African private equity as well. Not only do they support private equity funds in Africa, they also try to generate and maintain social, labour, environmental and economic benefits, thus having a "dual mission" (*pp. 12-13*).

Finally, for those not convinced by the private equity story, Gohou Danon of GEMfonds explains how to construct an African hedge fund and hedge against risks using currencies. While there are only some 2,000 investible stocks in Africa, a hedge fund approach "adds value to the choices available" (*pp. 14-16*).

Anna Lyudvig
Senior correspondent

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LAUNCHES

Sanlam launches Africa Floating Rate Credit Fund

Sanlam Investments, a financial services company headquartered in South Africa, has expanded its Africa fund portfolio with the launch of the Sanlam Africa Floating Rate Credit Fund, a USD-denominated fund domiciled in Mauritius.

The open-ended fund will focus on investment in credit and debt capital markets instruments in selected African countries and targets to raise capital in excess of $300m.

Sanlam will act as the anchor investor and has committed an initial amount of $50m, which is expected to be substantially invested by the end of March 2014.

Johan van der Merwe, Sanlam CEO, said this new fund aims to offer investors exposure to a diversified pool of quality credit risk assets, paying attractive USD-denominated returns.

"The positive African growth story is well-documented and the fund will offer investors an opportunity to benefit from this on an attractive risk/return basis. It will deepen the debt capital markets in Africa, while facilitating economic growth and supporting the development of essential infrastructure across the continent," he said.

The fund endorses environmental, social and governance (ESG) principles and will generally invest in countries in which the greater Sanlam Group has a physical presence, providing the fund advisor with the additional benefit of being able to leverage the knowledge of the group's various local operations.

Sanlam Capital Markets (SCM) has been active in the South African credit and debt capital markets for more than ten years and has a well-established debt origination and credit risk analysis infrastructure.

The fund is a natural extension of SCM's credit business in Africa (excluding South Africa), which dates back to 2009.

During this period SCM has invested in African assets in excess of $200m, allowing the company to build up valuable hands-on credit risk experience in the African market.

Sanlam also runs the Sanlam African Frontier Markets fund which was established in 2010, and the Sanlam Africa Core Real Estate Fund. ■

(*Read more on the fund on pp. 24-25*)

FIRST CLOSE

Renewables fund raises $100m for SSA

The African Renewable Energy Fund (AREF), which aims to invest in projects in sub-Saharan Africa, has raised $100m after closing its first round.

The fund hopes to double the amount available to $200m for schemes this year.

The Nairobi-based fund announced this initial amount will be made available to spur investment in grid-connected renewable energy projects in the region.

Poor electricity access is a major constraint to economic growth in the region, where governments and private sector providers have often struggled to raise funds for capital-intensive projects.

The fund will target small and medium-sized independent power developments including solar projects of 5-50 MW in scale, along with projects in small hydro, wind, geothermal, biomass and waste gas.

It will invest between $10-$30m on each project, and will have an option of seeking more funds where need arises from other investors for larger investments.

The fund has indicated further project funding may be available for larger projects.

The African Development Bank (AfDB) is the largest sponsor of the fund in the initial round, so far committing $65m of the $100m from its reserves as well as money from the Sustainable Energy for Africa fund and the Global Environment Facility.

Gabriel Negatu, the AfDB's regional director for the East Africa resource centre, said: "The $200m is not the end of it. The whole idea is that this is supposed to catalyse and crowd in other investors, so I can assure you that in a few years' time we could be looking at maybe $1bn or half a billion dollars."

He added that the fund planned to take controlling stakes in 12 greenfield projects.

Mauritian fund management company Berkeley Energy Africa, which specialises in energy investments in Africa and Asia, will manage the AREF as well as contributing to the funds available.

Other contributors include the West African Development Bank and the African Biofuel and Renewable Energy Company; the Nigeria-headquartered Ecowas Bank for Investment and Development; Dutch development bank the Nederlandse Financierings-Maatschappij voor Ontwikkelingsladen (FMO); and the US-based ethical investment fund, the Calvert Foundation. ■

LAUNCHES

Duet Group invests $50m in Ghanaian consumer sector

Duet Group, a global alternative asset management firm with more than $4.7bn AuM, has invested $50m of growth capital into Ghana by creating Duet Consumer West Africa Holdings (DCWA).

Duet took controlling stakes in Shop N Save, a supermarket joint-venture with the founders of the Finatrade Group, and GNFoods, a food manufacturing company.

The capital will be used to rollout food retail stores, expand manufacturing capacity and invest in sales and marketing capabilities.

Henry Gabay, Duet Group CEO, said: "We are very excited about the future of consumer-driven businesses in Ghana, particularly given our belief that the country is at the beginning of a multi-year economic growth phase."

According to Duet, Ghana is particularly well positioned to become a food manufacturing hub for the region, as West Africans increasingly prefer home-grown affordable brands to expensive imports.

Afsane Jetha, MD at Duet Private Equity, said: "We see Ghana as a promising investment destination given the strong historical and future expected growth of the consumer sector as well as its investor-friendly infrastructure.

"We also see the strength of our local partners, pioneering entrepreneurs in Ghana, as key to the success of our long-term strategy," she added.

Duet Group has appointed the former H. J. Heinz Company's Chief Strategy Officer Daniel Milich as non-executive Chairman of DCWA, to provide strategic insight, and has hired a former East African country head for Coca-Cola to act as CEO for the platform. ■

PRIVATE EQUITY

ECP takes 33% in Atlas Bottling Corp.

Emerging Capital Partners (ECP), a pan-African private equity firm, has acquired a 33% stake in Atlas Bottling Corporation (ABC), the exclusive PepsiCo bottler of carbonated drinks in Algeria.

The move comes as part of an $80m investment plan.

A mix of growth equity, provided by ECP, and debt, from commercial banks, will be used to increase bottling capacity, build a production site and give the company flexibility to develop product categories.

ECP will also provide technical assistance to the management team, supporting them in professionalising business functions such as governance and compliance.

William Nkontchou, director of the ECP Paris office, explained that Algeria is Africa's third-largest soft drinks market and ABC's established track record in the sector sets it apart from its competitors.

"We seek to back proven global business models, like ABC, that are being pursued across Africa and deployed to international standards," he said.

Founded in 1995, ABC signed an exclusive bottling agreement with PepsiCo in 1998, and has grown to become one of Algeria's leading beverage players. Djamel Mehri, ABC owner, said: "With its track record, industry experience and regional insights, ECP is the right investor to join forces with and support ABC in its next growth phase."

Djamel Boulkedid, ABC's CEO, added: "The facts of our success speak for themselves: sales have grown consistently year-on-year as has our market share. We look forward to the next stage of growth."

ECP has a record of successful investment in Algeria, including Orascom Telecom Algeria and Générale Assurance Méditerranéenne. ■

NEWS IN BRIEF

Pearl Capital invests $2.31m in Eldoville Dairies

Pearl Capital Partners, an independent investment management business domiciled and licensed in Mauritius, has acquired a substantial minority stake in the Kenyan dairy processing business, Eldoville Dairies, for KES200m ($2.31m). Pearl's investment is its sixth investment through the African Agricultural Capital Fund, which is halfway through its investment period.

Amethis, KTH and ERES invest in Fidelity Bank Ghana

Kagiso Tiso Holdings (KTH), Amethis Finance, and Edmond de Rothschild Europportunities Management II (ERES) have announced a minority equity investment in Fidelity Bank Ghana. The total investment is approximately $35m. The investment is subject to the approval of the Bank of Ghana and completion of conditions precedent. KTH has also subscribed for convertible preference shares, which upon conversion will increase its stake over time.

Catalyst acquires EFFCO Tanzania

Kenya-based private equity firm Catalyst Principal Partners has announced the acquisition of a majority stake in Tanzanian heavy equipment rental and logistics firm, EFFCO. The management-backed buyout is in line with Catalyst's strategy of investing in emerging companies within high-growth sectors across eastern Africa.

S&P Dow Jones launches family of SA indices

S&P Dow Jones Indices has launched nine new indices covering the South African equity market, headlined by the launch of the S&P South Africa Composite, which covers both foreign domiciled and domestic domiciled companies listed on the Johannesburg Stock Exchange with float-adjusted market values of $100m or more and annual dollar value traded of at least $50m.

LAUNCHES

Ashburton launches South African fund

Ashburton Investments, the investment manager owned by FirstRand, has launched its new Ashburton Africa Equity Opportunities Fund to South African investors.

The fund, with $29m (R313m) under management, will focus on targeting undervalued listed African equities (excluding South Africa) across various sectors to achieve long-term capital growth. It is aimed at experienced retail and institutional investors, including the private wealth and family office space.

Paul Clark, lead adviser to the fund, said: "Now is an exciting time for Ashburton Investments to launch an Africa Fund. Africa is a growth story and seven of the ten quickest growing economies globally will be in Africa in the next five years.

"Valuations are cheap relative to emerging markets and the consumer boom is leading to greater demand, which is also extending to infrastructure development, construction and leisure. Improving operating environments across the continent means investors now have access to previously un-obtainable opportunities and greater investor protection," he added.

According to Clark, the fund is buying Nigerian banks and Egyptian exporters, and had bet on Lagos-based lenders such as Guaranty Bank and FBN Holdings to boost returns.

Boshoff Grobler, head of Ashburton investments, said: "The launch of the Africa Equity Opportunities Fund is consistent with our goal of becoming the leading new generation investment manager in Africa offering South African, African, Asian and Chinese investment opportunities.

"The fund will offer investors more sources of return through an attractive African investment opportunity," he added.

The fund has also been approved for distribution to South African investors by the Financial Services Board. ■

MARKETS

Kenya and Cameroon to trade new investment products

The Nairobi Securities Exchange (NSE) will shortly be trading derivatives products and real estate investment trusts (REITs), whereas Cameroon plans to launch its first commodities exchange.

