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Special Report

Accessing Africa

A guide for investors

Contents

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Where do the investment opportunities lie in Africa?

Fund Manager Survey

The Africa investment opportunity is diverse and exciting, yet it is not for the faint-hearted.

Fund managers agree that while the continent's growth story remains intact, there is current negativity around investing in emerging and frontier markets, and investors need to be steadfast and informed in their approach.

Why should investors look across this continent in search of returns, and which countries and sectors offer the most promise?

FundNews Africa spoke to some leading allocators to the Africa (ex-South Africa) space to gauge their views.

Where are the opportunities in Africa?

For some fund managers, inefficient stock markets are central to their "bull case" for investing in Africa, with 29 stock markets across the continent, many of which are nascent with little institutional competition.

Managers agree that the long-term African growth story is still very much intact, but bearish sentiment around emerging and frontier markets has also filtered through to African equity markets. The good news is that this provides investors with an opportunity to enter the market at reasonable valuations.

"Despite the positive macro outlooks in most of the major markets currently, African equities have shed performance year-to-date," says Laurium Capital, which invests in pan-African listed markets. "This is providing an attractive entry point for global investors to buy African assets at cheap multiples.

"In addition to this current short-term dislocation, African exchanges are still nascent, and markets are very inefficient compared to more developed and even other emerging and frontier markets. We expect these inefficiencies to continue in the short and medium term, which will continue to provide excellent alpha-generating opportunities."

Imara Asset Management's Anthony Schroenn sees opportunity investing into well-structured companies, with high-quality management, that are able to tap into buoyant consumer demand for their products.

> "Africa has always been a boom-bust market. The price for the opportunity of market inefficiency is that stock markets are relatively illiquid, and capital outflows are sure to hurt investors without the fortitude to stay invested. It is important to educate clients on the way in"
>
> ***André Steyn***

"This demand is driven either by new customers, in underserved or underpenetrated markets, or by offering new products to an existing customer base by exploiting brand loyalty, innovation and extensive distribution networks," notes Schroenn. "This demand should be mostly immune to global and country-specific macro-economic developments."

André Steyn at Steyn Capital Management stresses the need for investor education.

"Africa has always been a boom-bust market. The price for the opportunity of market inefficiency is that stock markets are relatively illiquid, and capital outflows are sure to hurt investors without the fortitude to stay invested. It is important to educate clients on the way in."

For Seth Boakye-Dankwah at Mazi Asset Management, there is significant opportunity for investors in Africa over the next five to 15 years.

"Development clearly generates above-average economic growth rates. This stimulates people's aspirations, demand for services, expenditure on infrastructure, and consumer spending. We expect investments in infrastructure to drive growth, along with the demand for consumption, financial services, healthcare, and housing."

"We are positive about the prospects of all our holdings across a number of African markets," says one bottom-up equity manager with a sizeable African portfolio. "In our view, the opportunity to create value for our clients is a function of investing in companies that we be-

Anthony Schroenn

Seth Boakye-Dankwah

lieve to be undervalued relative to the intrinsic value of the business."

Peter Baird, head of private equity at Investec Asset Management, agrees that Africa's fundamental drivers are intact, from demographics and rapid urbanisation to the formalisation and deepening of capital infrastructure. "In the well-run countries, it's all systems go," he says. "Most large economies in Africa are back on track and improving fast. At the same time, business confidence is up and there is a real need and demand for capital for expansion."

Pieter de Wet at Novare Equity Partners, which focuses on real estate investments in Africa, believes that the consumer market is driving opportunities and, while infrastructure development is most needed, it is not a driving force at present due to a lack of viable vehicles and opportunities. "Should this situation change over the next five years, infrastructure will definitely jump to the front of the queue," he says.

What is the best way to access the African opportunity set?

Opinions differ amongst managers as to whether the best access to Africa is via the listed (and therefore more liquid) markets, versus the private-market approach, which requires more patience and longer lock-ups.

From a top-down view, Semoli Mokhanoi at Mergence Investment Managers believes that the best opportunities can be identified by understanding each country's National Development Plan, to get a sense of the areas that governments are prioritising for development. "It makes more sense to align investments with the priorities of the country when planning," he says. Mergence has put this approach to good use with its innovative private equity model, which first secures investor funding before seeking opportunities to put it to work.

For their part, managers invested in the liquid markets believe they provide good exposure to African countries with a diverse set of industries and company sizes represented, and the opportunity to co-invest with large multinationals such as Unilever, Nestlé, ABI, Heineken and British American Tobacco.

Others believe private equity is the best way to gain exposure to Africa, given the need for private capital and lack of depth and breadth in the public equity markets. Infrastructure also resonates with investors since Africa still requires a lot of investment in building roads, railways, and other commercial projects.

"While both types of strategies hold promise, a lot of money has already flowed into these somewhat limited [non-listed] spaces, with in-

Semoli Mokhanoi

creased competition for assets leading to elevated entry multiples compared to other frontier markets," says Laurium Capital.

"The more liquid end of the spectrum still offers significant alpha, and is often overlooked. We believe that listed equities, still a developing asset class across Africa, offer exciting opportunities at more attractive valuations."

