The Interview – David Mcilroy, Alquity Investment Management: “Africa is potentially the next attractive emerging market after the BRIC countries”

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David Mcilroy, chief investment officer of Alquity Investment Management, says the firm’s recently-launched Alquity Africa Fund aims to invest in growing businesses that offer investors outstanding financial value, while also addressing the challenges of sustainability that can create or destroy financial value.

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

DM: Alquity Investment Management is a client-focused fund management company specialising in innovative investment management with the aim of generating attractive, long-term returns. Alquity was formally launched in 2010 as part of the Alquity Group, which also incorporates Smoothed Growth Investment Management, a longstanding investment management firm with approximately USD130m in assets under management.

Alquity has an international presence, with offices in London and Hong Kong, from which it serves a global client base, and is authorised and regulated by the UK’s Financial Services Authority.

Alquity’s first fund is the Alquity Africa Fund, which was launched on June 28. The fund, which I manage, is a Luxembourg-regulated Ucits III Sicav that aims to deliver attractive double-digit annual returns on an annual basis over the longer term.

GFM: Who are your key service providers?

DM: Our auditor is KPMG, our legal counsel is Dechert, and the fund’s administrator and custodian is RBC Dexia.

GFM: How and where do you distribute the funds? What is the profile of your current and targeted client base?

DM: Our fund is distributed internationally through financial advisors and consultants and is also available through a number of leading fund platforms. The fund is designed to give investors pan-African exposure and is appropriate for both institutional and retail investors.

GFM: What is your investment process?

DM: Our goal is to invest in growing African businesses that offer investors outstanding financial value, while also addressing the challenges of sustainability. The investment process is driven from the bottom up based on a fundamental analysis of companies, underpinned by a strong valuation discipline.

Throughout the evaluation process, the investment team is mindful of how the challenge of sustainability can create (or destroy) financial value. To this end, analysis of environmental, social and governance factors are incorporated into the investment process. Like a growing number of leading international investors, we are also signatories of the United Nations Principles for Responsible Investment.

GFM: How do you generate ideas for your funds?

DM: Our ideas are generally generated internally, although we also have relationships with a wide network of brokers throughout Africa and elsewhere who provide local market knowledge and access to a wide range of third-party research.

GFM: What is your approach to managing risk?

DM: Risk is managed by effective portfolio management. The fund has a maximum of 10 per cent exposure to a single position. In addition, country and sector limits are closely monitored, although no formal limits are set.

The fund currently has exposure to 10 countries and 12 sectors. The three largest country exposures are South Africa (around 25 per cent), Nigeria (23 per cent) and Egypt (21 per cent), while the largest three sector exposures are banks (around 25 per cent), materials (22 per cent) and food retailing (11 per cent).

GFM: What opportunities are you looking at right now?

DM: A number of structural themes that are relevant to Africa today are expected to remain so for the next decade or more, including land and resources, infrastructure and the emergence of an African middle class. We are actively considering a number of stocks in several countries that we believe will be best placed to take advantage of these opportunities in the years to come.

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

DM: Over the past decade or so, stock markets in Africa have undergone a transformation in terms of number, depth and size. For example, the market capitalisation of African stock markets as a whole grew from USD245bn in 2002 to around USD1trn at the end of 2009.

Over the coming years we should see a further continuation of this trend, which should benefit the Alquity Africa Fund as this will further increase the available investment universe.

GFM: How do you assess investors' current expectations?

DM: Investors in developed markets appear to be increasingly disillusioned with the performance of equities as an asset class. However, there has been a wide divergence between the performance of developed market and emerging market equities. Over the past 10 years, while developed markets returned around 2 per cent in US dollar terms, emerging markets returned around 162 per cent.

As a result, investors are becoming more interested in emerging markets as an asset class. This process has been exacerbated by the economic crisis, which originated largely in developed markets. Following the crisis investors increasingly realise that emerging markets are very often in a healthier financial position than developed markets at the sovereign, corporate and individual levels.

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

DM: In the past some Africa funds have concentrated on one particular region, for example sub-Saharan Africa, while others have had very large exposure to a single country, in many cases South Africa. The Alquity Africa fund invests on a pan-African basis and gives investors exposure to the potential of the whole continent.

Our investment universe includes stocks quoted on any African stock exchange together with stocks quoted on developed market exchanges where the majority of the assets or profits are generated in Africa.

In addition, Alquity Investment Management will donate a minimum of 25 per cent of our annual fund management and performance fees to promote economic development in Africa. Donations are used to fund microfinance projects in Africa with the aim of supporting local communities and creating jobs. All donations are taken from our fees, so they do not affect the performance of the fund or investor returns.

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

DM: The environment for fundraising is always challenging, but the initial reaction we have received from investors internationally has been very positive. In terms of asset allocation, many investors are looking to increase their allocation to emerging markets. Africa is increasingly recognised as an attractive destination for investment and potentially the next market after the BRIC countries.

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

DM: In the short term we will concentrate our resources on the Africa Fund, but for the future, our intention is to launch a family of emerging market funds whose timing and geographic focus will depend on client demand.

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