According to Donald Ouma, head of market and product development, a system for trading derivatives has already been installed and the exchange has sent its rules on trading of REITs to the Capital Markets Authority (CMA) for approval.

The NSE will initially focus on interest-rate and foreign-exchange derivatives, and will include commodity futures.

The NSE is increasing the variety of securities on offer as the industry regulator seeks to boost growth of the country's capital markets.

The CMA is targeting a market capitalisation of KES7.2trn ($83.4bn) by 2023 from KES1.85trn now.

"The diversity of products and services that we offer will make us more relevant to the economy as the exchange seeks to attract a broader range of investors," said Ouma.

In the meantime, Cameroonian Minister of Trade, Luc Magloire Mbarga Atangana, and the Executive Director of the International Cocoa Organisation (ICCO), Jean Marc Anga, has recently signed an agreement to finance the feasibility study on the creation of an agricultural commodities exchange in Cameroon. ■

PEOPLE MOVES

Liberty Holdings, an African financial services group, has appointed **Thabo Dloti**, as its new CEO. He replaces Bruce Hemphill who has accepted a broader executive position at **Standard Bank Group**, but will still remain on the Liberty Holdings board of directors. The former CEO of STANLIB and an existing member of the board of directors, Dloti has over 20 years of experience in retail insurance, employee benefits and asset management. He joined Liberty in March 2010 to head up its institutional businesses comprising STANLIB, Corporate and Properties. In addition, Steven Braudo, former CEO of Liberty Retail SA, has been appointed as deputy executive.

Phatisa, a private equity fund management company, which operates across sub-Saharan Africa, has appointed **Okomboli Ong'ong'a** as new East African Partner for the Pan African Housing Fund. Ong'ong'a joins Phatisa from Norfund in Nairobi, where he focused on originating and structuring East African investment opportunities. Prior to Norfund, he worked for TransCentury, Praxair and Chevron. Okomboli will assume leadership responsibility for the PAHF East African team and drive the origination of investment opportunities in Kenya, Uganda, Rwanda and Tanzania.

Insparo Asset Management has appointed **Peter Lindqvist** as Head of Sales and Marketing to be based in London. Lindqvist has over two decades of private client, retail and institutional sales experience within the EMEA region and beyond. Prior to joining Insparo, he was Managing Director, Head of EMEA Sales at Pramerica Fixed Income, where he was directly responsible for growing the client base in Europe and the Middle East. He has previously held senior distribution positions at Threadneedle IM, Citigroup AM, Barings and Skandia.

LAUNCHES

Absa launches low-cost retirement product

Barclays-owned Absa Bank has launched a low-cost retirement product on life-stage investment philosophy, through its corporate and investment banking division.

The Absa Retirement Annuity Fund: Core Portfolio (or the Core Retirement Annuity) allows members to benefit from increased income generated by higher risk taking when young, while automatically reducing risk and consolidating gains as members approach retirement age.

Vladimir Nedeljkovic, head of exchange traded products at Absa's corporate and investment banking division, said: "Younger investors, for example, whose primary objective may be to build their wealth, will have a greater exposure to risky assets such as equities."

"Exposure will then automatically reduce as the investor approaches retirement and the goals shift to protecting their retirement nest egg," he added.

Since the portfolio is built from passive building blocks – exchange traded funds – investment costs are very low, approximately 0.51-0.55% per annum (all inclusive).

Contributions are tax deductible by up to 15% of non-pensionable income, returns on investment are tax free, and, at retirement, a significant portion of the lump sum pay-out is also not taxed.

The product comes at a minimal lump sum investment of R10 000 ($928), or a recurring debit order of only R500 ($46.44) per month. ■

PRIVATE EQUITY

SCPE invests $57m in Zambian energy

Standard Chartered's Private Equity (SCPE) Africa division has invested $57m into Zambian Energy Corporation, the controlling shareholder of Copperbelt Energy Corporation (CEC).

This structured equity investment equates to an effective 25.8% equity stake in CEC.

CEC is an independent power transmission and distribution company in Zambia, listed on the Lusaka Stock Exchange, with interests in closely linked businesses in Zambia and the African region, including fibre optic based telecoms.

The firm's core business consists of distributing power to the mines operating in Zambia's Copperbelt, and transmitting power for the Zambian national utility ZESCO.

Ronald Tamale, director within SCPE's Africa division, described CEC as "another African success story" and added it "has a strong management team and inspiring growth potential, extending commercial and economic benefit to multiple countries across the continent".

CEC recently established CEC Africa (CECA), a Mauritius-domiciled platform company as its vehicle for power infrastructure investments in Africa, outside of Zambia.

CECA has acquired two operating assets in Nigeria through the recently concluded power sector privatisation programme and has a rich pipeline of development power assets in Zambia, Namibia and Sierra Leone.

SCPE's investment supports CECA's pan-African expansion strategy, and is the first investment within the Bank's $2bn commitment to Power Africa, a public-private sector partnership launched by the US president Barack Obama.

Diana Layfield, CEO Africa for Standard Chartered, explained that Power Africa enables SCPE to "live its brand promise and be here for good, making a tangible difference in the lives of individuals".

The Power Africa partnership will provide $7bn of US financing support and an initial $9bn of private sector commitments for power generation projects – delivering 10,000 megawatts of new electricity generation across six countries, reaching 20 million people in five years. ■

MONTH IN NUMBERS

$300m
Sanlam fundraising target for its Africa Floating Rate Credit Fund (*page 4*)

0.55%
All-inclusive investment costs in the Absa Retirement Annuity Fund (*page 7*)

5.2%
Inflation rate in Namibia (*page 10*)

$3.9bn
OPIC's total financial portfolio in Sub-Saharan Africa (*page 12*)

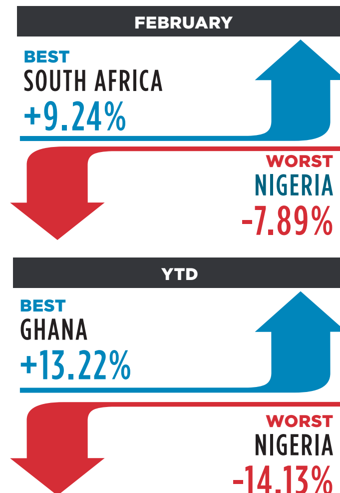
$1.5bn
SSA private equity funds raised between 2011 and 2013 (*page 17*)

46.5%
Equity stake acquired by Fusion Group in Rwanda's Rusororo Aggregate (*page 21*)

REGIONAL PERFORMANCE (%)

SOURCE: MSCI

	FEB	YTD
BOTSWANA	▲ 0.50	▼ -0.14
GHANA	▲ 5.35	▲ 13.22
KENYA	▲ 3.56	▼ -1.48
MAURITIUS	▲ 3.44	▲ 1.27
NIGERIA	▼ -7.89	▼ -14.13
SOUTH AFRICA	▲ 9.24	▼ -1.86
ZIMBABWE	▲ 4.48	▼ -7.70

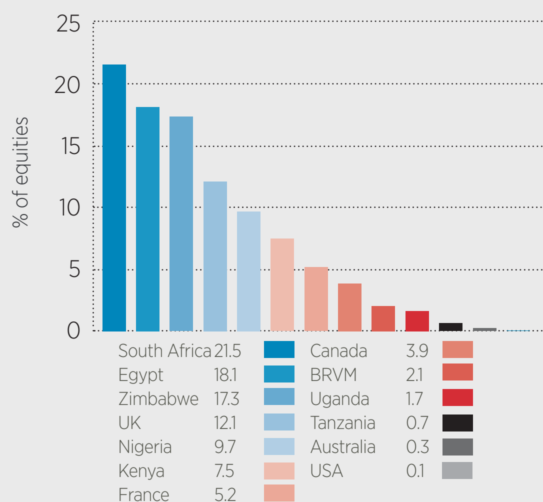


In February, the sharp downward trend in emerging and frontier markets slowed, and the majority of the funds reporting to the *Africa AM* performance database recovered from previous losses. South Africa was the best performing market (+9.24%) for the month, while Ghana continued to stay ahead of its peers, showing the best performance YTD (+13.22%). Meanwhile an unexpected "surprise" from Nigeria was a shock to investors. Nigerian President Goodluck Jonathan suspended the Central Bank of Nigeria Governor, Lamido Sanusi, on allegations of "financial recklessness and misconduct". The move caused an adverse reaction across equity, currency and bond markets. Nigeria declined by 7.89% and was the only market that showed negative performance for the month. Nigeria-focused funds' performance and those with high exposure to this Western African nation, were not insulated, and as a result showed negative performance.

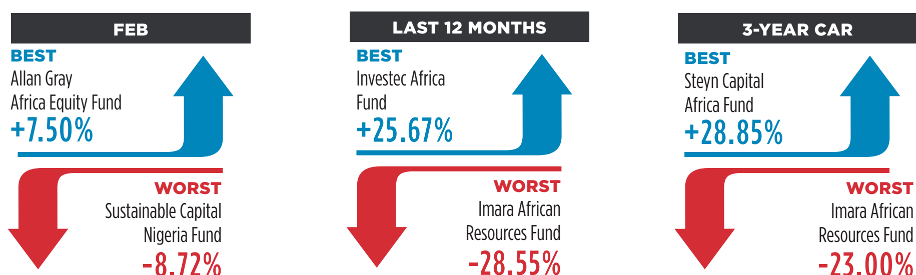
NIGERIA UNDERWEIGHT

The Allan Gray Africa Equity Fund was the best performing fund for the month, appreciating by 7.5%. Over the past two years the Fund has been underweight Nigerian shares when compared to the size and liquidity of the Nigerian market. The reason for this underweight position is that the managers have found only a few Nigerian shares that they think "offer good value to investors", according to Allan Gray. The majority of the Fund's Nigerian position is in financials, whereas the portfolio has only one consumer company as "these businesses are generally priced for rapid earnings growth on what seems to be already-high earnings".