Laurium adds that the MSCI Africa ex-South Africa Index is currently trading at a 10.9 times one-year forward price/earnings ratio, lower than its long-term average and significantly cheaper than global equities. African indices are also poorly constructed and do not provide a good proxy for the African investment universe.

"Active equity managers can use their stock-picking skills and provide better portfolio exposure than the index. Active managers can also capitalise on market inefficiencies and generate additional alpha compared to passive indices," Laurium adds.

What is the biggest opportunity for investors across Africa in the next five years?

- The fundamental drivers remain – demographics, rapid urbanisation and deepening capital infrastructure
- Most large Africa economies are back on track and improving fast
- The formalisation of informal trade and retail presents significant opportunity
- Infrastructure development will drive growth over the next five to 15 years
- Investing into well-structured, consumer-focused companies with high-quality management
- Inefficient markets provide excellent alpha-generating opportunities

Peter Baird

Mazi takes a bottom-up approach through engaging with management, political leaders, in-country think-tanks, customers, and other adjacent companies to gain greater understanding of the companies it is looking at.

"It is about diligence, engagement, and picking the right companies in the right environments," says Boakye-Dankwah. "We also emphasise that the focus in Africa must be on absolute valuation rather than relative values. These markets swing from undervalued to overvalued, so buying a company that is cheap relative to its own market is dangerous, particularly when the market is overvalued. The skittish investor, no matter how intelligent, will be susceptible to getting flushed out by the beaters of doom. Finally, I will say use common sense, and use it more conscientiously than you would in more familiar markets. Do not invest blindly according to conventional wisdom."

Baird at Investec Asset Management, which is mid-way through investing its US$295 million private equity Fund 2, believes this is a great time for private equity firms to be in the market because entry enterprise values (EV) have fallen. "When there was a lot of competition for deals, back in 2015, entry EVs were, on average, nine times Ebitda; they're now closer to seven times Ebitda."

"Investors are now able to negotiate more favourable terms. It's also much more possible to source proprietary deal flow than before – so many of the situations were highly competitive previously, but that has changed."

Novare's De Wet favours sector mandates as the best way to tap into African opportunities. "Many companies investing in the continent still only have a certain percentage of their assets in Africa. Hence accessing it via buying their stocks is not really a pure play," he notes.

Pieter de Wet

André Steyn

Which countries offer the best opportunities?

Predictably, many investors see the greatest opportunity in the largest economies of Egypt and Nigeria, as well as Morocco and Kenya.

"Egypt in particular has an undervalued currency and a plethora of excellent listed businesses," notes Steyn.

"Given the hardships of the past few years, it is not surprising that many of the companies we meet have earnings well below our estimate of normal," adds another manager in the listed space. "Despite the strong stock-market performance, we thus continue to find companies that are trading below their intrinsic value in Egypt."

Mazi notes how the Egyptian government has successfully implemented bold and unpopular economic and social reforms. This has resulted in rising government infrastructure spending, an uptick in corporate investments, and stabilising inflation that bodes well for long-term growth.

Mokhanoi at Mergence Investment Managers likes Mauritius for the ease of doing business, which makes it one of the world's preferred countries for foreign investors. The country is ranked 25 among 190 countries for ease of doing business, with most of its growth from financial services, agriculture and tourism.

He also favours Ghana, noting it is the most diversified African economy with natural resources such as industrial minerals, hydrocarbons and precious metals; and Botswana, which is a stable economy and rated the least corrupt country in Africa.

"Egypt, Nigeria, Morocco and Kenya have more depth and breadth [and] their economies have either remained stable or recovered nicely over the past 24 months," says Laurium. Currency devaluations have allowed countries to begin building up their foreign-exchange reserves again while inflation has started to come down. "Despite the favorable macro backdrop, many global frontier and emerging market funds have not returned to Africa yet, which means there should be a return of flows into these markets in the short to medium term."

Imara too favours Egypt and Nigeria post-devaluation, citing replenished forex reserves, rising forex revenue streams, reforms, and a large under-served consumer base.

The team also likes Kenya and the East African hub, which is leading the way in financial and digital innovation, while Morocco has reasonable political stability and a mature market with some interesting niche growth opportunities in IT and retail.

Mazi sees great potential in Nigeria but only if it moves ahead with across-the-board reforms. "With the largest population, and a growing middle class with deficits in all pockets of the economy, Nigeria must be on every investor's radar. However, recent events in the country may cast a dark cloud over how conducive an environment Nigeria is to potential investors," says Boakye-Dankwah.

In Morocco, proximity to a recovering EU economy should benefit the country, while formalisation in the retail space could have a positive impact across the economy.

Zimbabwe also earns a nod as a country with much potential.

"Zimbabwe represents another large holding for us and is a country with a future we are optimistic about," says one institutional manager. "Zimbabwean businesses have endured a great deal of economic and political uncertainty and still continue to be profitable today. We think there is a reasonable chance of a decent recovery in Zimbabwe. With some of the highest literacy rates in Africa, many of Zimbabwe's three million diaspora would like to return home, but still need to be convinced by meaningful actions from their new president. The country has rich institutional memory and structures, and there is reasonable international goodwill."

