Africa becomes sunny proposition for funds

By Kate Burgess and William Wallis, Financial Times
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Not long ago you could count the number of funds investing in Africa on one hand. You would need several, however, to count the number of new Africa funds launched since the beginning of this year.

Persuaded that the continent's dominant economies are turning a corner, funds listed on London's Aim, mutual funds, private equity funds and hedge funds are pouring.

Last week it was Johannesburg-based Pamodzi Investment Holdings that made waves when it announced the launch of a $1.3bn pan-African private equity fund backed by US investors.

Since the start of the year, more than £1bn ($2.03bn) has been raised by private equity funds in London. More is on the way. Since June, three funds, raising close to $400m, have listed on Aim, and the London Stock Exchange says there are likely to be more.

Hedge funds have also been drawn to the region, with higher estimates of their exposure to Nigeria alone running to $1.5bn. Tudor Investments and Millennium Partners are backing newly-listed Africa Opportunities Partners which is seeking, for example, to pick up a stake in a Tanzanian brewery, a fixed line Senegalese telecoms company, an Egyptian insurer, and a West African oil and gas services company.

"Two years ago there were just two funds we could have invested in, now there are more than a dozen," says Andrew Lister, whose Advance Frontier Market fund of funds was launched in June. A third of the fund is earmarked for Africa.

Flush with cash and looking for high returns on new frontiers, international financiers have persuaded themselves that Africa is in the middle of a structural rather than cyclical recovery. The amounts they are raising may be small in global terms, but together they promise to make up the largest ever flow of money from the investment community into Africa.

The scramble has been partly spurred by a generation of Africans who cut their teeth on Wall Street or in the City of London and are now using their expertise and contacts to invest back home.

It has also been driven by a shift in the continent's terms of trade. For the best part of a quarter century, from the 1970s to late 1990s, these were in decline.

Chinese and Indian demand for natural resources has helped spur the turnround, fuelling a boom in commodities, including oil, that Africa has in large supply, and the promise of a massive programme of investment in infrastructure.

But, equally, investors say their confidence is inspired by improved fiscal discipline, liberalisation of key sectors of some economies, and the fragile re-emergence in countries such as Nigeria, Kenya and Ghana of a middle class.

Local factors, such as pension and financial reforms, and privatisation in countries such as Kenya and Nigeria have also driven stock markets up.

"In the past, when people talked about an African renaissance, it was largely about politics. This time what is encouraging is that it is being led by the private sector, and by capital flows," says Tsega Gebreyes, who manages Satya, a new private equity firm backed by Sudanese Telecoms tycoon Mo Ibrahim.

The headline figures have also been good. Seven of the world's 20 fastest-growing economies are in Africa and, since 2001, Africa's overall GDP growth has exceeded global growth.

Sub-Saharan Africa's 48 countries, however, still fill up many of the bottom slots on the World Bank's annual reports on the ease of doing business. Ironically, Africa's fringe position within the global economy contributes to its pull. Outside South Africa, the correlation between African equity markets and other regions of the world is low, offering opportunities to reduce portfolio risk at a time of global volatility. These capital flows are susceptible to global shocks and may prove fickle. "Commodity prices won't grow to the moon," says Tope Lawani at Helios, the private equity firm.

Mr Lawani believes the profits generated from commodities are affecting a sustainable transformation in Africa. But he acknowledges the risk that those funds swept into Africa by euphoria, rather than operating experience and local knowledge, may not fare so well.

"We believe that you need real knowledge of a market. The risk is that investors get ahead of themselves and put money with the wrong teams. When things go wrong, they don't blame the fund managers. They blame Africa."