Allan Gray Africa Equity Fund
(Country of primary listing as of 28 Feb)
Source: Allan Gray



Fund performance



AFRICA FUND LISTINGS

LISTED ALPHABETICALLY WITH DATA ENDING 28 FEBRUARY 2014

Fund Name	February 2014 Return	Last 12 Months Return	CAR Last 3 Years Return	February AUM ($m)	Objective	Start date
Africa Opportunities SAC Ltd	-0.64	*	*	40.00	Equities	6/06
African Alliance Africa Pioneer Fund I	0.10	9.70	5.60	27.00	Equities (ex-SA)	6/07
Allan Gray Africa Equity Fund	7.50	9.80	8.60	300.30	Equities	7/98
Allan Gray Africa ex-SA Equity Fund	5.63	9.20	N/A	161.00	Equities (ex-SA)	1/12
Amigo Partners African Franchise Fund	-1.12	10.76	N/A	1.00	Equities	3/13
Amigo Partners Shamwari Fund	-3.57	-8.97	N/A	1.00	Equities	3/13
Amigo Partners Zimbabwe Income Fund	0.46	9.72	N/A	3.00	Fixed Income	3/13
Coronation Multi-Strategy Arbitrage	0.71	*	*	59.10	Multi-Strategy	6/03
Coronation Presidio Partnership	2.32	*	*	239.10	Equities	9/05
Duet Africa Opportunities Fund	-2.35	9.96	12.00	252.90	Equities	3/09
Duet Victoire Africa Index Fund	-1.72	16.16	11.14	154.80	Index (ex-SA)	11/07
Enko Opportunity Growth Fund Ltd	-1.56	6.01	11.69	*	Multi-Strategy	9/09
Fleming Africa Fund Ltd	-2.03	8.47	6.65	27.00	Equities	10/10
Granite Fixed Income Fund	0.53	*	*	37.17	Fixed Income	9/02
Imara African Opportunities Fund	-1.86	8.48	5.24	93.60	Equities	6/05
Imara African Resources Fund	-0.21	-28.55	-23.00	1.30	Commodities	12/08
Imara East Africa Fund	1.85	15.83	7.93	4.60	Equities	1/08
Imara Nigeria Fund	-8.36	-6.74	6.50	8.30	Equities	2/07
Imara Zimbabwe Fund	-2.39	1.16	3.91	21.00	Equities	2/07
Insparo Africa & Middle East Fund	-0.46	0.12	3.94	100.80	Equities	5/08
Insparo Africa Equity Master Fund LP	0.25	7.07	7.17	37.70	Equities	1/11
Investec Africa Fund	-3.86	25.67	19.31	10.62	Equities (ex-SA)	11/05
Investec Africa Opportunities Fund	2.47	-3.05	-1.53	60.90	Equities	9/10
Investec Institutional Pan Africa Fund	-0.46	4.40	3.88	270.10	Balanced	5/08
IPRO African Market Leaders (i2) class	-2.01	2.43	9.40	9.70	Equities	6/08
Matterhorn Breithorn Fund	6.29	2.20	-2.90	N/A	Equities	8/07
Matterhorn Palmyra Fund	6.50	8.10	-2.50	N/A	Equities	1/03
Momentum IF Africa ex-SA Equity Fund	-0.42	11.74	10.69	14.40	Equities (ex-SA)	9/07
Momentum IF Africa Fixed Income Fund	0.58	N/A	N/A	10.20	Fixed Income	8/13
Nile Pan Africa Fund Class A	2.74	3.56	6.68	43.10	Equities	4/10
Nile Pan Africa Fund Class C	2.62	2.80	5.88	43.10	Equities	4/10
Nile Pan Africa Fund Inst Class	2.73	3.82	6.94	43.10	Equities	11/10
Nubuke Africa Multi Strategy Fund	0.52	2.23	7.18	103.00	Multi-Strategy	5/08
Old Mutual African Frontiers Fund	2.43	14.97	6.01	73.94	Equities	5/10
Old Mutual Pan Africa Fund	1.31	6.35	0.94	10.80	Equities	4/10
Old Mutual S&P Africa Custom Index Fund	1.64	1.31	N/A	72.20	Index	9/11
Optis African Frontier Fund	-0.49	4.80	3.28	69.61	Equities	8/09
Prescient Africa Equity Fund	-1.16	7.94	N/A	5.82	Equities	4/11
Renaissance Pan African Fund	-1.85	-2.40	6.77	55.55	Equities	10/10
Renaissance Sub-Saharan Fund	-0.76	-2.41	4.24	145.92	Equities	10/10
Robeco Afrika Fonds	2.33	7.99	3.21	81.30	Equities	6/08
Scipion Commodity Trade Finance Fund	0.69	*	*	*	Fixed income	8/07
Silk African Lions Fund USD	0.84	9.49	2.66	86.90	Equities	6/09
Silk Road Income Fund USD	-1.64	*	*	3.30	Fixed income	11/09
Steyn Capital Africa Fund	5.29	22.04	28.85	133.00	Equities (ex-SA)	9/11
Sustainable Capital Africa Alpha Fund	1.09	15.05	N/A	28.20	Equities (ex-SA)	2/12
Sustainable Capital Africa Consumer Fund	2.02	7.29	N/A	10.30	Equities (ex-SA)	3/13
Sustainable Capital Africa Sustainability Fund	3.37	15.45	0.71	25.60	Equities (ex-SA)	10/09
Sustainable Capital Nigeria Fund	-8.72	-4.10	N/A	11.60	Equities	5/12
FUND OF FUNDS						
27Four Invest. Managers - Pangaea Africa FoF	0.68	12.38	3.39	29.90	Equities (ex-SA)	6/11
SYm|mETRY Africa Fund of Funds	-2.00	5.71	N/A	10.00	Equities	5/12

Based on funds reporting data as of 14 March 2014

*February fund data not available at time of going to press

MANAGER'S VIEW

GAVIN BUTCHER, director and fund manager, Optis Investment Management

While February was a volatile month for many African markets, the Optis African Fund limited its losses to 0.5% for the month. The Egyptian market gained 9.8%, but Nigeria's Index lost 3.9% in USD terms. Had the month closed a week earlier, Nigeria would have been down 7.43%.

Nigeria's volatility stemmed from the surprise suspension of the Central Bank Governor (Sanusi). Much has been said about it but from an international investor's perspective, we are concerned about the independence of the CBN, the continuity of Sanusi's successful policies and the stability of the exchange rate. The CBN has since stated that it will continue to defend the currency. Nigeria needs currency stability and being a pre-election year, stability is key for the electorate.

The country is a net importer of almost everything except oil. Oil exports may benefit from a weaker Naira but given the questions surrounding the management of oil revenues, the benefit is compromised. On the other hand, Nigeria imports refined petroleum products so any currency weakness will have a direct impact on the consumer.

We believe the CBN will defend the currency, possibly beyond what may be considered reasonable. If a decision is taken to devalue the Naira, we expect it to be around 10%, less than the currency depreciation we have witnessed in other emerging markets. Much has been written about the CRR on public sector deposits being raised from 75% to 100%. This will probably happen but given the 9.8% drop in the Nigerian banking index in February, we think much of this has already been priced in. Our fund's largest exposure is to Nigeria. We increased exposure to Egypt in Q3/4 2013, concentrating on companies that are less exposed to a weaker Egypt Pound and in February, the fund's biggest gains came from these positions.

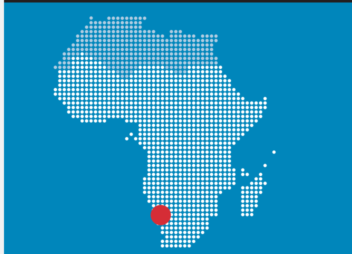
AFRICA ECONOMIC INDICATORS
(AS OF 17 MARCH 2014)

COUNTRY	INTEREST RATE (%)	INFLATION RATE (%)	CPI	UNEMPL. RATE (%)	GDP GROWTH RATE (%)	DEBT TO GDP (%)
Botswana	7.50	▲ 4.60 [4.40]	173.10	17.80	7.10	16.10
Cameroon	3.25	1.60	-	3.80	6.10	6.50
Cape Verde	▼ 8.25 [9.75]	▲ 1.10 [0.10]	-	16.80	1.00	57.00
Côte d'Ivoire	3.50	▼ -0.20 [0.10]	-	15.70	9.80	78.80
Egypt	8.25	▼ 9.76 [11.36]	▲ 143.90 [142.40]	13.40	1.04	79.70
Ghana	18.00	14.00 [13.80]	121.20	12.90	0.30	44.90
Kenya	8.50	▼ 6.86 [7.21]	▲ 145.95 [145.40]	40.00	4.40	46.50
Malawi	25.00	▲ 25.90 [23.50]	▲ 153.10 [140.60]	3.00	5.00	16.30
Mauritius	4.65	▲ 5.60 [5.10]	▲ 108.46 [107.23]	7.76	3.20	37.88
Mozambique	8.25	▼ 2.38 [3.16]	▲ 113.65 [113.21]	17.00	8.10	39.90
Namibia	5.50	▲ 5.20 [4.90]	▲ 105.90 [104.90]	16.70	5.30	25.30
Nigeria	12.00	8.00	153.30	23.90	7.67	18.30
Rwanda	7.00	▲ 3.45 [2.40]	-	30.00	3.90	25.10
South Africa	5.50	▲ 5.80 [5.40]	▲ 106.10 [105.40]	24.10	▲ 2.00 [1.70]	39.90
Swaziland	5.00	4.40	-	28.20	0.21	8.38
Tanzania	12.00	6.00	▲ 221.30 [217.50]	10.70	6.50	39.20
Uganda	11.50	▼ 6.70 [6.90]	▲ 213.50 [213.10]	4.20	2.20	33.30
Zambia	▲ 10.25 [9.75]	▲ 7.60 [7.30]	-	15.00	6.50	31.20
Zimbabwe	▼ 14.13 [14.18]	▼ -0.49 [0.41]	-	10.70	4.40	150.90

▲/▼ up / down from previous month's value

Source: Trading economics, African Central Banks

AFRICA INSIGHT



NAMIBIA

The annual inflation rate in Namibia accelerated to 5.2% in February from 4.9% in January, according to the Namibia Statistics Agency. However, monthly inflation eased, reflecting a 0.7% m-o-m increase during February compared to 0.9% m-o-m for January. The highest contributors to the inflation were food and non-alcoholic beverages and transport, as well as housing, water and electricity. Daniel Motinga, FNB Namibia economist, said although the bank continues to think the consumer price index will benefit structurally from the reduced weight of food and transport, these components will remain important drivers of inflation, especially in an environment of currency volatility combined with the presence of political uncertainty in key oil producing regions. "We think it could propel to above 8% this year partly because of the drought impact but also because of increased demand. We expect inflation to average 6.1% for 2014, up from 5.6% in 2013. However, we see it breaching the 6% psychological threshold in June."