Enko Capital believes that Zimbabwe and Angola may be interesting places to invest in, should commodity prices hold up and reform continue for another few years.

"Zimbabwe can potentially offer the best opportunities providing that a few conditions are fulfilled, namely fixing the currency, debt rescheduling and improving governance," says Enko's Alain Nkontchou. "Asset prices are cheap and will likely remain so for a while."

Investec Asset Management takes a regional approach with its private-equity portfolios, focusing on four clusters: South Africa and its neighbours; the East African Community countries; Nigeria and Ghana; and Morocco and Egypt. Taken together, these regions represent around 90% of Africa's GDP, with many high-quality private-sector businesses in each region, as well as a well-embedded and professional advisory community and functioning debt markets.

"In the past 10 years or so, infrastructure in Africa has stagnated. All other development requires infrastructure to keep up with it, so this is likely to be a strong growth sector"

Semoli Mokhanoi

What are the biggest risks for Africa in the next five years?

- Political risk and government instability
- Markets are illiquid and capital outflows can hurt impatient investors
- Ownership rights of outside investors
- Fiscal constraints of governments
- International trade wars
- Government intervention and regulatory headwinds
- Poor economic policies
- Currency fluctuations
- Bad corporate governance
- Lack of information
- Not taking a long-term view
- Lower oil price, and other commodities

Each cluster also benefits from having markets that are large enough to build and grow into attractive regional champions. Its investment in Botswana-based retailer Kamoso, which has expanded across southern Africa, demonstrates this pattern well.

Baird adds that Morocco is very attractive given its high growth in human capital and its strong geographic location within easy reach of Europe. "It has the potential to become the Mexico of Europe – it has strong expertise in precision engineering and other manufacturing for export to the EU," says Baird. He invested in SJL last year, a cross-border logistics and transport operator in Tunisia, Morocco, Spain and France.

For its part, the East African Community trade bloc has a population of 250 million people, with a lot of potential to build substantial East African champions over five to 10 years, which will be highly attractive to strategic buyers.

De Wet notes that Ghana has emerged from a lengthy period of fiscal consolidation and is now much healthier and nimbler, with its oil fields starting to produce at a more stable rate.

Ethiopia is also on the radar, with the second-biggest population on the continent. "Ethiopia's relationship with Eritrea seems to, at long last, be beginning to normalise, which will increase efficiency and decrease dependency on Djibouti," he says. "They do need to sort out some land ownership issues first though."

Which sectors are most compelling in the next five years?

By sector, agriculture, power, technology, banking and consumer areas all rank highly in generating investor interest. But managers note that individual country dynamics across a vast continent can make a sector attractive in one country but less so in another.

"We like agriculture because Africa has more than half of the world's uncultivated land, and water in abundance, which are both key resources to produce food and export all over the world," notes Mokhanoi at Mergence.

"Infrastructure is also key. In the past 10 years or so, infrastructure in Africa has stagnated. All other development requires infrastructure to keep up with it, so this is likely to be a strong growth sector.

Mokhanoi adds that a "very high percentage" of the population in almost all African countries does not yet have access to power, which is becoming a necessity.

"We like the beer sector in several markets," notes Steyn. "These are very high-quality businesses and, in many cases, the current valuations don't yet reflect the quality of the underlying businesses."

Other investors cite the ingenuity of the informal sector in many African markets, noting that informal home brewers compete with the large alcoholic beverage companies in many countries, giving rise to exciting opportunities. For example, SAB (now ABI) has roots stretching back to 1895 and has been competing with traditional opaque beers in Southern Africa for a long time. This can be tough, given the questionable tax-compliance practices, patchy health and safety records, and low-cost bases associated with the informal sector. Despite these challenges, however, companies that can find the right value proposition, like ABI, have seen customers happily pay for the benefit of a safe, consistent product. "This formalisation of consumption and growth in the formal market presents a significant opportunity for companies in frontier markets and, for investors, can provide a promising opportunity," one manager notes.

For Laurium, the banking sector holds appeal across many markets.

"The banking sector is a second derivative to the rising consumer as mobile money has taken off in many markets and many people are still unbanked in the informal sector," it says. "The banks are also very cheaply valued right now compared to their long-term averages."

Laurium notes that the broader consumer sector also offers attractive value given the continent's demographics, but many consumer names are still expensive. "This is another sector that depends on country-specific dynamics and where active management can add value in finding interesting long-term opportunities at attractive prices."

The electronic payments space, and in particular mobile money, is also attractive for many managers. Safaricom's MPESA in Kenya is a well-known success story, but there are a number of other countries in Africa that are developing promising mobile money ecosystems.

Laurium adds that a recent uptick in IPO activity, specifically in Egypt, will help create depth in the markets over time and give investors access to new sectors such as healthcare and education.

"We believe IPO activity will continue to provide interesting opportunities as governments look to develop their exchanges, and private-equity investors look to exit their long-term holdings."

For Imara, financial services, TMT, retail, food & beverages and healthcare are all sectors with buoyant consumer demand and a long runway for growth.

