

Renaissance

Asset Managers

Africa:

57 Questions Answered



Africa:

30,301,596 sq km

Other named countries:

29,843,826 sq km

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Surprising Africa



1. What is special about Africa?

Everything started in Africa. It is the oldest continent on the planet, 3,000 million years old, from which all others separated. Geologically speaking, Africa is the “key-stone” of the continents. Compare it to North America, the youngest, a mere 400 million years old.

2. So why does that matter?

It explains why Africa is the repository of so many of the world’s minerals. Diamonds only form at temperatures and pressures that existed 2,000-3,000 million years ago. Half of all diamonds produced globally come from sub-Saharan Africa, and despite 130 years of production, the largest deposits are still there.

3. Only diamonds?

Gold as well. Gold requires the extraordinary hydrothermal capacities of superheated water under immense pressure, again requiring the unique conditions most commonly found in what is now Africa. More than half of the gold mined throughout history – 40,000 metric tonnes – has come from sub-Saharan Africa. Today, half of the world's gold reserves are in Africa.

4. What else is there besides precious metals and minerals?

The age and geology of Africa make it a unique treasure trove of metals and minerals of all kinds. Of 19 global, underground islands of minerals and metals, 9 are in Africa.

The Merensky Reef, as thick as a six-storey building, runs through southern Africa. It contains the world's largest reserves of platinum, chrome and the rare metals ruthenium, rhodium, iridium and osmium. 40% of world platinum reserves are in Africa.

Nearly 20% of the uranium produced globally occurs in three African countries: Niger, Namibia and South Africa. BP's oil spill in the Gulf of Mexico in April 2010 has put nuclear energy back on the agenda in a big way.

5. What about more prosaic metals?

Western Africa contains the largest untapped economic reserves of iron ore in the world. Currently, one billion tonnes of iron ore are shipped between countries on an annual basis, none of it coming from West Africa. Over the next decade, one-third could start coming from West Africa.

6. And oil?

Africa is unique as the majority of its oil is sweet crude (low sulphur content), which is cheap and easy to refine. Africa holds 11% of the world's oil reserves and is responsible for 10% of oil production. In 2010, it became the third largest producer after the Middle East and Eastern Europe. Nigeria, Angola and Sudan are amongst Africa's top oil producers. Africa is also home to 12% of the world's natural gas resources.

7. Sounds impressive, but what could the monetary value of those resources be?

At current prices, it is estimated that Africa has about \$15 trillion of extractable mineral wealth. This is as much as the GDP of the US or of the entire Euro Zone. The so-called 'resource countries' – countries where natural resources account for more than 10% of GDP are: Algeria, Angola, Botswana, Cameroon, Chad, Republic of Congo, Cote D'Ivoire, Equatorial Guinea, Gabon, Guinea, Libya, Namibia, Nigeria, Sao Tome and Principe, Sierra Leone, Sudan, and Zambia.

Bear in mind that less than half of Africa has been geologically surveyed; this is partly due to the huge size of the continent, therefore the estimated figure of \$15 trillion could be much higher. We rarely stop to think how enormous Africa actually is. It is the world's second largest continent, making up close to a quarter of the earth's total area. At 30 million square kilometres, Africa is larger than the entire United States (9.6m km²), China (9.5m km²), the whole of the European Union (4.3m km²), India (3.3m km²), Argentina (2.8m km²) and Japan (0.4m km²) combined. It really is gigantic!

No wonder then, that resource deposits in the continent are valued at \$23,000 per square kilometre versus \$114,000 for the same area in the OECD countries. This implies that future discoveries are likely to be multiples of today's known reserves.

8. Is it all about natural resources?

Not at all. Africa is not only the keystone of continents; it is also the keystone of life. The world's oldest dinosaur eggs have been found in Africa, the world's oldest mammal fossils have been found in Africa, around 5 million years of human evolution took place in Africa, and modern humans lived for 30,000 years in Africa before they stepped out into the rest of the world 100,000 years ago.

Africa has had more of its land surface covered with tropical rain forest, for a longer period, than any other part of the globe. There is greater genetic diversity in Africa than in any other region on the planet.

Africa is much more than just underground resources; it is also one of the greatest untapped sources of phytochemicals for commercial drug manufacturing. The Fynbos Biome in Southern Africa is the richest, most varied, and concentrated area of vegetation on earth. It is only 91,000 square kilometres in size, but is botanically on par with the entire Northern Hemisphere – 53 million square kilometres in size.

9. Diversity and bio-richness are interesting, but what commercial implications do they have?

Coupled with clement weather in large parts of the continent, Africa's biodiversity makes it particularly suitable for large scale agriculture. Agriculture began in sub-Saharan Africa 70,000 years ago. The first centrally organized, scalable agricultural system was formed along the Nile Valley 15,000 years ago. Yet today, Africa is one of the last two, great, untapped agricultural resources on the planet. According to the United Nations, only 10% of the 400 million hectares of arable land between Senegal and South Africa is currently being exploited. If the world's population is to be fed over the next 40 years, then Africa will have to become a major net exporter of food.