URBAN LEGENDS

AFRICAN CURRENCIES

Kevin Macdonald, managing director, Sustainable Capital

Given the recent events in the African markets, it is worth revisiting the long-held myth that Africa currencies are highly volatile in comparison to the exchange rates of other emerging and developed markets. In the context of Africa's main listed equity markets outside of SA over the past 15 years, the idea of highly volatile African currencies is simply not supported by empirical evidence. A historical performance analysis reveals that exchange rate volatility (standard deviation measured over 10 years based on daily returns) is no higher than its developed market peers. The exception is the South African Rand, which has a volatility of 40-200% higher than its African counterparts. This is because, in contrast to the Rand, other African currencies are not sufficiently liquid to satisfy the appetites of speculative traders. Consider, for example, the exchange rate structures of the Nigerian Naira, the Moroccan Dirham and the Egyptian Pound. The Naira is managed within a range set by the Central Bank of Nigeria. History has taught us that managed or pegged currencies can be dangerous if not underpinned by strong economic fundamentals. However, the Nigerian currency is supported by foreign reserves of $40bn in a country that is running wide budget and trade surpluses (in contrast to the twin deficits of the US). The Moroccan Dirham is pegged to the US Dollar and the Euro, in a country where inflation is well-controlled at 1.6%. Even the Egyptian Pound, which faced socio-political upheaval that should be considered close to a worst case scenario for a currency, depreciated only 4.0% in 2011 and 5.5% in 2012. Naturally, where there is an obvious and material currency threat, prudent portfolio construction by building these risks into stock selection becomes a vital component of long-term performance.

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The vehicle will aim to raise capital in excess of $300m

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OPIC: THE AMERICAN WAY

Africa AM speaks with OPIC's director of private equity, **Chinesom Ejiasa** (*left*), and acting vice president of investment funds department, **William Pearce** (*right*), about the US DFI's support of PE funds

BY ANNA LYUDVIG

Established as an agency of the US Government in 1971, the Overseas Private Investment Corporation (OPIC) started to support private equity (PE) funds in Africa in the early 1990s, playing an important catalytic role for private sector capital.

William Pearce, acting vice president of OPIC's investment funds department, says that the largest portion of OPIC support comes in the form of project finance loans, whereas private equity is a smaller part of the agency (about $2.2bn out of a total of $18bn at the end of fiscal year 2013). OPIC also offers structured finance, SME finance and political risk insurance.

At the end of 2013, the agency's total financial portfolio in Sub-Saharan Africa was about $3.9bn across almost 120 projects. As part of that, on the private equity side, OPIC has approximately $700m invested or committed and another $600m board-approved. "We continue to do well and we are trying to do more on the private equity side," says Pearce.

Global Engagement Call

In December 2013, the US government's development finance institution (DFI) successfully closed its second "Call for Proposals" to support qualified PE investment funds in emerging markets.

In Africa, OPIC has previously seeded fund managers such as Helios, ECP, Ethos, African Capital Alliance and Phatisa. But it is too early to say who the DFI will take on board this time as the selection process takes approximately six to eight months to complete. Chinesom Ejiasa, director of investment funds at OPIC, says: "It is a bit hard to indicate when we will start investing with these new GPs, but we hope to take finalists to our board in June this year."

The DFI's commitments do not represent more than 33% of a fund's total capitalisation, but the way in which OPIC commits capital to funds is "a little bit different from some of the other DFIs and also even some of the private investors". "We formerly discuss opportunities with fund managers when we launch our Call for Proposals (CFP), which is somewhat like a Request for Proposal. Essentially, via the CFP we come to the market with our investment thesis and indicate to the market our interests," he stresses.

Ejiasa explains that the process is very much similar to how a private LP or other DFI will look at proposals. "We look at the track record and we make sure that the investment thesis of the particular fund manager aligns with the investment thesis of OPIC. We look at our own internal portfolio and we consider our policy initiatives to ensure that the prospective fund manager is in line with those initiatives," he says.

Pearce adds: "We will look at the commercial and developmental merits of each proposal and shortlist those we feel fit best with the criteria outlined in each call and our agency strategy."

"We seek out managers who are going to be in-

vesting in countries that are politically stable, have high growth trajectories, good rule of law, as well as institutional quality companies that GPs can confidently invest in," he adds.

Dual mission

According to Ejiasa, OPIC is driven by demand. "We review a lot of proposals and get to see where the actual demand in the market space is. As we look at fund managers, we think about our portfolio and our portfolio looks different than it did two years ago," he says.

Currently, the top countries OPIC is invested in Africa are South Africa, Nigeria and Kenya. But as the DFI begins investing in some of these new GPs, its exposure to various countries is expanding. "We have new investments in Cote d'Ivoire, Ghana and the Congo," says Ejiasa.

Sector-wise, the largest exposure is in financial services, but also telecoms, and real estate, whereas agriculture is building itself up as well. "That portfolio is going to evolve over the next few years as our commitments become investments in some of these funds," he stresses.

Ejiasa points out that OPIC is also priority driven. For instance, in the second CFP, an additional consideration was given to fund managers investing in infrastructure and power and infrastructure-related sectors within SSA. For Ejiasa, infrastructure is very much fundamental to any sort of PE strategy or any sort of economic development strategy. "We are collectively focused on building on infrastructure in Africa, because we realise that it is a very fundamental building block for economic advancement," he says. As part of this process and the US's President Barack Obama's Power Africa initiative, the DFI plans to commit $1.5bn towards African power projects over the next five years.

OPIC tries to be very catalytic and not just in the sense of putting money into markets that lack liquidity, but also in the sense of supporting first-time fund managers. Ejiasa says: "We have a dual mission. We place an important emphasis on commercial viability, so supporting managers, who have strong commercial return mind-sets."

"But then we are also supporting a mission of development. We have a dedicated team, which ensures that each investment we make strives to generate and maintain social, labour, environmental and economic benefits," he adds.

According to Pearce, whereas different managers will have different equity return targets, OPIC would want to pick those managers who "will hit the targets or try to hit the targets that they aspire to hit". "We believe that being with better fund managers who can execute their strategy and get us close to the targets, is going to be not only a good commercial investment, but also bring developmental returns," he says.

OPIC IN ACTION (INVESTMENT FUNDS)

Source: OPIC

Project	Commitment level	Country	Year
Access Africa Fund Sub-Fund	$50m	Africa regional	2013
Maghreb Private Equity III	$52.5m	Africa regional	2013
Helios Investors II Africa	$100m	Africa regional	2010
ECP Africa FIII Investments	$40m	Africa regional	2010
InfraCo Sub-Sahara Infrastructure Fund	$100m	Africa regional	2010
ECP Africa FIII Investments	$60m	Africa regional	2009
Capital Alliance Property Investment	$50m	Nigeria	2009
African Telecoms Media and Technology Fund	$50m	Africa regional	2008
SAWHF PVE (SA)	$80m	South Africa	2008
Helios Sub-Saharan Africa Fund I	$50m	Africa regional	2007
Ethos Private Equity Fund V	$150m	Africa regional	2005
ECP Africa Fund II Investments	$100m	Africa regional	2005

"We are collectively focused on building on infrastructure in Africa, because we realise that it is a very fundamental building block for economic advancement"

CHINESOM EJIASA

Going forward

Because of the tender process, OPIC seeks to be in the market regularly to ensure it optimises "the nuanced fund-raising cycles", according to Pearce. "We want to make sure we are out there on a regular basis. We want to have engagement calls happen every 18-24 months."

Ejiasa says that the risk-reward outlook for OPIC is somewhat different from private institutional LPs: while from a developmental standpoint OPIC is going to be very much focused on Africa, the projects have to be commercially viable from a reward standpoint, because OPIC is a self-sustaining agency. "We will be involved in Africa as long as those two items exist," he says.

Ejiasa says that the investment challenges in Africa are not necessarily different from the challenges in other emerging markets, but a general challenge is the realisation that the landscape is evolving every single day, so for OPIC it is challenging to make sure that it is "staying abreast of the evolving market". ■

CONSTRUCTING AFRICAN HEDGE

For fund managers looking to launch an African hedge fund the future looks bright, but what should these new players bring to the table?