Mazi's Boakye-Dankwah adds that with about 200 million people aged between 15 and 24,

Which African countries offer the biggest opportunities?

- Botswana
- Egypt
- Ethiopia
- Kenya
- Nigeria
- Morocco
- Mauritius
- Zimbabwe

Which sectors offer the biggest opportunities

- Agriculture
- Broadband internet
- Banking
- Consumer
- Distance learning
- Food and beverages
- Infrastructure
- Healthcare
- Housing
- IPOs
- New technologies
- Mobile communications
- Payment systems
- Power
- Retail

> "Investing in Africa is about diligence, engagement, and picking the right companies in the right environments. The focus in Africa must be on absolute valuation rather than relative values. These markets swing from undervalued to overvalued, so buying a company that is cheap relative to its own market is dangerous, particularly when the market is overvalued"
>
> ***Seth Boakye-Dankwah***

Africa has the youngest population in the world. "This should have major implications for the type of industries that will grow fastest in the respective economies. We believe food production, consumption, infrastructure (energy, transport, telecommunications), healthcare, and housing, among others, are the most obvious. The deficits facing the continent in these areas are daunting."

From a private-equity stance, Investec Asset Management also sees huge potential for investments taking advantage of new technologies. "In some cases, this is industry formalisation, such as in fintech or retail where new technologies can assist in creating regional champions," says Baird.

"In other cases, there's a real opportunity for new industry formation through the adoption and combination of new technologies within existing sectors. In education, for example, mobile communications, the availability of broadband across the continent and new payment systems now enable companies to cater for the almost infinite demand for education among Africa's populations."

What is the best way to access the African opportunity set?

- Listed markets provide good exposure to diverse industries across various countries
- Bottom-up approach through engaging with companies, governments and customers
- Exposure to high-quality companies and avoiding lower-quality ones, with liquid investments offering attractive valuations
- Understanding government development plans to align investors with investments
- Private equity stands to benefit from lower enterprise values and decreasing competition
- Funds with sector-specific mandates offer opportunity as many listed companies are not pure plays

What are the biggest risks to investors in Africa?

The risks are real, and investors need patience. Some view political and government instability as the biggest risks, as well as currency fluctuations and the potential for poor economic policy and government intervention in various sectors.

"For us, the biggest risk for investors in African markets is not taking a long-term view," one Africa manager told us. "When investing in these markets, there is always the possibility of dealing with risks such as currency crises, revolutions and/or political shocks. The volatility associated with these events often leaves even the most rational investors second-guessing their exposure. However, by taking a long-term view, you allow your investments to benefit from the structural drivers within these emergent economies, which in our view represent the next untapped investment opportunity in financial markets."

Enko believes that the biggest risk for those investing in Africa over the next five years is a lower oil price, and commodity prices in general, which will lead to major pressure from a debt sustainability perspective and very weak economic growth in general.

Laurium believes there is plenty of opportunity in Africa in the years to come, but stresses that investors do need to remain cognisant of the potential risks, which are the same for most emerging and frontier markets. Such risks should be accounted for in the overall analysis and price one would pay to invest in certain countries and companies.

"Currency is something that investors should always keep an eye on although many key markets have devalued their currencies in recent years and should not have to do so again in the near term," Laurium says. "Another potential risk is government intervention and regulatory headwinds that come about in certain sectors. As we have recently seen with MTN in Nigeria, being on the wrong side of the government can have negative consequences."

For Baird, the risks are to a large extent political. "There are still pockets of instability and unpredictability in many markets, and macro imbalances that will need to be corrected," he says. "A big threat is that improvements in infrastructure, integration, policy clarity and the development of capital markets will take longer than expected."

Mazi's Boakye-Dankwah agrees that political analysis should be part of any risk assessment.

"For an investor to think a country must be run like a company means they miss what politics is all about. The diverse factors that must be examined in political analysis can be confusing, and the motivations unclear, but investors avoid it at their peril," he says.

Currency risk would remain a big issue, particularly as hedging in the currency markets is "virtually impossible".

He adds that Africa is fraught with other risks, like higher concentration, bad corporate governance, lack of information and a lot of things investors take for granted in developed economies. However, these risks can be mitigated if investors do their work and pick good companies in conducive countries.

De Wet adds that the ownership rights of outside investors remained a key risk. Governments that faced fiscal constraints might subsequently target foreign sources of capital located within the country.

How will African markets react in the event of a significant retraction in global markets?

In general, African markets are believed to have a low correlation to global markets, but in times of market stress these correlations can break down and markets do not always react as anticipated.

While frontier markets are typically not that correlated to the direction of global markets, the second quarter of 2018 was a good example of how African markets behaved very similarly to emerging markets in response to the negative sentiment as a result of increased trade tensions.

Novare's De Wet notes that the continent is still not self-sufficient, relying on global trade, and would be deeply hurt in the event of a global pullback, which would bring a spike in the cost of Eurobond debt, leading to some defaults.

"We wouldn't expect the African investment universe to be completely immune to a major global pullback, but we would expect the impact to be less," says Laurium. "Stock-picking opportunities arise during stressed times and we would look to top up in our high-conviction names. The market inefficiencies also provide alpha opportunities, which can help protect capital in risk-off environments as well."

