Africa- a world beyond BRICS

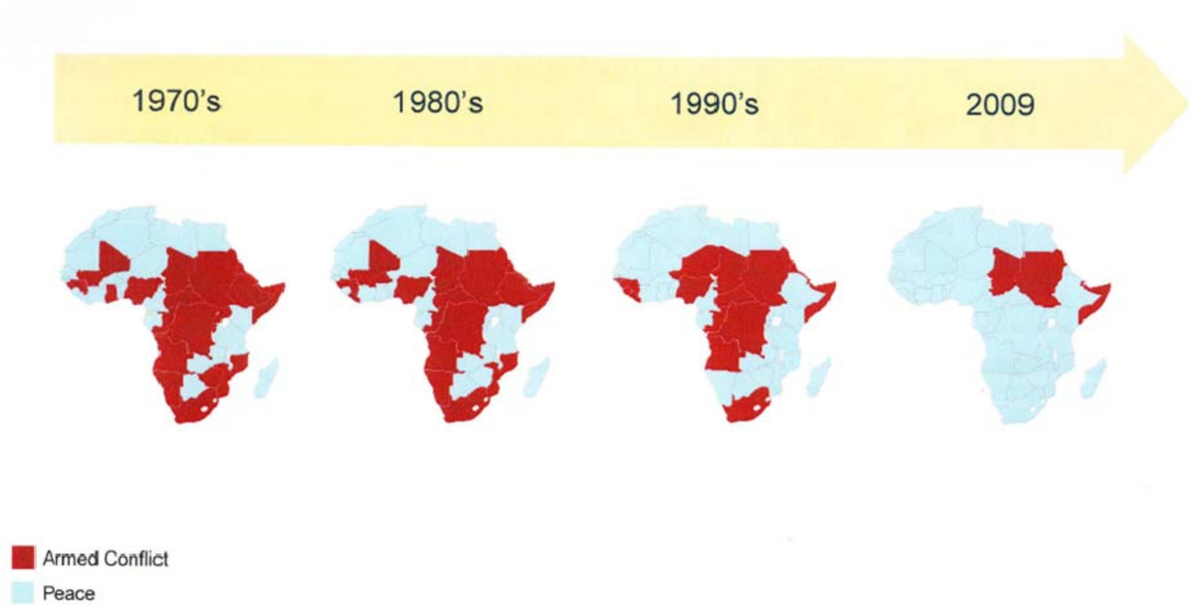
'It always seems impossible until it's done.' Nelson Mandela

Key Recommendation-Investors are straining for emerging market growth performance but fearful of valuations. Africa represents some of the best frontier market returns, and should benefit from a favourable macroeconomic environment

Key issues-Africa has emerged out of post colonial decline. A combination of booming natural resources, positive demographics and micro economic forces justify a recalibration of Africa's prospects. China's investments demonstrate real commitments to the continent.

Africa's Renaissance

During the immediate aftermath of the colonial era Africa stagnated experimenting with a variety of ills such as: socialism in Tanzania, Ethiopia, Zambia and others; Aparthied in South Africa and Rhodesia and civil or external wars in Nigeria, Angola, Congo etc all of which circumvented the growth enjoyed by other emerging countries around the world.



Source: Africa Analyst

With the collapse of the Soviet Union, and hence the ending of Africa's role as a proxy for Cold war conflict, economic activity levels flattened out in the mid-1990s. As the commodity boom began to take hold in the early years of the 21st century growth rates took root. Free trade zones such as SADC and COMESA have been formed. Expansion during 2000-2008 has been an impressive 4.9% and has surpassed OECD (World economic outlook, April 2010).

Macroeconomics help

OK, we know what happened in the last 10 years. The long-term commodity bear market that had so devastated producing nations ended. While the cycle has not been without its violent swings, prices of just about all key raw materials have firmly entered a bull market.

Whether it is the unprecedented monetary loose policy of the G7 or the burgeoning demand from Africa's big brother Asia, these trends appear to be intact. With Africa's vast farm lands, copper and precious metals the continent's economies will benefit from this environment. If you are broadly bullish on the world's prospects there will be an **ongoing catch up trade.**

Emerging nations generally have a lower level of consumer and government debt levels .As Jerome Booth(head of research at Ashmore Investment Management) wrote in the FT's Insight column (26/10) '**Unlike Europe and the US, emerging markets do not have a credit crunch in essence a multi-year, very painful de-leveraging**.' Africa is no exception. The Economist has a handy 'global debt clock' where you can put any country's figures to the test. From this we can see that South Africa's government/GDP debt level is forecast to be a healthy 32.7% in 2010, something most western nations can only dream of. Likewise, Botswana and Algeria come in the in low 20's.

The Boston Consulting Group has adroitly coined a new group of fast growing countries as, '**The African Lions.**' They are South Africa, Botswana, Egypt, Libya, Mauritius, Tunisia, Algeria and Morocco.

Unpredictable Politics—have not stymied wealth creation elsewhere.