The green revolution in Africa can take place by:

- a. Increasing the land for cultivation. Brazil successfully accomplished this by adding one million hectares of land per annum since 1996
- b. Drastically increasing yields
- c. Moving away from cereals, fruit and vegetables into higher value crops

60% of the world's uncultivated arable land is in

Africa. Contrary to popular perception, Africa has significant reserves of underground water that are not far from the surface. Compared with North America, which has 4.3 million cubic meters of water, (Europe has 3 million, Latin America has 1.6 million), Africa has 5.5 million. Extracting it is not currently economically viable due to lack of infrastructure, but the irrigation potential is truly amazing. Additionally, Africa has extended periods of sunlight which allows the harvesting of multiple crops.

10. Can you put this agricultural potential into some kind of perspective?

The United Nations compares the Guinea Savannah Zone to the Cerrado region of Brazil. The Cerrado region is known for its poor soil quality and was long thought impossible to exploit commercially. Over the last 20 years, it has increased its grain production four-fold, its soy bean production five-fold and its beef exports ten-fold. It is now the world's largest exporter of beef, poultry, sugar cane and ethanol. The portion farmed is smaller than the land available within the Guinea Savannah Zone. The Northeastern region of Thailand, another great agricultural success, is another appropriate comparison.

The world used to feed Africa. We are confident that in the next few decades, Africa will feed the world.

The appeal of natural endowments stretches well beyond agriculture. Development economists forecast that the most rapid growth is likely to be in tourism, forestry, fisheries, and water. Capitalising on Africa's natural wonders is a \$50 billion industry which is increasing in size.



Profitable Africa

11. Ok, but none of this potential is new. What makes you think that change can happen now?

It IS happening now. Over the last decade, Africa has enjoyed economic growth averaging over 6% per annum, twice the average speed of the OECD and many emerging markets. Of the twenty fastest growing economies in the world over the last five years, nine are in Africa. Growth has accelerated over the last two years spurred by privatisation and broader economic reform.

12. But isn't the growth just a one-off result caused by a brief burst of enthusiasm for natural resources?

Not at all. According to the IMF, growth in Africa over the next five years is expected to continue. Between 2010 and 2015, 9 out of the top 20 fastest growing economies in the world are expected to be in Africa. Resources account for less than a quarter of that growth. The consumer, the biggest engine of African development, is responsible for 26% of that growth, with transport and infrastructure/construction responsible for 17% and manufacturing close to 10%.

It is particularly impressive that during the financial crisis, Africa was one of the very few places in the world that recorded positive GDP growth. It is worth noting that despite the sharp fall in the oil price in 2009 – which caused GDP to decline by 7% in similar oil-dependent countries – Nigeria grew its gross output.

13. So what are the implications of these growth rates?

The countries across Africa have been growing fast for well over a decade. The parallels with Asia between 1970 and 2010 are striking. Ghana, Mozambique, Ethiopia, Tanzania, Uganda, the Democratic Republic of Congo, Libya and Nigeria are all growing at rates which are comparable to those of the Tiger economies of Thailand, Malaysia and Korea in the 70s and 80s or China and India over the last decade. Many Chinese and Indian businessmen have moved into Africa over the last five years as they recognise it to be a younger version of “Chindia”.

14. But these are small economies, right?

They appear small today but they are on the cusp of a decade of rapid development. Seasoned investors in emerging markets will easily recognise the signs. Nigeria is the eighth biggest country in the world by population today and will be in the top five by 2050, according to the United Nations. The three Tiger economies of Thailand, Malaysia and Korea were small in 1970, however, it is undeniable how important each of those has become over the last 40 years in the investment landscape. Korea is now the largest part of the MSCI Emerging Markets Equity Index, the major index tracking investment in Emerging Markets. It is also significant to note that China was once a poor, agrarian, communist state that has become the second biggest economy in the world.

Overall, African GDP is \$1.6 trillion, equal to that of Russia or Brazil. Africa's population growth means that in 30 years, it will have a labour force greater than that of both China and India. Any serious company's long-term strategy must include Africa.

15. Tell us more about the demographics, why are they favourable?

The population of Africa is close to a billion. South Africa is the region's largest economy, but Nigeria is its most populous with 150 million inhabitants. Egypt (82 million people) is the second largest in terms of population, whereas Nigeria is the second largest economy in terms of GDP.

Most countries in Africa have a youthful population. More than 40% are below the age of twenty. Over time, African economies will have a higher proportion of workers relative to those of Western economies. This creates what economists refer to as a 'golden opportunity' to increase economic growth (as well as government tax receipts) without the burden of an aging population.

Urbanisation is the most pronounced demographic trend we see in Africa. Africa has 52 cities with a population of more than a million – the same number as Europe and more than China. 40% of Africans live in cities – the same number as in China but greater than India. More than 85 million people earn more than \$5,000 per annum, a level of income which allows more than half to be spent on non-food items, so called discretionary spending – the first sign of long-term prosperity. Africa has a greater number of households earning more than \$20,000 per annum than India.