BY GOHOU DANON, RISK MANAGER, GEMFONDS

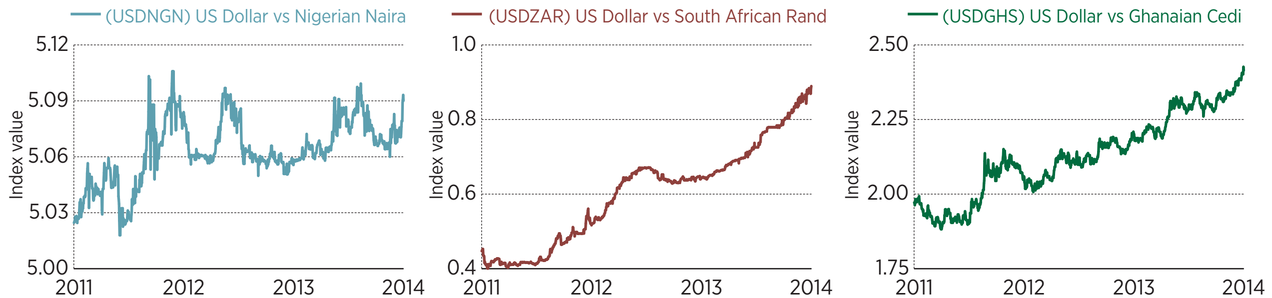
The investment case for Africa has never been as well articulated as it has been in the last few years. Those who have joined the party already accept that the consumer story is as powerful as the commodity one. They, however, baulk at the lack of capital market development, the illiquidity and the perceived risk. These three investment roadblocks prove even more of a challenge when looked at from the perspective of a fund designed to hedge its risk.

How does one, as a result, satisfy the desire to protect capital when markets turn against the African manager? One has to put a bit more thought to orchestrating the outcome. One has to have a hedge fund that can be both flexible and innovative. In this respect, designing a hedge fund for Africa is necessarily different from one built to operate in more developed markets.

Foremost in constructing an African hedge fund, one should ensure that investors lock in for a longer term than the standard three months. Illiquidity is a killer when markets turn south or the fund faces redemptions. Africa is a long term story and a one or two year lock-in makes much more sense in that respect. Leverage would be a non-starter without this.

With the mispricing of risk between international borrowing rates for hedge funds and local currency

RELATIVE DAILY INDEX CLOSINGS
(Source: GEMfonds)



fixed income, leverage should not be ruled out. At present, the pan-African investment banks, like Standard Bank and Renaissance Capital are not publicly providing leverage, but it will come. In fact, some multi-strategy emerging markets hedge funds that do utilise leverage on their overall portfolio are already active on the African carry trade plays. The high yields to maturity in local debt instruments also make sense from a carry trade perspective.

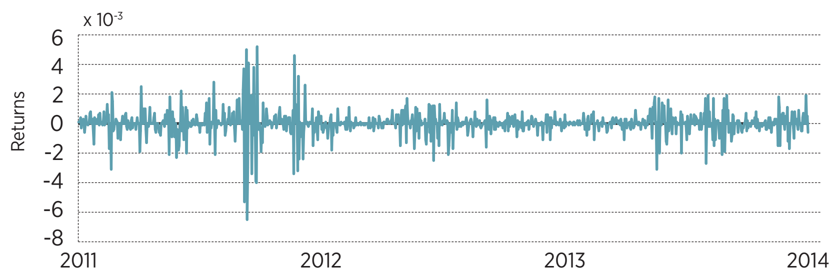
Hedging risks

Hedging risk typically uses financial derivatives and in an African context this presents problems. This is because such instruments are in their infancy at best. An Africa-focused hedge fund has to have more than a feel for the markets. It must be able to exploit the correlations, have a clear strategy, and know which instruments are best and most cost effective to hedge that view. It is not able to seek out counterparties to construct replicas of such instruments from first principals.

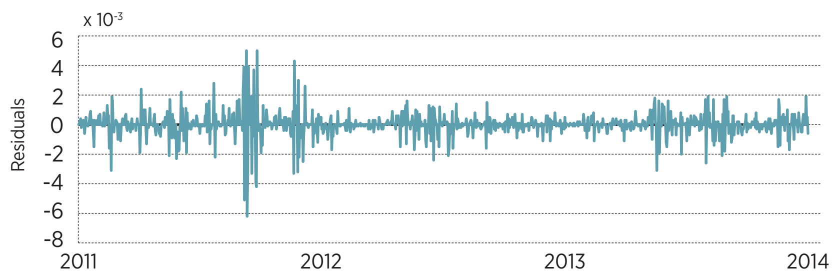
South African names with exposure to Sub-Saharan Africa, like Nampak, MTN and Shopright, can be hedged and there are many South African players in the space. Shorting is also possible in South Africa, but not in other African markets. Such practices will evolve as custody arrangements get upgraded and stock lending becomes permissioned.

The hedge fund manager has to know when to cut and run. In an African context, setting stop losses just does not work. When something goes wrong with a name, everyone heads for the door at the same time: the markets simply dry

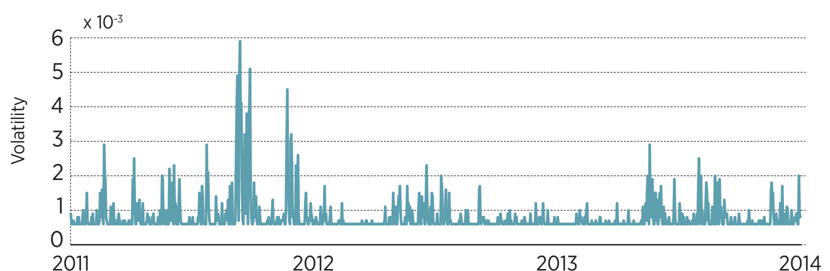
DAILY LOGARITHMIC RETURNS USD/NGN
(Source: GEMfonds)



FILTERED RESIDUALS
(Source: GEMfonds)



FILTERED CONDITIONAL STANDARD DEVIATIONS
(Source: GEMfonds)



up. Using single stock put options is not possible outside of South Africa. Indeed, the cross border sector correlations are so weak, using proxies to hedge risk in the same sector does not work. A better strategy is to build strategic positions and use the weight of money to influence and shape the company and its competitive landscape. This is more akin to activist investing.

> "A hedge fund, by virtue of being unconstrained, has a larger universe than long only equity funds"
>
> GOHOU DANON

If one cannot hedge stock risk, what sort of risk should one hedge? Clearly, what the risk investors are concerned about in Africa is the political risk. A hedge fund should take such nuances into account in shaping its strategy. Credit default swaps in Nigeria or Egypt, for example, can provide deep out-of-the-money protection in these markets.

Using currency forwards

The best way to hedge country specific African risk is through currencies. This is done by entering into an offsetting currency position so whatever is lost/gained on the original currency exposure is exactly offset by a corresponding currency gain/loss on the currency hedge. A quick look at the chart on the Nigerian Naira shows how dramatically a currency can react to a change of circumstances. Typically, a basket of African currencies depreciates at about the rate of 2% per annum against the dollar. Movements outside this band, or beyond typical fluctuations, should be used as signals to the risk officer to take action by either reducing exposure or hedging using forward contracts.

As the return series of African currencies clearly are not normally distributed, a MATLAB program or similar can be used to generate a normally distributed random set of numbers to plot the cumulative distribution against. By way of illustration, the top graph (*p15*) shows the Value At Risk metrics from a basket of three African currency return series. Regardless of the hedge fund being an African one, strict risk control and appropriate use of statistics to measure that is a must.

Analysing African currency returns

It is evident that the logarithmic returns are not normal distributed (*see the corresponding graph*). As such, Extreme Value Theory is the best way to analyse African currency returns. It is created by first extracting the filtered residuals from the return series that helped in building a cumulative distribution function (CDF). The correlation between the residuals is assessed via a Student's t Copula of each currency pair.

As African currency returns are not identically distributed, it is also possible to deploy an autoregressive (AR) model to the conditional mean of each index and an asymmetric GARCH to deal with the conditional variance. The filtered residuals and volatility derived from independent identically distributed returns are shown in the corresponding graphs.

Hedge fund approach makes sense

A hedge fund, by virtue of being unconstrained, has a larger universe than long only equity funds. The African investment universe is not as large as the fund managers in the space make out. There are only some 2,000 investible stocks if Egypt and South Africa are included. When one screens for liquidity and quality, one tends to find portfolios have a high degree of cross exposure. This is why a hedge fund approach makes sense as its adds value to the choices available. To give an example, a typical bottom up African equity portfolio would have a standard deviation of ten. Mix this with fixed income and that number comes down to eight. Hedge the event risk and the portfolio can have a standard deviation of just six. With the returns forecast from African equities, this will make the information ratios of the successful players look excellent.

The fixed income space is also under-developed from a hedging perspective. Repos are not even available on sovereign names in most African markets. Again, the depth of South Africa is where most of these transactions can be done but even their opportunities, such as in convertible arbitrage, are limited given the limited issues in the local market.

A lot more can be done to hedge commodity risk, which is quite large compared to other geographies. This can be done in the London Metal Exchange, Chicago Commodity Exchange, or indeed with exchange traded products on underlying commodity based equity. When using commodity futures, one has to be careful about the nature of the contango, where the futures price is higher than the spot price, in such instruments.

A number of fund managers are looking to launch an African hedge fund, the genre which is now being pioneered by Coronation Presidio, Insparo and Laurium. But the party has just begun, the capital markets will develop and more opportunities to hedge and invest will present themselves across Africa. ■

AFRICA PE: GLOBAL PERSPECTIVE

Africa is increasingly attractive to international private equity investors, says **Alex Wolf**, vice-president at **HarbourVest Partners**

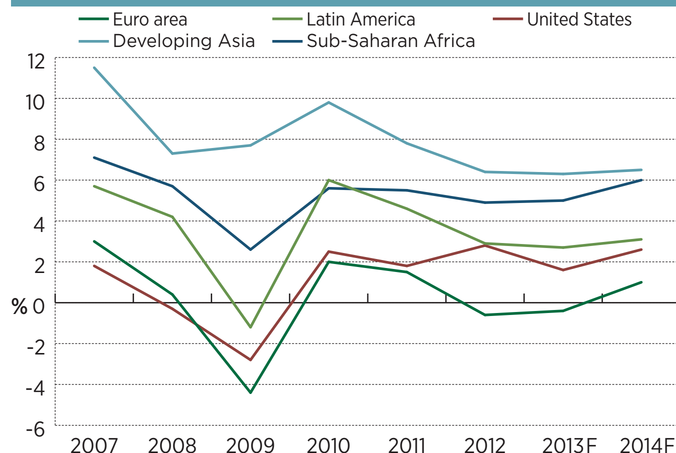
Professional investors have woken up to the opportunity in Africa, and there is no shortage of research material making the case for investment in the continent. Taken in aggregate, the economy of Sub-Saharan Africa (SSA) continues to grow at 5.5 to 6.0% per annum, which compares to moderating rates of growth across the major "BRIC" economies and other emerging markets. According to Boston Consulting Group (BCG), SSA is now the fastest growing region of the world outside of developing Asia, and is generally seen by investors as "the final frontier – the last sizeable area of untapped growth in the global economy".

