

Africa - The New Frontier

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Africa is the new frontier for hedge fund investors. The only developed market is that of South Africa and by international terms it is miniscule.

The South African hedge fund industry kick-started in 2002, with institutional investments coming in from the pension fund industry. A successful domestic industry with a number of funds soon evolved but growth has been hampered by lack of appropriate domestic collective investment vehicles, restrictions on the percentage that pension funds can invest into hedge funds and most importantly, currency exchange control.

This last issue is a two-edged sword; it restricts South African hedge fund managers to the Rand, the local currency investments and, at the same time, makes it difficult for foreign investors to invest in the domestic funds. The local structures of Limited Liability Partnerships or Debentures are also tax unfriendly to foreign investors.

In 2007 Ian Hamilton and other leading figures in the South African hedge fund industry launched the South African Hedge Funds SPC, a Cayman based segregated share class structure. The objective of this project was to allow South African fund managers to set up at a low cost US Dollar (or any other currency) portfolios that followed the same investment process as a Rand-domiciled hedge fund but are domiciled outside of South Africa and not subject to the local restrictions and tax uncertainty.

The name was changed in 2009 to Lions of Africa Hedge Funds SPC to reflect a number of funds that invested into Africa as well as South Africa. The platform consists of six funds, three of which are active. New funds are under discussion. Third party administration is provided by the IDS Group, the leading South African based hedge fund administrator. Well-known London prime brokers and custodians are also used.

Funds on the platform now exceed USD 100million which is significant in that it means that funds are past the seeding stage. Patrice Moyal of Visio Capital is the leading South African fund advisor to a number of Lions of Africa funds. The firm's USD funds, namely the South Africa Dynamic Hedge Portfolio (USD 29m) has returned 68% since inception in August 2007 and the Pan-African Gondo Metsi Fund (USD 60m) is up 8% since inception in June 2009 and 11% in 2010 year-to-date, respectively. The third Visio fund on the platform is the Gondo Zimbabwe Takura Fund (USD 6.5m) which is flat since inception 12 months ago.

Africa offers the potential of high growth domestic economies with liberalising policies, good capital flows, increasing consumer spending capacity and overlooked high quality companies.

Investing in Africa is about sticking to the basics. The key themes to focus on for portfolio construction and stock selection include: mining and industrial firms which are likely to benefit from the growing demand for commodities in the world's developing economies. The continent is rich in resources such as oil, copper, coal, iron ore. Over 40% of the world's gold and over 80% of the world's platinum group metals are situated in Africa.

To sum it up, South Africa offers a lot for investors. Let the Lions of Africa do the work for you!

By Ian Hamilton, Director, Lions of Africa Hedge Funds SPC

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