16. Ah, the Holy Grail of Emerging Markets – his and her majesties the consumer! What is consumption like on the African Continent?

There are close to 1 billion consumers on the African continent. At current prices, African consumer spending is around \$860 billion per year, which is larger than that of Russia or India.

The top centres of consumerism in Africa: Alexandria, Cairo, Cape Town, Johannesburg and Lagos, have the potential to spend more than \$25 billion per annum, which is larger than what Mumbai spends today.

There is also great potential in second tier cities: Casablanca, Durban, Khartoum, Luanda, Pretoria and Tripoli, which have the potential to spend between \$15 billion and \$25 billion. The third tier cities: Ibadan, Dakar, Kano and Rabat, can easily reach \$10 billion in consumer spending each.

As in Asia, urbanisation is, and will be the driving force of growth. 20-50% of productivity growth is due to urbanisation. Furthermore, there is a multiplier effect through infrastructure which needs to be built for the new urban dwellers of sub-Saharan Africa.

We recently discussed this phenomenon with Unilever, one of the biggest direct investors in emerging market consumers. Unsurprisingly, Unilever sees great prospects for the consumer in Africa. Building on its multi-decade experience in India, it has developed an intimate understanding of the different products

necessary to tap into the potential of the African consumer, who is stratified into 3 groups: the Affluent (annual income > \$5,000 per annum), the Aspirers (\$1,000-\$5,000 per annum) and the Strivers (<\$1,000 per annum). Unilever is present in 21 countries in Africa.

17. What do you mean by sub-Saharan Africa?

The primary region, the “heart of Africa” is often called sub-Saharan Africa. It excludes the mostly Islamic countries of North Africa. There are 57 independent countries in Africa and 45 in sub-Saharan Africa. Only two African nations have never been under European colonial power: Liberia, an independent nation settled largely by African Americans, and Ethiopia, an ancient Christian nation. The rest of the continent was colonised by European imperial powers in the nineteenth century’s “scramble for power”.



18. So the African continent is not homogenous?

Not at all. Africa is diversity. The countries can be classified by size, resource and human capital endowments, culture and history, and so forth. McKinsey has designed the following classification which we find particularly useful:

- a. Diversified countries: Income of \$3,700 per capita, per annum, manufacturing is 83% of GDP
- b. Oil exporters: Income of \$6,000 per capita, per annum, manufacturing is 34% of GDP
- c. Transition countries: Income of \$800 per capita, per annum, manufacturing is 72% of GDP
- d. Pre-transition countries: Income of \$350 per capita, per annum. These will have their own development paths and challenges along the way, but the potential is clear

Countries like Malaysia and Indonesia are great examples of how to develop a diversified economy without suffering the disease of extreme resource dependency. Indonesia, which produces as much oil as Nigeria or Angola, derives 70% of its current GDP from manufacturing and services. Nigeria is definitely starting to transition, albeit gradually, away from commodity dependence. Its services have consistently been the highest growing component of GDP for some time.

Countries like Indonesia and Brazil, that have decisively reformed their political and economic climate, are now harvesting the fruits of that process and are giving hope to many developing nations that wish to follow in their path.

19. What is the essence of reform in Africa?

Governments have worked hard to end internal and external conflicts and create political stability. They also engage in prudential policies to lower inflation and improve their balance sheets. The oil exporters used the one trillion dollars earned during the last decade to pay down debt, invest and accumulate reserves.

State-owned enterprises were privatised, corporate taxes were cut, trade barriers lowered and regulatory and legal systems were made more robust. These structural changes helped private enterprise establish itself and flourish. The sustained reform push is the most significant factor driving productivity.

20. Is there evidence that reforms work in Africa?

There are many ways to show that they do. On average in Africa, inflation fell from 22% to 8%, debt-to-GDP fell from 82% to 59% and deficits fell from 4.6% of GDP to a modest 1.8% in less than a decade. In the countries where economic reform took place, GDP growth was three times higher than the countries in which there was no reform.

The reform drive has led to a sharp rise in productivity, the real underpinning of GDP growth. Productivity in Africa is close to 3%, one of the highest in the world. During the last decade, the business sector thrived across the continent: more than 1,400 companies were listed on the different exchanges. During the first half of 2010, there were at least 100 firms in Africa with revenues of over one billion dollars each.

21. We hear about wars, rebellions and skirmishes on a daily basis. What about conflict and political instability?

Africa is an enormous place and parts of it are still in the early stages of economic and political development. Statistically, we are bound to hear about different conflicts in different areas fairly frequently. However, it is indisputable that conflicts and political instability have been on a steady decline, as measured by the likes of the World Bank or Transparency International. It is clear now, to many African nations, that the peace dividend is very advantageous.

In countries in which conflicts have ended, growth averaged 5.3% per annum, a high number by any measurement. Sierra Leone has grown 11% per annum since the end of the civil war whereas Rwanda's GDP rose by 7% per annum on average after the four year bloodshed. Ethiopia outgrew China in almost every year since the end of the Ethiopian-Eritrean conflict.

