

## What's just under the BRICs

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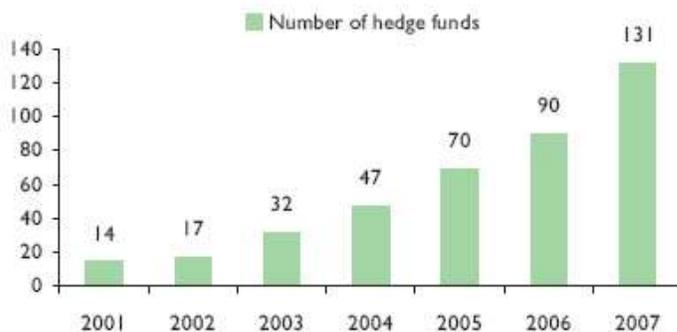
<sup>[2]</sup>Alternative Investment opportunities in emerging markets have generally been focused in Asian and South American countries. These emerging market investment products allow investors to capitalize on nascent economies through infrastructure opportunities and market inefficiencies.

But a small portion of alternative investment vehicles are beginning to look at Africa as a possible emerging market. This is a logical progression as global demand continues to increase significantly and technology becomes more advanced. Africa has the potential to be the new frontier of emerging market alternative investment managers for many reasons. Africa's 53 countries encompass an area over [11 and a half million square miles, nearly 20% of the worlds land mass](#) <sup>[3]</sup>. To put this into perspective, that roughly equals the square millage of Europe, the United States, India and China combined. Africa's population of just over a billion people presents opportunities for corporations to push their products toward an underserved consumer base with very limited competition.

Historically, Africa has not been a region associated with modern finance and alternative investment. This is due to the continent's internal conflicts, overwhelming external debt, and the lack of foreign insight and experience in its financial markets. But these factors are beginning to subside following a number of key developments within the region. Institutional investors looking for exposure to this frontier market have shown interest, as this natural resource rich area encompasses developing economies with significant growth potential.

Generally, hedge fund and fund-of-fund managers have a tendency to bundle Africa with the Middle East, creating [Middle East/ Northern Africa \(MENA\) investment products](#) <sup>[4]</sup> to capitalize on the development of the countries within these regions. However there are a few managers, such as Renaissance Capital's Africa Fund and Oryx SA Fund (the largest South African Hedge Fund), who solely focus on securities and commodities associated with Africa. The following chart from [this report](#) <sup>[5]</sup> by Novare Investments shows the tremendous growth of hedge funds in South Africa during the earlier part of the past decade.

**Graph I: Single strategy hedge funds in South Africa**



<sup>[6]</sup>A majority of Africa's hedge funds are located in South Africa as their financial system is the most stable and developed. South Africa's Johannesburg Stock Exchange (JSE) accounts for over 80% of Africa's market capitalization and is the 17th largest stock exchange in the world, making [South Africa the continent's powerhouse](#) <sup>[3]</sup>. But as other African countries make headway towards political and financial stabilization, and continue to grow and strengthen their infrastructure, South Africa's economic presence may fade into the past.

[Zephyr Management LP](#) <sup>[7]</sup> has three African hedge funds, two of which invest in several different countries within the continent. The Pan-African Investment Partner Fund and the ZM Africa Investment Fund are examples of the growing interest in African infrastructure, insurance companies, and consumer credit institutions.

The emerging and relatively more stable economies in Africa include Angola, Nigeria, Liberia, Namibia, Kenya, Zimbabwe, and Mozambique, according to political developments, the allocation of equity

investment, and contribution to Africa's GDP. These same countries' governments are also beginning to utilize foreign investment more effectively. Managers who view these countries as prime investment opportunities believe the pressure between the desire for growth, the need to distribute equitably the benefits of economic development, and the undervalued equities and natural resources, will generate great opportunities for investors.

Manager interest in Africa is supported by a wealth of encouraging news from the region. As a testament to the promising outlook of African countries outside of South Africa, the [Economist Intelligence Unit](#) [8] forecasts that the leading performing countries for GDP growth in 2010 will come from underdeveloped minor emerging markets in Sub-Saharan Africa. The Intelligence Unit reported that production in energy, rising oil output, strong performance in agriculture, and positive political developments should cause Congo, Ethiopia and Madagascar GDP's to grow by 8, 7, and 6.2 percent, respectively, in 2010.

