

The Interview - Nicolas Clavel, Scipion Capital: "Credit will remain like gold dust for trading companies and project managers in Africa"



Nicolas Clavel, founder and chief investment officer of Africa-focused asset manager Scipion Capital, says the firm's flagship Commodity Trade Finance fund, which has produced positive performance every month since its launch in 2007, is now seeking out lucrative opportunities to provide short-term finance in the minerals field, such as copper in Zambia and tin in Rwanda.

GFM: What is the background to your company and funds?

NC: Scipion Capital is a frontier market fund manager founded in early 2007. Having worked and lived extensively in Africa, I was very aware of the opportunities the continent offered, most of which are overlooked by the majority of the market. Part of the aim when establishing Scipion was to take advantage of these opportunities, so although we operate across a wide range of frontier markets, there is a strong African flavour to our portfolios.

We currently manage three funds. Our flagship fund, the Scipion Commodity Trade Finance Fund, specialises in financing trade and projects, including commodities and mining in Africa. The Scipion Index Tracker Fund, a passive equity fund and the first pan-African index tracker, replicates the Africa Investor Ai40 index. The Scipion Alpha Seeker Fund, an actively managed equity fund, covers equities in all African markets except South Africa and Egypt.

As well as myself, the firm has two other partners, Andrew Garden, portfolio manager of the Commodity Trade Finance fund, and chief operating officer Gerry Kerr. All four original members of the Scipion Capital team - myself, Gerry, Andrew and our associate, Philip Floyd - have been in place since the firm's establishment.

GFM: Who are your key service providers?

NC: Citi Hedge Fund Services is our administrator, Deloitte our auditor, Appleby Global our lawyers and Ernst & Young our tax adviser. Custody for the equity funds is shared between Barclays Bank and Banque Audi (Suisse). These banks, together with Clydesdale Bank, which is banker to the Commodity Trade Finance fund, maintain our operating accounts for settlements, trade and project finance.

GFM: Have there been any recent changes to the management team?

NC: We recently hired another analyst and are in the process of taking on an in-house marketing manager.

GFM: How and where do you distribute the funds? What is the split of your assets under management between institutional and private clients?

NC: So far, we have been distributing our funds privately through personal contacts to a mix of institutions, family offices and high net worth individuals. We are now embarking on a more active marketing campaign ourselves and are in discussions with recognised third-party marketers and other established distribution channels. The profile of investors in the Commodity Trade Finance fund is around 50 per cent institutional and 50 per cent family office investors and high net worth individuals.

GFM: How would you assess the impact of the recent global financial crisis and economic downturn on your business?

NC: As a result of the crisis, opportunities for the Commodity Trade Finance fund have increased dramatically. In 2008 the fund returned 7.29 per cent net of fees to investors and 12.41 per cent in 2009.

The idea behind starting a commodity trade finance fund was influenced by our perception of the effect Basel II capital adequacy requirements for trade finance would have on the international banking community. This was pre-crisis, and the fast disappearing capital of banks has only reinforced our perception.

GFM: What is your investment process?

NC: We follow a similar approach to that of a bank, which is natural given our banking background. Our decision to invest in what has to be a self-liquidating trade and commodity transaction is predicated first by our knowledge and understanding of the transaction and the counterparties involved.

We then determine a proprietary risk weighted grading for the transaction which includes the financial strength of the trade, for example investment amount versus realisable value, asset characteristics such as susceptibility to damage and price risk, and mitigating factors for country risk, specifically strategic choice of commodity and whether there are strong offshore mechanisms.

The strength of the sponsor looks at factors such as financial track record, trading controls and the security package, including legal control over the asset and insurance cover. This weighted risk grading is then reviewed by the fund's chief investment officer and, where appropriate, adjusted by the advisory panel, which provides a risk score for the political risk and legal environment for any transaction that assumes onshore frontier country risk.

GFM: How do you generate ideas for your funds?

NC: Our 67 years of cumulative experience in the field of trade finance ensure that we have a very strong pipeline of opportunities, which are then screened from a qualitative and risk perspective.

GFM: What is your approach to managing risk?

NC: The choice of the commodity we finance is important and we shy away from perishable commodities when a large proportion of the value can be attributed to the quality, as well as commodities with highly volatile price fluctuations. We always try to look for consistent value in our investments.

In most cases the goods financed by the fund will be held in a warehouse under the control of an internationally recognised collateral management agent. The latter will release goods only upon instruction of the fund, which will only be forthcoming once payment has been received.

A hands-on approach, together with a regular reporting procedure by the investee company and its agents, should provide information such that if need be action can be taken to protect the financed assets. Problem recognition is key. We compile a checklist of things to do or reports to be obtained at predetermined points of the transaction cycle.

GFM: How has your recent performance compared with your expectations and track record?

NC: We are returning between 0.8 and 1.25 per cent every month, in line with our expectations, although the crisis meant that in 2008 our returns were marginally below that level. The fund has produced positive performance for every month since launch, with volatility of 1.2 and a Sharpe ratio of 6.3.

GFM: What opportunities are you looking at right now?

NC: During the economic downturn, the focus of our credit fund was on agricultural commodities, specifically coffee, tea, tobacco and salt, where demand is more resilient in time of downturn. For the past few months, we have been looking at exciting opportunities in the minerals field, notably in copper in Zambia and tin in Rwanda. We see strong demand for providing finance from the point of production to port, with smelters paying against bills of lading. This is very short-term, typically up to six weeks, and very lucrative.

GFM: What events do you expect to see in your sector in the coming year?

NC: Credit will remain like gold dust. Trading companies and project managers in Africa are desperate for quality credit. As a provider of secured credit we expect to be much in demand.

GFM: How do you assess investors' current expectations?

NC: Opinions are divided between the deflationist and inflationist camps. Our view is that quantitative easing will significantly damage the value of cash in major economies and investors will take refuge in assets that are inflation-proof, such as real estate and equities, particularly those in the consumer section and with low levels of leverage.

GFM: What differentiates you from other managers in your sector?

NC: There are only very few managers in our strategy, so the mere fact of doing commodity trade finance differentiates us from other managers to start with. On a return level, our consistent absolute returns with zero correlation to global markets differentiates us from the herd.

GFM: How do you view the environment for fundraising over the coming 12 months?

NC: Certainly it will be a better climate than 2009. We believe there will be greater focus on due diligence in the capital raising process. As always, excellent track record and distinctiveness of investment objective will be very relevant.

GFM: Are you considering any mergers or acquisitions in the foreseeable future?

NC: We are very keen to keep our eyes peeled for such opportunities as we seek to grow our business, but are not working on any specific merger or acquisition at this stage.

GFM: Do you have any firm plans for further product launches?

NC: We are working on a couple of ideas that are sufficiently different from our current activity to warrant a segregated portfolio, yet close enough to be within our geographical and product expertise.

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