Imara agrees that markets will not respond well in the event of a global retraction, but believes that well-structured corporates that tap into robust consumer demand will continue to generate cashflows and returns above an inevitably higher cost of capital.

For Mazi, the prospect of a global market downturn is the "big gorilla". "With Africa being a net exporter of commodities, a weaker global economy will result in a decline in commodity prices. This will lead to slower growth in African economies with resultant negative implications across the board. A retraction in global markets will result in a higher cost of borrowing for African economies, and will also impact equity markets negatively," says Boakye-Dankwah.

"Most of what is needed in Africa are essentials, not luxury items. The demand will still continue even though it may be at a slower pace," concludes Mokhanoi at Mergence.

2

Is investing in Africa scary?

By Paul Clark, fund manager, Ashburton Investments

Paul Clark

If we consider the issues that have affected some of the bigger African economies, especially those with equity markets, the past five years have been particularly noisy. In Egypt's case, a second revolution followed in July 2013 after President Mohamed Morsi's disastrous administration, following the first revolution in 2011 during the Arab Spring. This was followed by a massive shortage of foreign currency that put a stranglehold on the economy until an IMF assistance programme and a flotation of the Egyptian pound followed in November 2016. Since then, the economy has been placed on a much better footing with GDP growth of 5.5% expected in 2018 and this should accelerate to 6% in the next few years.

For Nigeria, the collapse of Brent oil prices from levels of around US$110 per barrel in early 2014 ultimately to below US$30 per barrel in early 2016 severely affected the balance of payments and the fiscus. The resulting shortage of available foreign exchange made business conditions particularly difficult and resulted in significant inflation as traders used the parallel market to obtain foreign currency. The subsequent introduction of a forex window for investors and exporters and a stronger oil price has allowed the country to grow foreign-exchange reserves significantly since then. At the time the new rate was introduced in April 2017, Nigeria's foreign-exchange reserves had fallen to below US$25 billion and are now US$46 billion.

In Kenya, with the biggest equity market in East Africa and arguably the hub for development in the strongly growing region, political issues have put a dampener on economic growth. The elections that were re-run in late 2017 and associated uncertainty resulted in GDP growth slowing to 4.8% in that year. With all of this resolved and the protagonists starting to work together, GDP growth is expected to accelerate to 5.4% in 2018 and possibly even reach 6% in 2019. A cap on rates that banks can charge has reduced private-sector credit extension, especially to small- and medium-sized enterprises. Any relaxation in this law (the IMF, Central Bank of Kenya and the Treasury all want this) will have a further positive boost on the economy.

Investors who don't follow the stock markets across the continent in detail, but who have followed the news flow, may imagine that these events had a disastrous effect on share prices and that African equity markets have been a very poor investment over the period. Many South Africans are shocked to learn that over the past 16 years African equities as measured by the MSCI Emerging and Frontier Markets Africa ex South Africa Index have provided a very similar return to the JSE All Share Index and with less volatility.

To show the effect that investing in African equities would have had on a South African equity portfolio, we have used the (current) maximum of 10% allowed in the country's prudential limits for African exposure and rebalanced this monthly. Figure 1 shows the annualised returns over the past three, five and seven years and for the previous 18 months using a blend of the SWIX index and MSCI Africa ex-SA.

Over the past seven years, having 10% Africa ex-South Africa in the portfolio would have added 12 basis points to the performance, while over the past five and three years it would have detracted 45 and 14 basis points respectively from the rand performance. The diverse nature of the returns would have also reduced the volatility of the performance.

This certainly refutes one of the more common remarks we hear when introducing Africa to potential investors, that is,"I know, this is a high-risk investment with a high potential return". If we use the MSCI index for Africa excluding South Africa and compare the returns and volatility of this index to a range of other global indices, we can see that this is simply not true. Figure 2 shows US dollar data from 2 June, 2002 (earliest available for Africa ex-South Africa) to 30 April, 2018.

Over this longer-term investment period, African excluding South African equity markets have outperformed developed, emerging, frontier markets and the S&P 500 index. In addition,