Ethiopia's impressive economic management has won it financial support by the International Monetary Fund (IMF). Nigeria has been able to overcome the short-term downturn of the international oil market by exhibiting strong performance in unrelated industries. Its government has also made a strong effort in financial reform, increasing transparency through crackdowns in its banking sector. Oil production will continue to increase rapidly as the government makes strong headway in resolving the Niger Delta conflict.

Richard Titherington, chief investment officer and head of emerging markets equity at JP Morgan Asset Management in London, points out that there are [opportunities](#) [9] to make good returns from places that are not *obviously* attractive, citing Egypt as an example: "Some companies in the country have seen triple-digit growth in the past 12 months — it's attractive more on an individual basis than an overall index basis."

Managers may also consider the various African equity markets — there are 16 in total — with generally low correlation to the S&P and with low foreign participation. In 2008 [Paul Alagidede of the University of Stirling addressed](#) [10] the relationship of African stock markets within the continent and with the rest of the world. He found that the relationship between African markets and European or American markets is particularly weak, and the low correlation of African markets with each other offers wide investment opportunities in equity markets which have become increasingly stable in recent years.

Beyond changes within individual countries, the continent itself is seeing progressive changes that could create new opportunities in the near future. The African Union, an intergovernmental organization established in 2002 that includes all African states except Morocco, [plans to create a single currency](#) [11] for the countries within the organization by 2023.

The relationship between Asia and Africa is another promising development regarding African investment. China's insatiable demand for natural resources puts Africa in a promising position: in 2007 [China alone pledged \\$20 billion](#) [12] to finance trade and infrastructure across the continent over three years.

Despite these promising developments, African-themed alternative investment products are not suitable for risk-averse investors. From a returns perspective, African hedge funds are relatively volatile in nature. However sophisticated investors and savvy portfolio managers should monitor this quickly emerging market. For more information on alternative investments in Africa, view this [clip](#) [13].

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[1] AllAboutAlpha.com Editorial Board: <http://allaboutalpha.com/blog/about-us/editorial-board/>

[2] Image: <http://allaboutalpha.com/blog/wp-content/uploads/2010/04/africa-hedge-fund.jpg>

[3] 11 and a half million square miles, nearly 20% of the world's land mass:

[http://www.cgdev.org/files/12773\\_file\\_Moss\\_Rama\\_Standley\\_Portfolio\\_Africa.pdf](http://www.cgdev.org/files/12773_file_Moss_Rama_Standley_Portfolio_Africa.pdf)

[4] Middle East/ Northern Africa (MENA) investment products:

<http://www.investorchronicle.co.uk/InvestmentGuides/Funds/article/20090727/d9302896-77a3-11de-bac6-0015171400aa/Funds-venturing-into-Africa.jsp>

[5] this report:

<http://www.novare.co.za/uploads/files/File/South%20African%20Hedge%20Fund%20Survey%20-%20October%202007.pdf>

[6] Image: <http://allaboutalpha.com/blog/wp-content/uploads/2010/04/Africa-HF-Growth.jpg>

[7] Zephyr Management LP: <http://zephyrmanagement.com/funds/private-equity/73/>

[8] Economist Intelligence Unit: <http://www.scribd.com/doc/23982933/The-World-in-Figures-Countries-2>

[9] opportunities : <http://www.asianinvestor.net/News/170637,dont-focus-too-much-on-china-says-jp-morgan-am.aspx>

[10] Paul Alagidede of the University of Stirling addressed:

<http://www.afdb.org/fileadmin/uploads/afdb/Documents/Knowledge/30754264-EN-2.1.4-ALAGIDEDE-AEC-PAPER.PDF>

[11] plans to create a single currency: [http://news.bbc.co.uk/2/hi/africa/country\\_profiles/3870303.stm](http://news.bbc.co.uk/2/hi/africa/country_profiles/3870303.stm)

[12] China alone pledged \$20 billion: <http://www.nytimes.com/2007/08/21/world/africa/21zambia.html>

[13] clip: <http://www.cnbc.com/id/15840232?video=1019544541&play=1>