It is quite simple to see why. Stability can lead to further extraction of materials. Congo has 50% of the world's cobalt reserves which have not been able to be mined due to the upheaval. Ethiopia and Mali each have around 20 million hectares of arable land which can be accessed should peace be sustained.

The fact that we are seeing a rising stock of foreign direct investment in Africa every year, with 2010 being one of the highest on record, shows that "the smart money" is getting more comfortable with what has historically been perceived as the greatest risk to the continent.



22. Tell me about Foreign Direct Investment into Africa

Foreign direct investment (FDI) is one of the best barometers for the health and productive potential of an economy. FDI in Africa has now exceeded \$70 billion per annum (16% of gross fixed capital formation) which dwarfs remittances and foreign aid put together.

With 70% of the FDI stock, Europe has historically been the biggest investor in Africa (with Portugal, Switzerland, Germany and the UK being the largest). America and Australia make up around 10% each.

23. But we hear a lot about China investing in Africa. What is going on?

Chinese companies are not only buying African resources but are also helping African economies grow, thus creating new markets for Chinese goods and services. China has already concluded \$50 billion worth of bilateral trade and/or off-take arrangements relating to Africa. Trade between China and Africa has soared to an all time high of \$100 billion per annum. While the developed world still thinks of Africa in colonial terms, the continent is forging new economic links with the new 21st Century superpowers. China has invested \$34 billion in Nigerian oil production and plans to invest another \$23 billion in its refineries, \$20 billion in Angola and \$10 billion in Ethiopia. This is more than the investments made by the World Bank. Chinese investment is the main factor responsible for the 46% growth in infrastructure investments and the 37% growth in oil production over the last decade.

Very recently, Ghana and China signed project loans for \$15 billion dollars which are to be invested over time in infrastructure along with Ghana's burgeoning oil/resource industry. In 2009, China signed a \$6 billion deal for infrastructure projects with the Democratic Republic of Congo along similar lines.

Many Chinese companies and individuals have moved permanently to Africa as they see the continent as a younger version of China. We highly recommend you browse through the China-Africa magazine, a fascinating publication that shows the multiple trade links and the deepening economic integration between the two economic blocs, you will be struck by the magnitude and speed of infrastructure investments across the continent.

24. We were wondering when you would mention infrastructure as an investment theme! It would not be an emerging market if you didn't

No it would not. Infrastructure is indeed one of the most exciting thematic drivers of growth on the continent. The needs are enormous. Africa's infrastructure investment is only 20% of the level spent by the BRIC countries. \$72 billion is needed for maintenance and extension infrastructure alone. The future needs of the power, water and transport sectors would require at least another \$50 billion during the coming decade.

China has been one of the earliest and most savvy infrastructure investors on the continent. Note that China has not done "resources-for-infrastructure" deals as most popular commentators would have you believe. Far from it. Chinese companies have earned returns on their investment that have amply exceeded their already ambitious hurdle rates. From the many billions provided as draw-downs, there is only one \$50 million interest free loan we are aware of.

China's investment drive has kicked local governments into action. These days, 65% of infrastructure investment in Africa is financed by local governments and 25% by the local private sector. The Nigerian government recently passed a new regulation that would allow local pension funds the opportunity to invest in high-yielding, long-duration infrastructure bonds which will carry an explicit government guarantee. The African Development Bank (ADB) is planning to invest more than \$30 billion in infrastructure. It is all looking up.

25. Infrastructure investing is usually long-duration. Are there any short-term opportunities?

One of the most compelling investment opportunities in Africa is power generation. The “Sound of Lagos” is the name given to the sound of generators working around the city, as most buildings need one to function. The power grid is almost nonexistent and unreliable. Africa is home to 13% of the world’s population but accounts for only 3% of global commercial energy consumption. Within Africa itself, sub-Saharan Africa, in which 80% of the continent’s inhabitants live, generates only 24% of overall electricity output. Sub-Saharan Africa accounts for 12% of the world’s hydropower potential but only 17% of that has been utilised. In the rush for clean, global energy, this must not be overlooked.

Of the twenty fastest-growing economies in the world, nine are in Africa.





26. Other than China, are any other BRIC countries investing in Africa?

India, Brazil and even Russia have started to invest and even accelerated commitment in the last two years. The BRIC countries are now recipients of a third of African exports. That makes for increased global competition for securing African resources and for accessing and selling goods and services to one billion African consumers:

Vale, the world's second largest miner and largest iron ore producer, recently stated that Africa is the last mining frontier, the only place where world class deposits can still be found of the size necessary to propel Vale to the next stage of its growth. Vale is taking steps to build a large asset base and the level of infrastructure comparable to the one invested in Brazil. It may spend \$5 billion to develop the Simandou project in Guinea as it seeks to boost output of steelmaking raw material to 450 million tons a year by 2015.