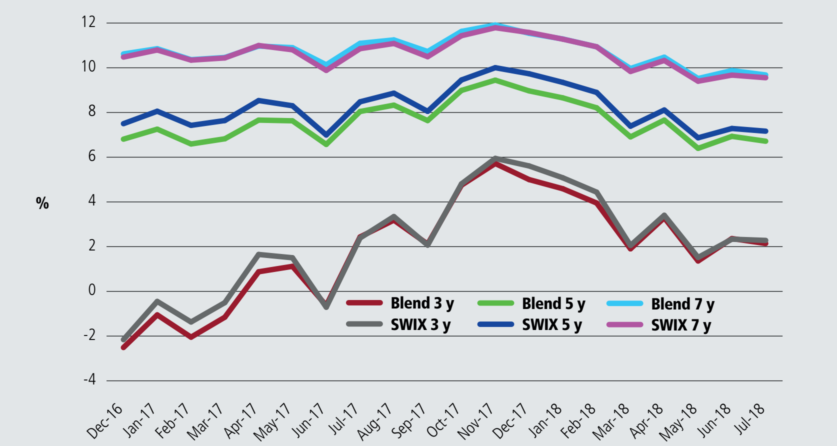

Figure 1: Annualised ZAR return to date

Source: Bloomberg, Ashburton Investments


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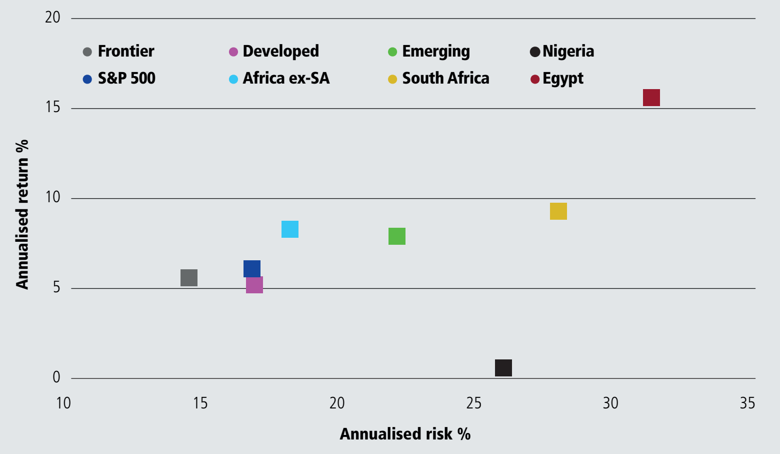

Figure 2: Returns vs volatility

Source: Bloomberg, Ashburton Investments

	Africa ex-South Africa	World	GEM	Frontier	S&P 500	China	India	Egypt	Nigeria	South Africa
Africa ex-South Africa	1									
World	0.24	1								
GEM	0.30	0.81	1							
Frontier	0.52	0.40	0.39	1						
S&P 500	0.16	0.94	0.70	0.33	1					
China	0.14	0.18	0.31	0.16	0.13	1				
India	0.29	0.59	0.74	0.35	0.51	0.21	1			
Egypt	0.71	0.25	0.32	0.40	0.18	0.15	0.31	1		
Nigeria	0.59	0.08	0.07	0.33	0.05	0.06	0.08	0.16	1	
South Africa	0.20	0.77	0.85	0.30	0.66	0.18	0.58	0.20	0.03	1

Figure 3: Diversification benefits of investing in Africa

Source: Ashburton Investments, Bloomberg, May 2018

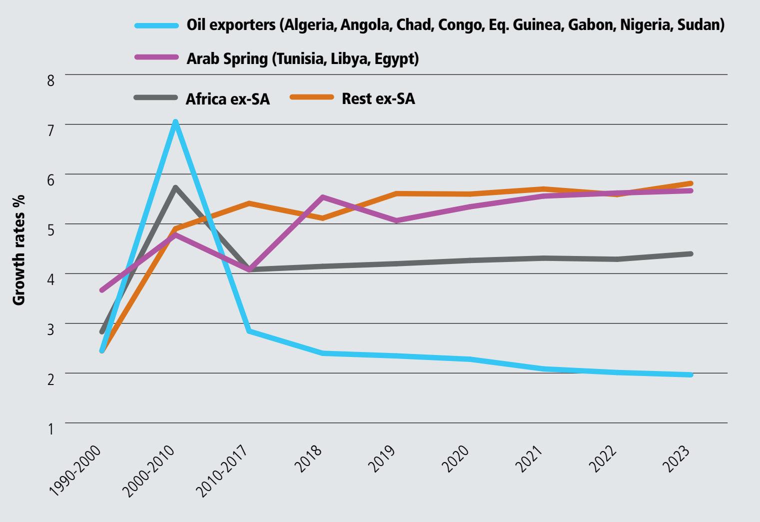

Figure 4: Actual and projected GDP growth in Africa

Source: International Monetary Fund, April 2018, Ashburton Investments

the volatility of these returns has been similar to those for developed markets and even less than that of emerging markets. This data clearly dispels the myth that investing in African equities can be associated with higher volatility, even if the returns are better. Our data also shows that an active manager investing in these markets can generate between 3% and 4% alpha per annum, which improves the returns even more. It is unlikely that active management in more developed markets could match this over a long period.

In addition to providing good risk-adjusted returns, investing in Africa also has diversification benefits for a global or South African portfolio. This can be seen from the correlation matrix shown in figure 3.

Global emerging markets (GEM) have a high correlation of 0.81 to developed markets, whereas Africa excluding South African equity markets have a very low correlation of 0.24. This means that a global portfolio including Africa will be significantly more diversified than a simple investment in GEM. For South African investors the benefit is even more significant as the correlation to Africa is even lower, whereas the correlation to GEM is higher. The diversification benefits of investing across the continent are also clear if one notes that the correlation between the two largest African markets, Egypt and Nigeria, is only 0.16.