With very few exceptions, most of Africa's territories remain a long way away from stable, democratic governance. Corruption is widespread, and the rule of law difficult to enforce. These are the hallmarks of many emerging societies. While there is work to do in Africa, investors should not look for the paradigm of western style business conditions before investing.

Emerging Markets	Ease of Doing Business Rating 2010
Brazil	129
Russia	120
India	133
China	89
South Africa	34
Egypt	106
Botswana	45

Source: World Bank ratings

'As in Asia, I don't see there will be a close correspondence between the struggles for democracy and the struggles for economic transformation'- Mckinsey - 'The case for Investing in Africa'.

Most African nations benefit from **low tax and regulatory** environment, rather than their western counterparts. Needless to say, labour costs are very competitive.

Technology lends a hand

Africa is vast. The logistics of business, communications and finance have all been a major hurdle in by gone eras. With the explosion of new technologies, especially internet based, many of these impediments are being overcome.

For example, Vodafone's East African subsidiary has not only pioneered mobile telephones in Kenya and Tanzania, but it has also brought banking services to a whole catchment area. The M-Pesa payment system has revolutionised the transfer of cash amongst the far flung regions. 'The system launched only three years ago has now 20 million users in 3 different countries' (The Times 27th October). These mobile **subscribers now use their mobile, 'to pay school fees, petrol, electricity and to make loans to friends or relatives.'**

Together with Micro Finance initiatives from the African Bank, MICA and others are bringing unimaginable financial services to the most rural of backwaters. It is this ready transportability of finance which imports the most optimism to once primitive and cash poor societies.

Wind up radios, solar powered computers, generic drugs, and even banal items such as mass produced and cheap shoes; all these things have helped what is still a poor continent.

Chinafrica—aid takes a back seat

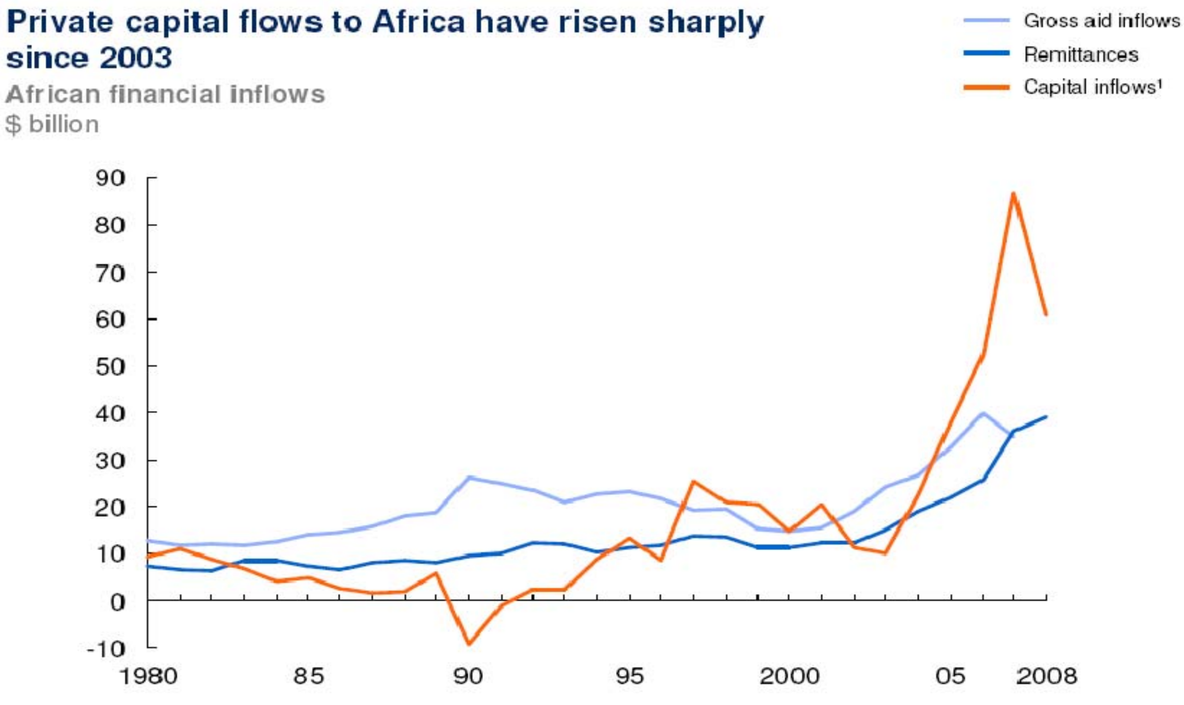
Africa is an emotional subject. From the horrors of colonial Congo, to the admirable Band/Live Aid many in western society have believed passionately in helping.