Bharti, the largest Indian mobile telecom operator and the 6th biggest telecom company in the world, singled out Africa as its biggest growth vector, capable of transforming the company into one of the world's top three operators. Bharti quotes Africa's large size, its 32% penetration of telephony versus 55% of that in India, the low level of competition and still the low minute use – 100 minutes in Africa versus 480 minutes in India – as the drivers of predictable multi-year growth. By leveraging its resources and transferring management and technological knowhow, Bharti will establish a new profit engine. The company has just hired IBM on a \$1.5 billion contract to help it replicate its success in India across 17 African countries.

27. Is it only about BRIC? Who else is investing in Africa?

It is not only about the BRIC countries. **Indorama Ventures**, one of the largest PET and polyester producers in the world, told us that Africa is the most fertile ground for its products. Just recently, the company launched its first plant in Nigeria. The plant, which has a production capacity of 75,000 tonnes per annum, is projected to commence its trade operations in the third quarter of 2011.

The Renaissance Group itself is heavily investing into Africa. As the Group our own commitments are on many fronts. Our experience of profitable investing in early stage – we call them “high opportunity emerging markets” – makes us very confident that both the short and the long term will be lucrative for our clients and for ourselves. There are already very encouraging results to speak of. Recently, we advised on the \$1 billion acquisition of Camec.

Unlike the pioneers in emerging markets, who tend to assess risk much better in geographies that they have been used to operating in for decades, the developed world is only gradually waking up. This should not surprise us as the “rich world” is engaged in unproductive introspection, a witch-hunt for the ones “guilty” for causing the financial crisis and painful downsizing of the welfare state. However, there are some encouraging signs that some Western corporates are taking notice and do not wish to be left behind. Recently, Walmart announced that it will be buying Massmart of South Africa. The purchase, if completed, will be Walmart’s largest since it bought the UK supermarket chain Asda for \$11 billion in 1999.

28. Is Africa a good place to do business? Isn't it dangerous?

Within Africa we are focused on those countries that have a proven record of prosperity and investment success. These markets are characterised by local and multinational companies operating successful local operations with high growth and good returns on investment. Some very large companies have been started from scratch. Most people are aware of Mo Ibrahim's **Celtel** (now part of Bharti) – one of the most profitable and successful mobile operators in the world. Business conditions are now improving across many countries as governments are privatising and deregulating. It takes only three days to register a business in Rwanda. It costs \$75 to start a company in Ethiopia.

Over time, Africa will become a manufacturing hub. Currently, there are few sizeable examples to speak of but the geographic location of the continent puts it in a unique position. Africa is the most centrally located of all the continents with both the prime meridian and the equator passing through it. Being in the same time zone as most of Europe is a valued advantage. It is not by chance that South Africa is steadily building a manufacturing base and moving up the value added chain. It is the world's sole producer of the Mercedes-Benz C-class right hand drive car.

29. Are there any other significant industries worth talking about, apart from the traditional “early stage of development” emerging market industries?

Let us tell you the story of Nollywood as we believe it will surprise you.

The beauty of the Nollywood's story is that it started by accident; no one could have foreseen its worldwide success. The industry emerged from Kenneth Nnebue, a trader who was trying to sell a large stock of blank video-cassettes. To add value to his tapes he filmed an inexpensive story onto the blank tapes. Nnebue has unexpectedly sold 750,000 copies and has consequently inspired a film revolution. Film critics may debate the artistic value of Nollywood's films, however, no one can argue with their economic success. Nollywood produces more films a year than Hollywood or Bollywood and has developed into a \$200-300 million industry. It is Nigeria's largest employer after agriculture and has become the third largest film industry in the world. This success story truly captures Africa's potential.

The African Equity Markets

30. What about the public equity markets? Give me three good reasons to invest.

First, the strong GDP growth will continue to translate into substantial profit growth and cash flows for the African companies. The limited competition will ensure higher margins than elsewhere in the world. We believe that this growth will accelerate.

Second, you will be buying the growth cheaply. There is usually a negative correlation between high economic growth and equity returns as, at the outset, assets have a high valuation, thus limiting the probability for long-term gain. In Africa, due to the fall of the local equity markets in 2008, the price paid per unit of growth has lowered considerably. Most of the assets in our portfolios trade multiple deviations away from their discounted cash flow values. Our vast experience of investing in Emerging Markets has taught us again and again that when one buys assets at a significant discount to their intrinsic value, substantial returns tend to follow more often than not.

Third, in a world where the correlations of most assets are close to one, the correlation of the African markets with the rest of the world is low. This is because the markets did not participate in the global equity recovery in 2009; that is why they remain so cheap. Moreover, the cross-country correlations in Africa are negligible. This reflects the diversities of the economies and the different economic cycles between them, as well as the lack of pan-African trade integration. Intra-African trade is very low – 12%, and of that, half is with South Africa. In Europe, internal trade is 60% of total, in Asia 40%, in Emerging Europe it is 30% and 20% in Latin America.

