

## Opportunity awaits African markets

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Africa is enormous, comprising a fifth of the world's total landmass; it is also enormously diverse. In so far as it is possible to talk about the continent in general terms, it is probably fair to say that its abundant endowment in terms of people, minerals, land and water has never been successfully harnessed.

As a result, Africa still lags much of the rest of the world on most development indicators and in many respects it is the world's final frontier. For investors (outside of a handful of northern and southern African countries), the continent's capital markets are very much frontier territory.

There have been important changes though, and many African countries have been growing briskly (with this likely to continue) and have also managed to avoid the worst of the recent global financial crisis.

While the investment opportunities are very real and easily outlined, it is important that investors are equally aware of the risks. Most governments, economies and markets are still at a very immature stage. Many currency and equity markets are highly illiquid, while market infrastructure and controls can be weak.

Liquidity is a very real issue, with some markets having only a handful of listings and even the larger markets on the continent regularly trading less than USD 30million per day.

Unsophisticated retail investors also dominate some markets and their behaviour sometimes leaves us scratching our heads.

We do not know of any indices that either capture the opportunity or accurately represent the investable universe on the continent. In managing our portfolios in Africa, we are benchmark agnostic and rather apply an absolute mindset to our investing.

Importantly, we have a cash+ hurdle. We hope that our absolute hurdle helps focus our investors' minds on what we are trying to achieve, as much as it focuses our minds when investing.

As it is not possible to hedge in these markets, we seek a large margin of safety, we tend to avoid the "story" stocks where valuations are very uncertain and we focus only on delivering absolute returns.

As bottom up investors we rigidly apply our estimation of fair value to individual stocks that we own. If prices overshoot these values, we are comfortable running very high cash levels - as we have done at times in the past.

Since launching our Africa Fund in August 2008, this approach has proven successful, returning 16 per cent per annum (in dollars) through a very difficult period for global equity markets.

We still see enormous opportunities in African markets as the continent is coming off a very low base. Small changes in income lead to significant shifts in spending patterns and consumption, while technology such as mobile telephony is bringing profound change.

We believe our portfolios will continue to benefit from these fundamental changes as our investment approach remains focused on absolute returns.

By *Peter Townshend, co-manager of the Coronation Africa and Africa Frontiers Funds*

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