This broader interest in Africa is filtering into the private equity industry, and African private equity is attracting vastly more attention from investors in the asset class, evident in the numerous conferences and industry publications as well as the many general partners (GPs) now attempting to raise capital for the region. Over the last 15 years, private equity in Africa has been heavily supported by government-funded development finance institutions (DFIs), which remain a crucial source of capital for the region. However, there has been a marked increase over the last three to five years in the level of interest among commercial institutional investors who are attracted by the economic growth and the maturing base of private equity managers. In fact, according to 2013 research by the Emerging Markets Private Equity Association (EMPEA), investors voted SSA the most attractive investment region for the first time in that survey's nine-year history.

Private equity in Africa

Despite this interest, capital flows into African private equity funds have remained modest. According to EMPEA data, between 2011 and 2013, SSA private equity funds raised an average of $1.5bn per annum, an increase of 3.5 times over 2002 to 2004. By contrast, capital flows into Latin American funds increased by a factor of 11.1 times over the same period, raising an average of $5.7bn per annum between 2011 and 2013. Furthermore, the substantial majority of the capital has been raised by a small number of pan-African mangers and a small group of experienced manag-

REAL GDP GROWTH BY REGION
Source: IMF, World Economic Outlook Database (October 2013)



ers in South Africa. This is partly demand-driven, in that institutional investors still feel more comfortable investing in African funds focused on larger assets, geographically diversified across the continent. Although the overall penetration of private equity in Africa remains very low by global standards, the development of the fundraising trends in the African market should be monitored, given the potential accumulation of too much capital and competition at this larger end of the market.

Over the coming five years, GPs in Africa are expected to raise significantly more capital, which should be more broadly distributed by strategy, size and geography of the underlying managers. As the asset class matures, further new entrants, as well as spin-off teams from existing managers, are likely. A particular area of growth is likely to be single country or sub-regional funds in both West and East Africa, as well as more GPs focusing on opportunities in specific sectors (including consumer products, energy, agribusiness, real estate and infrastructure).

Challenges for PE investors

So how should an investor think about Africa as a private equity investment destination today? Certainly, there are challenges that investors should consider prior making an investment. First of all, Africa's size presents certain challenges, because in different respects it is both too large and too small. Geographically, the continent is vast, with a population of over one billion people sprawling across 54 countries, covering 20% of the world's land mass. For investors, the scale of the region, the dispersion of the major centres of economic activity, and the range of legal and business cultures is a challenge. However, despite the strong rates of growth, economically, Africa is still small. SSA's aggregate GDP in 2013 was approximately $1.3trn, representing 1.8% of global GDP, roughly the same size as Spain and a little over half the size of the UK. In private equity terms, the numbers are also small, with the $4.4bn of capital raised between 2011 and 2013 accounting for just 0.6% of funds raised worldwide, according to EMPEA. Investors therefore must consider how well resourced they are to focus on a region of the private equity world that is both complex and, for now, relatively small.

Secondly, there is market volatility. The recent sell-off and volatility in global emerging markets assets has largely been the result of a reaction to the gradual tightening of US monetary policy (tapering) and the slowing of the Chinese economy. These two factors have led to a depreciation of many emerging markets currencies (including the South African rand), as well as losses in equity markets. This market volatility is indicative of the risks associated with investing in less economically developed regions of the world.

In Africa, political risk has also been an issue. Over the last five years, examples have included mining strikes in South Africa, terrorism in Kenya, violence surrounding elections in Nigeria, and armed conflict in Mali. Investing in Africa requires an acceptance that exogenous political and capital markets-related factors will occasionally shape and disrupt the environment. It requires a patient and long-term mind set, which is well suited to private equity investment.

In addition to that, the availability of exits in Africa remains a concern for international investors. The Johannesburg Stock Exchange (JSE) in South Africa is the region's dominant exchange, accounting for 83% of the total market capitalisation of all listed companies in SSA, although there are growing domestic equity markets in Nigeria, Ghana, Kenya, Uganda and Tanzania, among others. More private equity-backed public offerings on these smaller exchanges are expected over the coming years, although they are unlikely to become a major source of liquidity in the short term. The bigger near-term opportu-

CHALLENGES VS OPPORTUNITIES
Source: HarbourVest

Challenges	Opportunities
• Africa's size • Volatility • Liquidity • Political risk • Manager selection	• Structural growth • Breadth of opportunity • Advantage of private markets • Quality of private equity firms

Over the coming five years, GPs in Africa are expected to raise significantly more capital, which should be more broadly distributed by strategy, size and geography of the underlying managers"

ALEX WOLF

The opportunity to invest in the growth of the domestic urban consumer is better accessed through private equity than the African listed equity markets”

ALEX WOLF

nity for exits is acquisition by strategic buyers seeking exposure to high quality assets. In recent years, there have been several successful strategic exits, including Capitalworks Private Equity’s sale of cement manufacturer Pronto Holdings to a South African trade buyer and Actis’ sale of Banque Commerciale du Rwanda to a Kenyan financial institution.

Finally, manager selection presents a challenge. With the exception of South Africa, private equity in the region remains a young industry, with the first institutional capital raised in the late 1990s and early 2000s by a small handful of firms. These early funds performed well, benefiting from an early mover advantage and high growth in both mobile telecommunications and basic financial services. Over the last 15 years, there have been a number of new entrants into the market, and HarbourVest estimates that there are around 50 GPs active in Africa today. Most of these managers have been operating for substantially less than 10 years, and as such they have relatively limited investment track records with small numbers of realisations, making manager selection challenging.

African opportunities

Nevertheless, the level of potential growth in Africa is profound, given that it is starting from such a low base. Real GDP increased 76% between 2000 and 2013 (an average of 5.4% per year), and is forecast to grow at an average of 5.7% per annum over the next five years, according to the IMF World Economic Outlook. SSA has the youngest, most rapidly urbanising population in the world. According to BCG, between 2001 and 2011, the number of Africans with more than $2,700 in annual income – the threshold for discretionary spending in emerging markets – expanded from 104 million to 184 million. By 2017 that number will likely have risen to 257 million people.

Catering to this growing middle class is creating a range of opportunities around the creation of physical infrastructure, construction, logistics, consumer goods, financial services, healthcare and education. An investor at a large pan-African private equity firm with which HarbourVest has invested commented that “managing a fund in Africa today would be like investing in the US in the late 19th century”, referencing the scale and breadth of the opportunity set in Africa today.

The opportunity to invest in the growth of the domestic urban consumer is better accessed through private equity than the African listed equity markets, where the composition of domestic exchanges does not often mirror the composition of the underlying economy. Outside of South Africa, listed equity markets have a significant skew towards banks and other financial stocks, while consumer goods and services are under-represented, according to Riscura’s Bright Africa report. The closed-end, long-term nature of private equity funds is also structurally advantageous in Africa, where volatility can have a short-term impact, allowing managers to hold assets without redemptions or other liquidity pressures.

Moreover, Africa has a much larger and higher quality universe of private equity managers operating in the region today. For the first time, an increasing number of firms have been investing together as stable teams for several years. This maturation of the industry is enhanced by an inflow of western-educated African nationals returning to work on the continent given the opportunities on the ground.

CASE STUDY

In December 2013, HarbourVest led the spin-out of the Absa Capital Private Equity (ACPE) franchise. ACPE was originally sponsored by Absa, one of the largest banks in South Africa, with the formation in 2006 of Absa Capital Private Equity Fund I, a fund set up to acquire companies operating in South Africa. This asset became non-core for Absa, presenting an opportunity for HarbourVest to lead a syndicate that acquired the bank’s 74% position in the fund. In conjunction with this acquisition, HarbourVest ensured a spin-out of the incumbent captive team, which continues to manage the existing portfolio. The franchise has subsequently been rebranded as Rockwood Private Equity. The portfolio itself includes five companies operating across different industry sectors such as waste management, support services, chemicals and manufacturing. In addition to being industry leaders in the local South African market, they are increasing their operations in other sub-Saharan countries which is an important element of their value creation strategies.

HarbourVest, a global private equity investment firm, has a long history in emerging markets private equity and has been investing in Africa since 1996. The team was also an early investor in Latin America, Russia, Turkey and developing Asia. HarbourVest draws upon our 30 years of experience as a private markets specialist to select investments and build diversified portfolios.

In Africa, the HarbourVest team has committed more than $640m to private equity across primary fund investments, secondary, and direct co-investments, and expects to allocate additional capital to the region on behalf of our investors in the future.

At HarbourVest, we remain cautious about the balance of risks and opportunities in Africa, but continue to believe that there is the potential for compelling returns for long-term private equity investors in the region. ■

MARKET FOCUS

RWANDA

As East Africa becomes an important PE destination, investors eye opportunities in Rwanda

BY ANNA LYUDVIG

REMARKABLE TRANSFORMATION

After decades of ethnic tension that culminated in the 1994 genocide, it is hard to believe that a country can recover and make such tremendous progress as Rwanda has done. The Republic of Rwanda has gone from strength to strength and illustrates what can happen when a government has a unified set of goals and a focused strategy. "The country has a clear set of rules, targets and priorities for business, all geared to putting young people to work and fostering economic and political stability," says Melissa Cook, founder and managing director of African Sunrise Partners.