31. Why is it a good time to invest now?

The best African economies have been performing well for more than a decade, but what makes Africa attractive now, is the fact that despite the growth, valuations have been slow to recover in the wake of the global financial crisis. African economies have continued to perform well and with a vastly improved political risk outlook. This creates an attractive entry point in the cycle.

32. How many public markets are there in Africa?

There are more than 17 active stock markets. Africa's largest stock exchange is the Johannesburg Stock Exchange which is the world's 20th largest exchange by market capitalisation.

33. What are the 3 largest stock markets in Africa?

1. South Africa – Johannesburg Stock Exchange
2. Egypt – Cairo Stock Exchange
3. Morocco – Casablanca Stock Exchange

The top three African exchanges have a combined market capitalisation in excess of \$800 billion. In comparison, the capitalisation of the Brazilian market is \$1.5 trillion.

34. Why is Africa called “The Last Emerging Investment Frontier”?

Generally, investors do not have exposure to Africa in their portfolios and if they do, it will likely be a small exposure to the advanced economies of South Africa and Egypt. Otherwise, Africa remains a relatively undiscovered investment destination. A decade of record growth and the growing presence of leading global corporations have led observers to define Africa as the ‘Last Emerging Investment Frontier’. It is hard to believe that in a globalised world with rapid information flows there is such a large opportunity which investors are generally unaware of and certainly underinvested in.



35. Who are the existing investors in African markets?

Predominantly local institutions (insurance companies, pensions funds etc) as well as local retail investors and high net worth individuals. Increasingly, foreign fund flows are taking interest in the African markets. Some of the African countries have surprisingly developed pension systems and regulations.

The Nigerian government has recently developed its pensions industry in order to further encourage economic development. This was done through the enactment of the Pension Reform Act in 2004, which promotes a stable and sustainable pension industry. Nigeria's pensions industry is now seen as one of the most impressive in Africa.

In the same manner, pension funds in Botswana have been an important, yet subtle, development in its financial system. Occupational pension assets have grown to a market value of around 33 billion Pula (\$5 billion). This value has further growth potential as Botswana's government is looking to increase administrative efficiency and sustainability through reforms and the newly created supervisory authority.

Kenya has also been through reforms to improve its pension industry. The 1997 Retirement Benefits Act brought regulation, protection and structure to the pension industry. Since 2000, stability has been further enhanced by the supervision of the

independent Retirement Benefits Authority (RBA). The RBA has reported a 33% increase in schemes under management between 2002 and 2007; furthermore, retirement benefit assets grew threefold to 180 billion Kenyan Shillings (\$2.2 billion) during the same period.

Sub-Saharan countries are continually reviewing their national social security and severance schemes to make them less expensive to administer, more sustainable and ultimately more suitable for retirees in the long run.

36. Which countries do you invest in? What vehicles do you have to effect investment?

We offer two Africa UCITS Funds designed to capture the investment potential of African growth.

‘Pan African’: a broad exposure weighted towards the most established economies: South Africa, Egypt, Morocco, and also to the less advanced ones like Nigeria, Kenya, Ghana, Botswana, Mauritius and Tunisia.

‘Sub-Saharan’: focused on the emergence of the Frontier economies of Nigeria, Kenya, Mauritius, Ghana and Botswana.

UCITS is a Directive of the European Union. It establishes a common regulatory regime for Undertakings for Collective Investment in Transferable Securities which allows funds to market themselves throughout the EU. The rigorous regulations imposed on the funds have given the UCITS “label”, a global appeal for quality and investor protection.

37. How much of my capital should I be allocating to Africa?

Africa is still largely an Emerging and Frontier investment destination. However, it has substantial value which means that long-term returns can be much stronger than other investment alternatives. We recommend investors to be overweight Africa in any Emerging Markets allocation.

38. Is it possible to repatriate profits from Africa?

It is straightforward to repatriate dividends and capital gains. Where foreign controls exist in our major investment markets, they are not generally aimed at foreign direct investment. This applies to portfolio investments as well.

Investment Team and Process

39. How do you gain comfort about your investments in companies?

We undertake independent company analysis and due diligence including management meetings on the ground. There is no substitute for local knowledge especially as the macroeconomic and political landscape changes so rapidly. We also conduct meetings along the supply chain to authenticate our data collection. A considerable amount of our time is spent travelling to meet existing and prospective investments. We do not invest in a company if we have not “kicked the tyres” properly. We recently clocked our one millionth air mile in pursuit of this information and have conducted more than 1,200 company meetings. Our second home is a plane!

40. What experience do you have of investing in Africa?

The African investment team has more than 50 years of cumulative investment experience and all originate from the African continent. The team has been managing the Renaissance Africa Funds since 2007 and has built a disciplined investment process over the past 3 years having screened and researched over 500 African companies.

41. How many of these countries have you been to? How many of those companies have you met?

Our investment team spends up to a third of its time travelling Africa to conduct site visits and meeting with African companies. We visit our key markets frequently each year. We have met in excess of 200 leading companies operating in Africa and built our own proprietary research platform. Our investment process requires regular visits on the ground. We are especially privileged to have the access afforded to us by the Renaissance Group, our parent, which has substantial presence in most of Africa's significant centres of economic influence.

