AFRICA GLOBAL FUNDS

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ANALYSIS:
FIXED INCOME

As global economic changes give rise to new investment risks and opportunities, having the flexibility to allocate assets into new markets may be a more effective way to capture opportunities, writes Malick Badjie of Silk Invest

Investors are increasingly paying attention to Africa's bond universe as a possible solution and are attracted by the combination of relatively high yields and low correlation with the major markets as well as improving liquidity.

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PROFILE:
EAIF

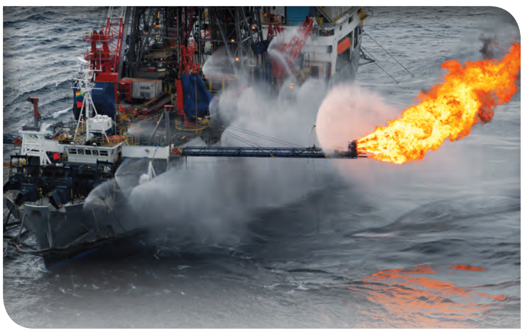
EAIF is a debt fund charged with working with private sector businesses to create and expand infrastructure in eight sectors across sub-Saharan Africa, says Chairman David White

The fund is charged by the four governments that provide the majority of its capital – the UK, The Netherlands, Sweden and Switzerland – with investing in private sector infrastructure projects that have the potential to stimulate significant economic activity, create jobs and help combat poverty.

Read on pp. 18-19

MARKET:
GHANA

The West African econony was the poster child of African growth, says Sven Richter, Fund Manager at Drakens Capital



The Ghanaian Stock Exchange was up almost 50% in US$ in 2011 to 2013. However, the first storm clouds were brewing, government finances were not in great shape, as expenditure ran ahead of income and debt started to build.

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Agriculture PE: Driving African GDP

AGF's Anna Lyudvig catches up with Phatisa's East African Partner, Yida Kemoli, to discuss the African Agriculture Fund and how PE can drive African GDP through enhancing farm yields and input

AFRICA GLOBAL FUNDS (AGF): WHO IS PHATISA AND WHAT DO YOU DO?

YIDA KEMOLI (YK): We are a sector-specific pan-African private equity fund manager and through our $246m African Agriculture Fund (AAF) we have invested in 9 companies in more than 15 countries across the African food supply chain, which is our investment focus. As a private equity investor, we invest in companies that are looking for equity for expansion and in buyouts where shareholders decide to sell their businesses, often to their existing senior management team.

AGF: WHY ARE YOU FOCUSING ON THE FOOD SECTOR?

YK: The sector is a core part of the African economy. The World Bank reports that agriculture as a sub-sector of food, contributes more than 30% of GDP and employs 60% of the workforce. Thus including the rest of the food supply chain, all of which Phatisa invests in, such as retail, restaurants, logistics, food processing and consumer goods, as well as the ancillary industries such as packaging, agricultural equipment, fertilisers and inputs, then the contribution is even more significant. Additionally, African populations and individual incomes are growing and so food demand and therefore revenues in the sector should increase.

AGF: HOW HAVE YOU MADE YOUR SPECIFIC INVESTMENT DECISIONS?

YK: Firstly, focus on the specific market opportunity to identify areas of growth. As an example, how many municipalities in Africa have broad access to clean tap water, in a continent which generally experiences warm climates. So given the underlying demand for beverages we invested in a water and juice business in Côte d'Ivoire. However, we also look closely at the company's operations and management teams. General Plastics, a packaging manufacturer in Kenya and FES, an agriculture equipment company in Malawi, have long histories of success and thus are interesting platforms for growth into more countries.

AGF: BEYOND THE INVESTMENT RETURNS YOU GENERATE, WHAT IS YOUR BROADER CONTRIBUTION TO DEVELOPMENT IN AFRICA?

YK: Our investments tend to do business with SMEs and we have specific grant funding available to develop the SMEs around our businesses. Along these lines, we arranged grant funding for Meridian, our fertiliser investment in Malawi, to improve fertiliser formulations, making them more specific to local soils and crops, as well as providing agronomist extension officers to assist farmers. This is a good example of commercial and grant funding working well together, as improving agronomy practices and thus farmer incomes, will enable more investment in farms. An interesting statistic, is that the US, a major producer of agricultural commodities, applies 130 kg of fertiliser per hectare, whilst the African average is less than 10 kg. Hence, if we get this virtuous cycle going, there is significant value to be created for all.

AGF: WHAT SHOULD A COMPANY EXPECT FROM A PRIVATE EQUITY INVESTOR?

YK: For a lot of companies in Africa, private equity is a first encounter with institutional investors. As such corporate governance principles are improved and tested. Additionally, we have a team of senior industry professionals who provide our companies, not just with oversight, but decades of experience in specialised skills such as finance, marketing and operations. Our team of professionals have held leadership positions in Africa in large corporates, including CDC, Lonrho, Diageo, Unilever and Finlays to mention a few.

AGF: THIS ALL SOUNDS VERY POSITIVE, SO WHAT RISKS DO YOU FACE?

YK: At the heart of equity investing is risk management and we mitigate risk through relying on experienced teams to make the right decisions. A challenge that we are witnessing across Africa at the present time is currency risk, where we have seen significant depreciation and volatility in various countries. As a strategy, we seek to encourage domestic supplies of raw materials, which tends to cushion the impacts. For instance, in our Zambian poultry business, part of our investment strategy was to invest in soya and maize production, which has allowed the business to control costs and ride out what we believe is a near-term event.

AGF: YOUR TAGLINE IS "DRIVING DEVELOPMENT EQUITY". WHAT DO YOU MEAN BY THIS?

YK: As a fund manager we have committed to our investors, that we are driving commercial private equity returns. We believe that businesses built on commercial principles are most likely to be sustainable over the long-term and we also believe in the importance of corporate governance and being a good corporate social citizen. In fact, many challenges are actually business opportunities, which can drive incomes all the way across the value chain.