Okomboli Ong'ong'a, partner East Africa for Phatisa's Pan African Housing Fund, agrees, saying that "the country as a whole continues to undergo a transformation towards a peaceful free market economy".

Rwanda geographically falls within East Africa, so from a private equity (PE) perspective all the activity will be driven by the PE funds based in Nairobi, according to Anthony Muthusi, partner, East Region, Transaction Advisory Services at Ernst & Young. He adds that unlike the other markets, Rwanda is a small market, but "fairly attractive in terms of ease of doing business and has fairly transparent investment policies".

Muthusi says that there are between 40 and 50 funds focusing on East Africa, with the largest number of them based out of Nairobi, Kenya, especially the small and medium-sized ones. "We are seeing an interest from private equity investors especially in sectors like retail and financial services. We know that PE funds like Actis have been in Rwanda for many years and they have done successful exits from portfolio companies," he adds.

For instance, in 2004, Actis acquired an 80% controlling interest in the second largest commercial bank in Rwanda, Banque Commerciale du Rwanda (BCR), for $6.05m, which was in 2012 sold to Kenyan regional bank, I&M Bank and French and German development finance institutions, Proparco and DEG.

On the radar screen

Rwanda is a core destination for Fusion Group, a financial services organisation with headquarters in London and Nairobi. Fusion has two independent product areas – real estate and private equity/SME funding – and the group's managing director Nish Kotecha is "incredibly excited by the opportunity that Rwanda and Kigali [Rwanda's capital] has to offer". The real estate business of Fusion Group sources real estate, while the private equity looks at investing in the growth sectors of Rwanda. "When you look at Rwanda it is all about infrastructure growth," says Kotecha.

At the moment, Fusion Group is working on the Kigali Heights Real Estate project, worth approximately $40m, to be completed by mid-next year. The project involves the construction of nine-storey commercial premises, to be let as office and retail space. On the private equity side, in July 2013, Fusion Capital acquired a 46.5% equity stake in Rusororo Aggregate for around Rwf 1.3bn (around $2m), the first fully commercial large scale aggregate mining company in Rwanda. "We sourced it, we found it and made it link to the urbanisation story that is happening in Kigali," adds Kotecha.

But the East African nation is very much on the radar screen of smaller private equity players. Avril Stassen, senior partner at Agri-Vie, a private equity investment fund focused on food and agribusiness in Sub-Sahara Africa, believes that as a private equity investor "one has to be looking very closely at opportunities in Rwanda".

"Rwanda is one of the highest growing countries coming from a very low base and we have been monitoring its progress; we are looking actively at opportunities, and we have not found anything suitable as of yet, but we are looking," he says.

Meanwhile, Phatisa's Pan African Housing Fund hopes to conclude at least one investment in 2014 in Rwanda and follow up with further investments over the next three years of the fund's investment period, according to Ong'ong'a.

Because Rwanda is small in terms of economic activity, the average ticket size for the country is between $3m and $6m, according to Muthusi. And experts agree that it is not easy to find suitable deals in that range. Ong'ong'a says that the market is "relatively unsophisticated and therefore a few players tend to hold all the cards". "There is some degree of political exposure that may limit the investability of opportunities," he says.

Rwanda is one of the highest growing countries coming from a very low base

AVRIL STASSEN, AGRI-VIE

Stassen agrees: "We find very few businesses that have sufficient critical mass and size to be suitable for private equity in terms of our ticket size focus. Obviously, as the economy grows, that universe of potential investments will grow in the coming years."

Local partners

But that is not the only challenge. Experts agree that the biggest challenge in the country is to find strong management teams. For Fusion's Kotecha, it is not easy to find suitable deals in East Africa unless you have people on the ground with local networks. "You have got to be part of that local entrepreneurial community. You have to invest in the connectivity, putting local people on the ground, opening offices and building your brand bottom-up," he stresses.

Stassen agrees, saying that to be on the ground is critical. "We would not invest in a business in any country unless we have a local partner," he says.

Ong'ong'a adds that given the infancy of the private equity industry, there is a short supply of investment professionals and deal flow, but this will change over time as the industry grows. However, from Phatisa and its property fund's perspective, the banking sector and access to retail credit is a risk. "Often, our products require additional funding whose only source can be the banks. To the extent that the banking sector undergoes some kind of hiccup, we see this as a risk for both off-take and product development," says Ong'ong'a.

And while private equity players also raise concern about potential currency weakness and lack of infrastructure, they are quite confident about the political situation in the country. Kotecha says: "I would argue that Rwanda has lower risks to the rest of what is happening around Africa. If we saw a political risk we would not be as aggressive as we are in Rwanda."

"People have been critical of the president, but I think you have to go and see it and then come back and look at what he has done. I think it is phenomenal. And Rwanda is regularly approached by other African countries to take lessons from them," he adds.

E&Y's Muthusi agrees, saying: "I do not think that security is an issue in Rwanda. I would argue that it is a fairly secure country; corruption is significantly lower compared to some of the other countries."

Rwanda will continue benefiting from the fact that East Africa is becoming an important destination for PE funds and industry professionals believe that the PE industry will grow strongly in the country. Kotecha says: "You will not see massive deals and secondary buy-outs yet but, given the speed at which Rwanda is moving, I think you will see them in a much shorter time frame than in some other East African countries. Rwanda has had it troubles, but we are here to take it and make it a model of what Africa could look like in a sense of its opportunities." ■

ONE SIZE FITS ALL?

The countries in the CFA franc zone face an ongoing dilemma when evaluating the competitive merits of their monetary union, says **Ronak Gopaldas**, sovereign risk analyst at **Rand Merchant Bank**

In Francophone Africa, a unique monetary union known as the Communauté Financière Africaine, or CFA, links a group of 14 countries that have pegged their CFA franc to the euro. These include Benin, Burkina Faso, Cameroon, the Central African Republic, Chad, Congo, Côte d'Ivoire, Equatorial Guinea, Gabon, Guinea-Bissau, Mali, Niger, Senegal and Togo.

Recently, the East Africa Community announced its intention to adopt a common currency too, the Eco. The longer-term intention is for all West African states also to adopt the eco as a common monetary unit. However, there is currently much debate around the merits of a common currency and a 'one size fits all' approach.

A common monetary union clearly has some strengths, but also some weaknesses and challenges. Whereas this form of integration has enhanced trade and factor mobility among CFA member countries and provided a measure of monetary stability, the link to the euro has made the exports of member countries more expensive relative to some of their competitors.

Fiscal prudence

A major benefit of participating in the CFA zone stems from the mechanisms designed to instil fiscal and monetary prudence among member governments, thereby guarding against unchecked public spending and high inflation.

This fixed exchange rate regime draws its credibility from monetary agreements with France that, via the treasury, guarantee the convertibility of the CFA franc and provide each country's central bank with an overdraft facility to meet liquidity needs. The central bank of each participating country is required to deposit at least 65% of its foreign currency reserves in the French treasury. Here it goes into a special operations account, from which that country may borrow or collect interest. By limiting the amount of funds available for borrowing, the French treasury limits the money supply and, in theory, limits government spending by member countries. This is designed to mitigate against any excessive borrowing by the central fiscal authorities of any of the participating states.

The reserves of member states are pooled at the Central Bank of West African States (BCEAO) or Bank of Central African States (BEAC), providing a buffer against country-specific, balance-of-payments shocks. Members have no independent monetary policy and no possibility of undermining the independence of the region's central bank or of monetising public deficits.

The need for foreign currency is eliminated when CFA franc member countries conduct trade within the region, promoting regional integration. Furthermore, the CFA franc's peg to the euro also simplifies trade

Whereas integration has enhanced trade among CFA member countries, the link to the euro has made the exports more expensive"

RONAK GOPALDAS

with countries in the European Monetary Union, while simultaneously enforcing the low inflation necessary to keep the currency correctly aligned with the peg. A major benefit of a common currency that has been emphasised is that it facilitates trade and investment among the countries of the union by reducing transaction costs in cross-border business and removing volatility in exchange rates across the union.

Asset managers and investors weary of volatility and pronounced commodity dependency in Africa tend to view the arrangement in a positive light. Haphazard policymaking and uncertainty is largely mitigated by the prudent monetary policies pursued by the respective central banks. Certainty is something that investors value highly and the collective policy provides a stable macroeconomic environment from which to enter a country. Furthermore, transparency levels and reliable statistics tend to be superior to other regions, while a country's liquidity position is effectively managed.

Similarly, for ratings agencies, the CFA is also viewed as a net strength. The argument espoused is that France's economic might is a net benefit for the countries of Francophone Africa by virtue of the stable monetary framework it provides to countries suffering from political instability and weak governance, even if the member countries cannot tackle their individual economic peculiarities.

Major criticisms

Despite positive factors, the union attracts a number of significant criticisms. Under a currency union, there is no scope for independent monetary policies by the member countries. Hence individual countries cannot use monetary policy in the event of external shocks and this is a significant impediment to economic policy. Whereas many developing countries commonly adjust the value of their currency in response to market forces and to enhance competitiveness, this option does not exist for CFA member countries.

The other major problem with the CFA franc is that because of its pegging at a fixed rate to the euro, its value reflects the successes or failures of European monetary policies, rather than African realities. The current dismal growth prospects in Europe have translated into stress in the economies of Francophone Africa, whose primary export markets have been adversely affected by the ongoing sovereign debt crisis in the eurozone.

> **"Unless underpinned by sound economic fundamentals, such a formation is doomed to fail"**
>
> RONAK GOPALDAS

Most countries in the CFA zone rely almost exclusively on exports for their development yet the current monetary arrangements provide no flexibility as far as external competition or internal economic policy is concerned. To make matters worse, the imports of these countries are usually billed in euros whereas exports are paid back in US dollars, which, via a loss of price competitiveness for export products (euro weakness relative to the dollar) on international markets translates into a loss of export volume and, therefore, tax revenues.