42. What is your investment edge? Why should we consider you an expert?

Our investment team is led by Africans investing in Africa with investment experience gained from leading global financial institutions. Over the past few years, the team has established a proven track record of investing across Africa on behalf of its clients. Our research angle is multi-asset as our expertise stretches across currencies, fixed income and equities. This gives us a distinct advantage versus our peer group who concentrate mostly on equities. We are convinced that strong bottom-up work can only give results when it is combined with rigorous and systematic top-down reasoning. We also benefit from the frequent exchange of ideas with our colleagues in Renaissance Asset Managers who are some of the most seasoned investors in emerging markets assets in the world. This allows us to compare economic cycles around the developing world with those in Africa and successfully anticipate developments on the continent that are analogous to processes that have happened early elsewhere. To local investors, the development path of Africa is often uncharted territory, to us – it follows a predictable pattern that allows us to construct portfolios that optimally reflect the investment potential of the countries we operate in.

43. Have you written anything about the current investment potential of Africa?

We write often and in diverse formats. Our publication, the Renaissance Read, is a series of thought pieces that explores important investment topics. We recently wrote extensively about the sources of GDP growth in Africa and the reasons for its acceleration and resilience in the face of global shocks. The Renaissance Review is about market developments of note. In the Renaissance Response, you can get our instant views on important events as they occur. The fact sheets on our funds contain a wealth of information on how we perform and what we think about the future. We hold regular conference calls with all investors and bespoke ones to address specific inquiries. Please contact our Client Services team for a selection of materials authored by the Africa investment team, we would be delighted to share them with you. Finally, our sister firm, Renaissance Capital, which has been consistently voted the Best Investment Bank in Africa*, produces timely, in depth research on African economies and companies.



44. What is the Renaissance Group's commitment to Africa?

The Renaissance Group has built, and is expanding, its experienced Africa coverage in investment management, investment banking and merchant banking. Renaissance Capital, a member of the Renaissance Group, has six local or affiliated offices in Africa, and more than 200 local staff members. After the recent acquisition of the pre-eminent South African fund brokerage house, BJM, Renaissance Capital is amongst the largest brokerage houses on the continent. Renaissance Partners, our sister company, is one of the largest direct investors in Africa. The Group's extensive experience in investment in emerging markets is essential in building our African franchise. Our tremendous success in Russia and CIS, where we are the pre-eminent investment bank, was built on our intimate understanding of the dynamics of transition economies. Our extensive experience in former communist countries has equipped us with the necessary knowledge to adapt to rapidly changing economic environments. We are therefore uniquely equipped to repeat this success in the fast developing economies of Africa.

The Risks

45. Surely there are many risks to investing in Africa?

There are risks to investment everywhere. We frequently say that in emerging markets, risk is already priced in as everyone is on the alert for potential danger signals. The risks to investment in Africa span the usual risk of investment in developing economies: political, macro/currency, institutional and property rights, liquidity, corruption, low GDP diversification, low integration of the financial system in the real economy. There are some risks that are unique to Africa: the multitude of cultures and boundaries, the youth of the population and the resulting inexperience, disease, lack of infrastructure as well as political risk.

46. How do you factor political risk into your investment process?

We always have to consider if a country risk 'score' merits investment in the country. We consider the so-called 'political' risk very carefully because it is a self defeating exercise to invest in a good company that is ruined by adverse factors such as currency, inflation or government policy. We use extensive macro research using our local Renaissance offices and maintain a rigorous assessment of the relative attractiveness of the African markets. However,

political risk is the risk everyone is well aware of in Africa and to that extent, it is first and foremost factored into investment decisions.

Political risk is declining steadily as measured by the all time low of inter- and intra-country conflicts, lower corruption scores, smoother power transitions and the proliferation of opposition parties and non-government institutions. The reduction in political risk is concurrent with economic prosperity. As the countries get wealthier, that risk should decline further. Foreign investors, especially China, are forging strong alliances with governments thus correlating the newly found preponderance of permanent capital with declining political concerns. It is notable that MIGA, the insurance arm of the World Bank, can currently insure long-term political risk. It is not difficult to see why this is the case – the multitude of countries in Africa and the diversity of the political systems mean that statistically, at any given time, it is highly unlikely that there will be a widespread political shock. This is unlike some of the larger and more homogenous emerging market countries where political shocks can be unexpected and far reaching.

We note though that since the financial crisis, political risk across global emerging markets has been declining. In more developed countries, where haphazard tax policy, distorted gigantic monetary and fiscal stimuli and a widespread “witchhunt” to implicate the ones “guilty” for causing the global financial crisis, it has been climbing, thus sharply decreased their investment attractiveness.

No wonder then that portfolio and direct capital flows are moving in large amounts from the rich, but increasingly unstable, developed world to the growing and increasingly stable emerging markets, including Africa.

