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The lure of Africa's long term story

Emerging markets

Sophia Grene meets a manager whose optimism about the continent is getting support from investors

Few investment managers are smiling after a punishing year. There is no obvious reason why Ayo Salami, manager of the Duet Victoire Africa Index Fund, should be an exception.

But he seems unstoppably optimistic, despite a 40 per cent plunge in the index underlying his fund last year.

"If this were in the middle of a 20-year chart, this would be just a blip," he says, emphasising the long-term nature of the African growth story.

Although one might expect a manager to talk his own book, Mr Salami has evidence some investors are in agreement.

Not only have relatively few investors withdrawn money from the index fund, he has had no problem finding new money for the Africa Opportunities fund launched last month, using the assets from New Star's Heart of Africa fund.

"There are some investors who get the long-term nature of the story," he says.

The idea for an actively managed fund came from investor demand, says Mr Salami. During the marketing process for the Duet Victoire fund, he discovered institutional investors were happy with the passive exposure that offered, but individual rich investors were anxious to get a bit more "of that elusive thing called alpha".

"Institutional investors look for passive, but high net worth individuals look for something much more actively managed," he says. "The final leg would be to offer an African private equity fund."

Although Mr Salami is enthusiastic about the idea of a private equity fund, he admits the market environment is not conducive to such a project.

"The problem is the lock-up." Few investors are prepared to tie up capital for any length of time at the moment.

So Duet's private equity product is on hold for the moment, while it markets its two existing funds. The appetite for African investment comes largely from northern Europe.

"In the Scandinavian and Benelux countries, the risk appetite is much higher than among Anglo-Saxon investors," says Mr Salami, who expects UK investors to cotton on to the opportunity – eventually.

"By the time the UK looks at Africa, they will probably have missed it."

The argument for African investment rests largely on a premise that many feel has been disproved – the idea that emerging market economies are no longer closely linked to developed economies.

"It's difficult, given the recent memory of 2008, to argue decorrelation, because

'Africa has not seen demand destruction like in the developed world'

it didn't work," admits Mr Salami. He is nevertheless convinced the recoupling of emerging markets to the rest of the world will be temporary, pointing to the underlying performance of companies in the Duet Victoire index.

"Last year companies in the index grew their earnings per share by 32 per cent. The share price did not reflect this at all," he says. Mr Salami is dismissive of warnings from the International Monetary Fund that falling commodity prices, a major blow to tax revenue in

several African countries, could jeopardise recent reforms.

Using Nigeria as an example, he points out that, although oil underpins 80 per cent of government revenue, it is only 20 per cent of gross domestic product.

"African governments will have to cut infrastructure spending, which will slow down growth, but not produce political instability," he claims.

He places his reliance on continuing growth in consumer demand across the continent.

"Africa has not seen demand destruction like in the developed world. For this reason, I like companies like brewers, cement, food companies."

The new Africa Opportunities fund is not currently entirely aligned with his investment beliefs. Mr Salami is happy to have acquired the assets (at a price he will not disclose) but does not entirely agree with previous fund manager Jamie Allsopp's allocations.

"There are some good companies in there which I believe in, but there are some that don't fit with my current theme, and some positions that are just far too large," he comments.

Given that one of the problems for the Heart of Africa fund was the illiquidity of the investments, adjusting the portfolio is likely to take some time.