Furthermore, since none of these countries supports a large manufacturing sector, they rely on the exports of basic goods like cotton, coffee and cocoa to drive their economies. Even with favourable weather patterns and sound crop yields, CFA countries have found it difficult to penetrate Western markets. The strength of the CFA franc has caused the exports of member countries to become prohibitively expensive, making it almost impossible for local products to compete on a world stage. Consequently, depressed commodity sales and inflated import bills have led to ballooning current account deficits in Francophone Africa.

The overvalued CFA franc also damages local industry. Since firms cannot compete with cheap imports, many of them simply go bankrupt. Only with the help of tariffs and other trade barriers are the remaining industries able to survive. However, these trade barriers distort market signals and constrain economic efficiency.

Finally, critics argue that the colonial pact that maintained the French control over the economies of the African states is inherently paternalistic and ensures that countries continue to depend on their colonial master, France, both politically and economically. French links with Francophone African countries are maintained through the promotion of French language, culture and the external financing and debt rescheduling provided by France. Through this partnership, France has secured a vast market for its products, a steady supply of cheap raw materials, repatriation of the lion's share of local savings, unrivalled political influence, a strategic presence with military bases and the certainty that it can rely on its African allies' diplomatic support. This, it is argued, undermines a country's sovereignty and does not allow the country to grow independently.

Here to stay

While the merits of such an imperfect union can be debated at length, it is very clear that the CFA franc zone is here to stay. The future of the proposed Eco currency is less certain. Anglophone West Africa would be well advised to learn the lessons from the euro, where authorities placed the 'cart before the horse' in its attempt to form a monetary and economic union and are now dealing with the ramifications of such actions.

Unless underpinned by sound economic fundamentals and a credible plan for economic convergence such a formation is doomed to fail. Similarity of production structures, factor mobility, flexibility of wages and prices, and symmetry of shocks hitting the economies are all key factors required for a successful monetary union. If a union is underpinned by poor foundations and divergent economic fundamentals, members witness sustained current account imbalances that would require an exchange rate adjustment to remedy, which would undermine the very essence of a monetary union. ■

INCREASING OPPORTUNITY

Robert McJannet of **Sanlam** speaks to *Africa Asset Management* about the launch of the Sanlam Africa Floating Rate Credit Fund

BY ALEXIS BURRIS

Sanlam has recently announced the launch of their new fund, Sanlam Africa Floating Rate Credit Fund. *Africa AM* catches up with Robert McJannet, executive head of debt at Sanlam Capital Markets, to find out more about the driving factors behind the launch and what it has to offer to its potential investors.

AFRICA ASSET MANAGEMENT (AAM): What were the driving factors behind setting up your recently launched Sanlam Africa Floating Rate Credit Fund?
ROBERT MCJANNET (RM): Sanlam has a long history of investing in credit in South Africa. We started investing in the rest of Africa about four years ago and we have built up a meaningful business investing in credit across Africa. At the moment we have investments of about $175m in the rest of Africa and a significant portfolio within South Africa. The fund is a natural extension of what we are doing in the present market and offers investors a new opportunity to invest alongside Sanlam in what we believe is an attractive asset class.

AAM: What are some of the key benefits of investing in this fund?
RM: It is opportunity to invest in a well-diversified portfolio of high quality credit assets earning an attractive yield and it includes assets which are not normally available to non-bank investors. A significant portion of the funds are invested in unlisted assets, such as senior loans, and only an approximate third of the fund is listed assets you could buy in the markets. Therefore you get a diversified asset base beyond what would be available to a normal investor.

AAM: What type of investors are you looking to attract? Is the fund suitable just to local investors or to international as well?
RM: We believe this fund will be attractive to a wide range of investors, both local investors across Africa and international investors. The target market of this fund will be institutional investors, such as pension funds, wealth funds, and family offices. One thing that potential investors should keep in mind is that the fund is relative illiquid so it is more suitable for sophisticated investors.

AAM: What does Sanlam offer its investors?
RM: Apart from our significant investments into credit assets in South Africa, we have invested more than

> **“The target market of this fund will be institutional investors, such as pension funds, wealth funds, and family offices”**
>
> ROBERT McJANNET

$200m in the rest of Africa over the past four years which I think shows our willingness to put our own balance sheet at risk. In developing the necessary expertise we have built up very sophisticated credit processes and systems and we have extensive knowledge of credit at Sanlam.

In addition, the fund’s board and the investment committee members include members who are based across the African continent and those members have significant business and credit expertise. Investors will benefit from that expertise as well as the on the ground presence that Sanlam has in place across

Africa. We are also putting in the initial $50m in seed capital and we are committed to retaining an investment of at least $25m in order to ensure alignment with other investors.

AAM: Could you tell us about your environmental, social and governance (ESG) principles and the importance of those?

RM: Sanlam is certainly committed to ESG principles. In 2008 we become a signatory to the UN Principles of Responsible Investing and we also subscribe to the Code for Responsible Investing in South Africa. The principles of these codes are built into our policies to ensure that we implement them appropriately and the fund endorses the view that these ESG principles have, if implemented correctly, a significant and positive impact on credit portfolio values over the long term.

AAM: How do you see the fund growing over the next few years?

RM: There is a significant opportunity for growth. This is based on the fact that many African economies are growing rapidly. Several of the world's fastest growing economies are based in sub-Saharan Africa. This growth creates requirements for infrastructure and other expenditure that needs to be funded including via the credit markets, listed debt capital markets and the other loan-type markets.

At Sanlam, we have certainly witnessed this increase. We have seen an increase in the debt capital market activity with sovereigns and banks and corporates borrowing in the listed debt capital markets. There has also been significant growth in the loan markets and this growth in these markets creates opportunities for the fund to grow meaningfully.

AAM: What's next for Sanlam? Do you have any new launches planned for the near future?

RM: We are considering a number of other credit funds with an African angle. Our most recent fund is predominantly dollar based, meaning at least 90% of the assets have to be in dollar denominations. In the future, we will likely consider funds with more local currency exposure and potentially consider specific funds such as infrastructure type funds. We are working on a number of ideas and we are hoping to bring other funds to the market in the future.

We are in the process of moving $50m in assets into the Sanlam Africa Floating Credit Rate Fund, which should be substantially completed by the end of March. From that point we can begin actively marketing this fund. ■

BRIGHT FUTURE

Foreign investors are getting nervous about Africa as external and domestic factors collide, but longer-term investors should still be rewarded, says **Stuart Culverhouse**, global head of research, **Exotix Partners LLP**

Concerns about the impact of US Fed tapering and slower Chinese growth have made it to Sub-Saharan Africa (excl. SA) as, for the first time in a while, investors are getting nervous about what this means for the region. SSA currencies have fallen, mirroring the 10% fall over the last year in Bloomberg's EM currency basket. In today's integrated global capital market, it seems even smaller, less liquid markets cannot offer safe harbour.

But external factors are not purely to blame. There are domestic drivers too: the Ghanaian cedi's 25% decline against the US dollar over the last 12 months is the best example, as confidence has been battered by policy neglect. This has seen fiscal deterioration and rising economic imbalances; a dramatic turnaround from Ghana's 'poster child' status when it issued SSA's first debut sovereign Eurobond in 2007. But Ghana is not alone. Currencies in Nigeria, Zambia, Malawi and Botswana are also feeling the strain, although east African countries have been some of the relative outperformers.

Yet while African and EM currencies more widely have suffered over the last year, this has not been reflected as much in bond yields. Yields on African sovereign Eurobonds remain relatively low, despite the increase seen over the last few months; 10-year yields for BB- issuers currently average about 6%, rising to 7.5% for B+/B-rated issuers. Borrowing on the international market at affordable rates still remains a viable proposition.

Domestic events may now be deterring foreign portfolio investors looking at Africa, after a few years of post-crisis QE that delivered fast money. Today's problems are to some extent an inevitable consequence of growing pains of SSA's frontier economies as they look to develop their capital markets. Foreigners are able to participate in African economies in more ways today than they ever have in the past. And 'private capital' is no longer a dirty word, especially as aid budgets in the West are cut.

There are now 17 sovereign Eurobonds in SSA from 13 issuers. Half of those issues came in the last two years. And not only are there more issues, but repeat issuers last year of Nigeria, Ghana, and Gabon marked another important milestone in the development of African debt markets. The pipeline of future issues looks exciting, including the perennially-delayed debut issue from Kenya. But the SSA sovereign Eurobond market is still relatively small, with a combined amount of just $12.5bn outstanding. To put this into context, this is little more than Petrobras' bumper $11bn bond issue last May.

While Africa's relatively low yields have been good for debt managers, they have not necessarily been great news for investors. This largely reflects the structural imbalance between the supply of bonds and the demand from international investors. However, Africa still offers diversification potential. Moreover, as Eurobonds help put Africa on the map, it will also help encourage foreign investors to look at other investment opportunities, be they in domestic government debt, corporates, loans, listed equity or private equity. In particular, more corporate issuance can be expected, especially from the region's banks where balance sheet leverage remains significantly below the global average. There are still only a handful of SSA corporates that have issued international bonds, mainly Nigerian financials. Opportunities for investors will become apparent as banks increasingly look to raise long-term capital to increase their leverage as well as match the currency and duration of their assets.

And despite the wider market volatility, SSA's fundamentals still stack up well compared to other EM regions. It is expected to be the second fastest-growing region in the world again this year, according to IMF projections, behind developing Asia. Inflation is safely in single figures, albeit with a few notable exceptions, and debt burdens compare favourably to other EM economies. Public debt in SSA averages just 35% of GDP, helped by debt relief as well as reforms – a far cry from the debt distress that characterised the continent a decade ago.

Providing policymakers can navigate through today's more challenging times, without reverting to populism or reversing the reforms of the last decade, Africa's future still looks bright and so does investing in Africa. ■

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