Of course, no one would invest in Africa, or any asset for that matter, based on historic returns, even though African returns have been good. Investors need to believe that the continent has improving economic growth, better business environments and more stable politics. Despite the news flow, on the ground and across the continent, growth is continuing, infrastructure is improving and business conditions are getting better. As investors who travel across the continent regularly, we observe these trends first hand, but these are also clear from surveys and economic measures. Figure 4 is an analysis of the GDP growth on the continent from 1990 to 2023.

If one groups together African economies (excluding South Africa) it would be easy to conclude that the enthusiasm in the first decade of this century for the improved operating environments, favourable demographics, increased urbanisation, growth of the middle class, etc. was short lived as growth slowed dramatically after 2010. However, if one excludes the effects of the Arab Spring and oil-price collapse from these numbers, the rest of the continent continued on an improved growth path, and for them the Africa Rising narrative never stalled. It is also important to note from the graph that the growth from 2000 to 2010 was accentuated by

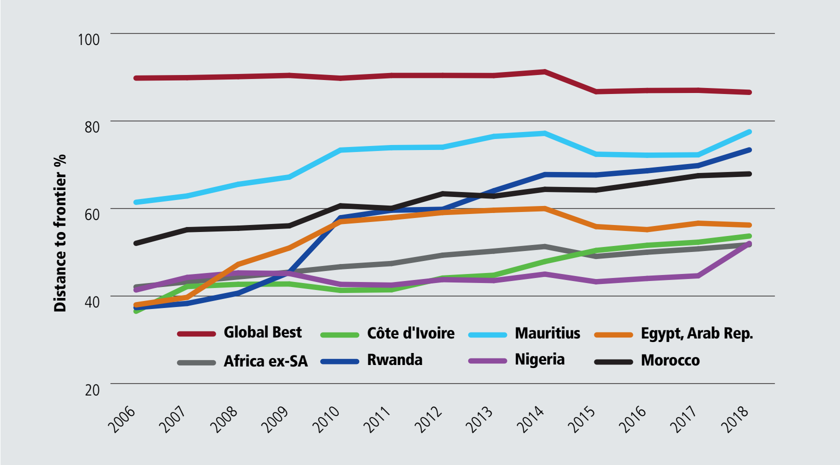

Figure 5: Distance to frontier

Source: The World Bank and IFC, Doing Business 2018

strong growth in oil-exporting countries due to high oil prices in the period, which made the decline look worse. Oil-exporting countries are also likely to remain a drag on overall economic growth in the future, but of all the countries in this grouping, only Nigeria has an investible equity market.

Excluding oil-exporting economies, we can expect GDP growth rates for most African economies to continue to increase over the next five years with aggregate growth approaching 6%.

Our observations as well as regular analyses by the World Bank, IMF and others show that the operating environment for companies has also been improving over the past 12 years. Figure 5 shows the latest analysis by the World Bank using data from their *Doing Business* project that "provides objective measures of business regulations for local firms in 190 economies". We use their "Distance to Frontier" measure, which allows us to assess the level of improvement in the ease of doing business over time.

The graph clearly shows that our observations on the ground can be backed up by the World Bank's detailed analysis that uses 11 indicator sets to measure aspects of business regulation that matter for entrepreneurship. The business environment has, on aggregate, continued to improve in line with the trend experienced earlier in the century. According to the World Bank, Mauritius is the easiest place to do business on the continent and is ranked 25th out of 190 countries, ahead of countries such as Spain, France and Switzerland. We should see improvements for Egypt and Nigeria in future releases, now that they have resolved their foreign-currency shortages.

Hopefully we have been able to show that our optimism for the African continent can be backed up by data and analysis by global institutions. We also believe that investors can access this growth through equity investments in domestic African companies that will not only benefit from the anticipated growth, but also from improving infrastructure and business environments as well as better political governance.

As shown above, investing in African equity markets should decrease the volatility of a global portfolio and provide significant diversification benefits, while generating good returns. We therefore believe that investors should invest a portion of their portfolios over the medium to longer term in African equities to benefit from this strongly growing region.

PAUL CLARK

Paul is a fund manager at Ashburton Investments, where he manages the Africa Equity Opportunities Fund. He joined Ashburton Investments in 2012 and has 20 years' financial market experience, with 14 years dedicated to managing Africa portfolios.

Lagos, Nigeria: Growing consumer demand in many African countries is keeping the Africa Rising narrative alive

3

Last dictator standing

By Peter Leger, head of Global Frontier Markets, Coronation

Peter Leger

"We are going to die, and that makes us the lucky ones. Most people are never going to die because they are never going to be born. The potential people who could have been here in my place but who will in fact never see the light of day outnumber the sand grains of Arabia."

So starts Richard Dawkins's *Unweaving the Rainbow*, which studies the relationship between science and the arts from his perspective as a biologist with a naturalistic world view. Dawkins explores the idea that science does not destroy, but rather discovers poetry in the patterns of nature. He concludes that human beings are the only animal with a sense of purpose in life. In his view, that purpose should be to construct a comprehensive model of how the universe works.

I have always thought of politics as the realm where a sense of purpose should collide with action. And the pinnacle of this realm would be the installed leader. "Make America great again" must be right up there when talking sense of purpose. But so strong is this sense of purpose that a number of leaders seem keen on the idea of extending their stay in power. Indefinitely.