However, the success of Asian economies and the poor performance of many African countries until recently gave way to a reasoned rethink of how best to proceed. Even the high priest of the movement Bob Geldof has become a convert to the business angle of aid. As Geldof put it 'it is trade and investment that will support the dynamism and enterprise of people in sub-Saharan Africa.'(Infrastructure Investor 31/8/10)

Other bodies, like the CDC (Commonwealth Development Corporation), are putting their energies, and not inconsiderable resources to bear **in a business context.**

China too has picked up the non-aid gauntlet. Whether motivated by a lust for the abundant raw materials that Africa has to offer, or merely as a form of geo-political power play the arrival onto the scene of China's capital is no small event. As Richard Behar writes '**China's quest is generating business that the West is too timid to undertake.'** (fast.company.com)

This translates into serious investment flows. Recent examples include Wal-Mart's acquisition of Massmart. The 3rd largest retailer in South Africa has a total of 288 stores spread across 12 nations. Grant Pattison, Massmart's chief executive commented 'Wal-Mart are, of course, very interested in a strategy that includes the entire African continent.' (The Times October 2010)



1 Capital inflows are defined as net foreign direct investment (FDI), equity, debt, and other flows into Africa from foreign investors.

Source: World Bank

Conclusion-Africa is doing well

It may be hard to believe, but even with Robert Mugabe still entrenched in the presidency, growth in Zimbabwe is surging. Needless to say, this is after hitting rock bottom. The country's new finance minister, Tendal Biti, reported an expected growth rate of 8.1% this year, and an expected figure of close to 10% in 2011. He concluded **'this train is moving.'** (CNBC.com 4/11/10)

Parallels are difficult in investing. Certainly, Africa with its vastness and disparate 54 nations is unlike any region on earth. However, some seasoned investors who have **made fortunes in the early days of emerging markets** are beginning to like what they see.

A question for you. 'What unites once the world's most powerful foreign secretary, once the world's most powerful hedge fund manager and a scion of the world's most powerful banking dynasty? ' (WSJ 25/11/09) The answer of what put together Madeleine Albright,

George Soros and Jacob Rothschild has been an investment in Helios Towers Africa a project to install mobile phones masts.

The right vehicle-it is also true that fortunes have been lost in such unregulated free for all that Africa may represent. However, there is a new breed of professional entrepreneurs, often emanating from South Africa, that have the guts and instinct to perform. Some names we are impressed by are Visio Capital- a $1bn fund with a near 10 year track record; and Emergent African Agricultural Land fund.

Model Portfolio

We have one major position underweight fixed income. In October this proved a prescient call as even the Fed's much telegraphed bond purchasing failed to rouse an increasingly nervous bond market.

The world economy demonstrated a more resilient performance during the month. Even the US is producing a reasonable turnaround in job creation. Emerging economies showed little slowdown, and the German juggernaut is still rolling.

Furthermore, the egregious activities of the US central bank must be commented upon. In a prompt attempt to sell the QE2 package announced at the Fed's most recent meeting, the Fed chairman has sought to publically engage with his many critics. Bernanke has begun to refer to a possible target of inflation of 'just below 2%' and unemployment of around 5% ,both these figures as being something the Fed has to exercise its judgement over in setting monetary policy. In a speech to the Federal Reserve of Boston on the 8th October, he explained that the 'bulk of the increase in unemployment is attributable to the sharp contraction in economic activity...rather than to structural factors.' (Fox.news)

As Dana Saporta from Credit Suisse explained **'He's almost assuming responsibility for making things better**.' (Fox.news)

It is our concern that with a near hysterical attitude generally on Capitol Hill, there will be nothing to stop further aggressive easing of monetary policy. Either a strong economy or excessive monetary easing will hurt the bond market.

Stocks have begun to tire as the oxygen of lower bond yields has dissipated. This may have more to run, with uneven markets to be expected over the next couple of months. However, these securities will come back as economic recovery advances. We are still a long way from actual tightening, and historically equities have been able to withstand the first 6 months of rising short term official rate.

Having maintained a high weighting of cash, we feel the November pullback represents a good buying opportunity for risk. Accordingly we will be adding 5% to our equity portfolio.

The portfolio returned 1.63% for the month of October.

ACM Model Portfolio
October

Asset class	SAA	TAA	Over/under	Contribution SAA	Contribution TAA
Cash	5.0%	25.0%	20.0%	0.00%	0.01%
Fixed income	25.0%	10.0%	-15.0%		
Government bonds					
	25.0%	10.0%	-15.0%	-0.12%	-0.05%
Corporate bonds					
Equities	40.0%	35.0%	-5.0%		
US	18.0%	18.0%	0.0%	0.66%	0.66%
Europe	12.0%	10.0%	-2.0%	0.29%	0.24%
Japan	4.0%	0.0%	-4.0%	-0.07%	0.00%
Asia ex-Japan	4.0%	5.0%	1.0%	0.11%	0.13%
Emerging market	2.0%	2.0%	0.0%	0.06%	0.06%
Hedge Funds	20.0%	25.0%	5.0%	0.28%	0.35%
Eq hedge	5.0%				
Conv Arb	3.0%				
ED	3.0%				
Fixed income	3.0%				
Macro	3.0%				
CTA	3.0%				
Real Estate	5.0%	5.0%	0.0%	0.23%	0.23%
Commodities	5.0%	0.0%	-5.0%	0.17%	0.00%
Total	100.0%	100.0%	0.0%	1.60%	1.63%

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