47. How do you select the assets in your portfolio? Do you control portfolio risk?

We combine our 'top down' view of the country with a 'bottom up' view of picking the assets that best reflect our views. Our research is proprietary and reflects our thinking about the value each asset creates through the development path of the continent and the rapid business cycles. Our portfolios are focused around our best ideas, not the benchmarks. Risk professionals who are independent of the portfolio managers advise on concentration, liquidity risk, factor exposure and changing correlations. This supplements our own thinking about stress testing the portfolio and the individual assets to minimise permanent loss of capital and comply with the rigorous investment rules of the UCITS framework under which we operate.



48. Is there a performance benchmark for your Africa Funds (UCITS)?

There are many benchmarks used in Africa. The Renaissance Pan-African Fund is benchmarked to the MSCI Pan Africa Index and the Renaissance Sub-Saharan Fund is benchmarked to the MSCI Sub Saharan Index. Both were developed by MSCI Barra Indices. However, we do not think that those or any other indices, will properly capture the investment potential of this young and rapidly evolving asset class. The scope for active management is enormous as information asymmetries are large and assets are substantially mispriced.

49. What are the currency risks I am taking with my investment?

Our Africa UCITS Funds are priced in US dollars. Our African investments will usually be in the local currency of the destination country. We carefully manage the foreign exchange risk of our investments through diversification and limited hedging, where available.

50. Isn't Africa very poor and dependent on aid?

Africa's average income per person is low when compared to advanced economies. However, the more important measure for investors is the growth of income per person. With the African economies growing and transforming, incomes are rising across Africa and the concept of the consumer is taking hold. The prices of assets listed on African exchanges are still dramatically undervalued relative to the short term and most definitely relative to the long-term potential of the continent.

51. Aren't African markets completely illiquid?

That's a common misconception: in reality, it actually depends on which markets you invest in. Our range of Africa UCITS Funds offers good liquidity precisely because we focus on investing in the most liquid African stocks. However, investors can quickly find themselves out of their depth if they invest in smaller, less liquid African markets without prior knowledge. It is important therefore to choose the right Fund Manager, who has the requisite expertise in managing the portfolio for liquidity as well as capital growth. Saying all that, naturally, the African markets are less liquid than more advanced emerging markets like China, India, Brazil, Korea, etc and of course, less liquid than the developed bourses. This relative illiquidity is also a reflection of their tremendous investment potential.

52. How much can you trust accounting information out of Africa?

Another common misconception concerns the quality of accounting oversight and regulation. The largest companies generally use International Accounting Standards (IAS), with some local variations, and large companies are commonly audited by global audit firms or affiliates. There are variations between the different jurisdictions but the trends are improving. The quest for clarity and transparency was historically lead by the multinationals who operate profitable local subsidiaries. The published accounts of Guinness, Unilever or Nestle Nigeria can easily be compared with those accounts in the developed world. Over the last five years, as listings on local and international exchanges proliferated, local companies joined the accounting revolution and today we can point to many examples of good disclosure and an application of prudent, informative accounting.

How Do I Invest – The Practicalities

53. How do I subscribe to and redeem from the Funds?

We have a weekly dealing date in the Renaissance Pan-African Fund and twice-monthly dealing dates in the Renaissance Sub-Saharan Fund. Please contact Client Services for further details on subscribing to either Fund.

54. How will you update me on how my investment is doing?

As part of our commitment to excellent client communication, we can provide investors with a Monthly Fund factsheet detailing performance data and performance commentary. In addition, a Net Asset Value figure for each Fund is published on each dealing day by the Fund Administrator, JP Morgan. Other information is also posted on our website. We will frequently hold conference calls to discuss our performance and views and will write to you about matters of investment importance. As the African asset class is new to many investors, we would urge investors to be well informed of its developments and our work to extract value from it. After all, we want you to be as excited about it as we are so that we can forge a profitable long-term partnership.

55. What is the minimum investment amount for your Africa Funds?

For Retail Investors, Class A Shares have a minimum subscription of \$2,000. For Institutional Investors, the minimum Class C Shares subscription is \$1 million. This makes access to this exciting asset class very affordable.

56. Are my assets safe, where are they kept? Who is the Fund custodian and administrator?

Our Africa UCITS Funds operate under strict regulation of the European Union directive on UCITS. JP Morgan Bank Luxembourg SA acts as the independent administrator, registrar and custodian bank.

57. Who can I contact if I have questions?

Client Services are available to assist you with any queries you may have.

Please contact funds@renasset.com. Our telephone number is: +44 20 7367 8239 and our address is: One Angel Court, Copthall Avenue, London EC2R 7HJ.

You can contact any of the Renaissance Group offices around the world, including the ones in Africa and we will be glad to assist you.



Important Information

The funds/products mentioned in this document may not be eligible for sale in some states or countries and may not be suitable for all types of investors. Past performance is not indicative of future results. For details of the investment risks, see the current offering documents.

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Print and issue date: November 2010.

October 2010