Africa has had its fair share of leaders who have overstayed their welcome. Opposition has been aggressively managed. Leaders have ignored election results with little fear of consequence. And the sense of purpose is only curtailed by Dawkins's opening truism, where dying is the only limitation to a president for life. Uganda, for example, has recently scrapped the age limit of 75 years to allow President Yoweri Museveni to extend his 'brief' three-decade stay in power indefinitely. This is a very bad thing.

Where there is no challenge and no change, there is no accountability. A long-serving dictatorship wears down the division between political and commercial power. Leadership cannot tell the difference and government becomes a service for the elite, resulting in countries that have great wealth making only a few wealthy. So when this changes, it is a very big deal.

Why was the December election of the new ANC leader in South Africa so closely followed? It was arguably the most important vote since free elections in 1994, as many saw this as a moment when South Africa would either continue down the road of the state being used for personal gain, or it would bring a return of accountability to South African politics. Ten years ago the National Prosecuting Authority brought 783 counts of corruption, fraud, racketeering and money-laundering charges against president Jacob Zuma. And 10 years ago he became president of the ANC. That he has managed to avoid having these charges heard in court is a direct result of the position of power he has held. Imagine a South Africa where no term limit existed for our president or for the ANC, and where accountability could be delayed indefinitely. A chilling thought. How the transition of power plays out will be market defining for South Africa.

So far, since Cyril Ramaphosa became president of the ANC and the country, his actions have been more presidential than those of a dictator. Progress with rooting out corruption has been slow but is at least happening. Zuma's acolyte Shaun Abrahams has been removed as head of the National Prosecuting Authority, power authority Eskom and other state-owned enterprises are being cleansed of corrupt officials and a commission investigating state capture which took place during Zuma's "rule" has begun its work. Ramaphosa will be closely watched in the run-up to the 2019 elections particularly with how he manages the land reform issue, which has now infamously drawn the attention of Donald Trump. Ramaphosa will need to display some strong leadership skills. To our north, José Eduardo dos Santos was president of Angola for 38 years, and Robert Gabriel Mugabe president of Zimbabwe for 37 years. Both left office within two months of each other towards the end of 2017. Isabelle (44), dos Santos's daughter, is Africa's richest woman today. Her business interests stretch the gamut of the Angolan economy. Doing business in Angola requires doing business with the family, suggesting that her wealth comes almost entirely from her family's power and connections.

The new president Joao Lourenco came into office in September 2017. Since then he has set about dismantling the dos Santos hold and tearing down the original compromise government that was negotiated. Angola's state oil company has announced an investigation into "possible misappropriation" of funds. The former first family is no longer protected. But being run as a family firm for so long has left the country with a large deficit, high debt levels, low oil reserves and forex illiquidity. Lourenco has acknowledged the pressures on Angola and promised economic reforms, including fiscal consolidation and ditching the currency peg. He is also seeking loans from the IMF for the first time in almost a decade and will use the funds towards economic reforms, particularly the diversification of the economy beyond its reliance on oil. Recent rising oil output should, in the meantime, ease some forex constraints, while the reform agenda should help stabilise the fiscal position, support the currency and promote a more balanced economy. The president has also issued an ultimatum for the return of foreign-held funds – a figure of US$30 billion. He has to introduce reforms if any kind of relationship is to be built with global financial institutions and foreign governments.

In a recent development, Angola's state prosecutor has arrested Jose Filomeno dos Santos, the son of former president dos Santos, with regards to an alleged illegal US$500 million transfer he made from state coffers to an HSBC account in the UK.

While this has been happening, just a little bit east of Angola, president Mugabe resigned


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under huge military pressure, leaving a chronically failed state. In return, he is rumoured to have received a $10 million bonus and a bevy of benefits. The economy was starved of physical cash while Grace, Mugabe's wife, and his sons were making headlines for behaving badly and consuming conspicuously – an extreme case of government serving the elite.

Zimbabwe now has a new ruler – on August 26, President Emmerson Mnangagwa was sworn in as only the second president since independence, almost 40 years ago. He narrowly won the presidency, but his party Zanu-PF won the General Assembly with a 68% majority, resulting in a turbulent few post-election weeks including a challenge of the results by opposition party, the MDC. In the end, the Constitutional Court dismissed the application saying the MDC did not supply enough evidence to prove that election irregularities took place. However, despite the turmoil, it is probably worthwhile remembering that the 2018 election was easily the most peaceful and well organised since 2002.

Much has been written about Zimbabwe's new president and what might be. In fairness, he needs to do very little to make a big change. The country does not have a functioning currency and the US dollars that it uses are in short supply. A revaluation of 'zollars' (the nickname for Zimbabwe's electronic dollars) to dollars seems inevitable. But when you are heading at full tilt towards the edge of the cliff, just tapping the brakes and turning the wheel a little starts to look like skilful driving to your panicked passengers.

His inauguration speech focused heavily on attracting domestic and global capital by offering incentives such as speeding up efforts to improve the ease and cost of doing business and by emphasising market-driven policies. He also promised zero tolerance to corruption. Even

> "Where there is no challenge and no change, there is no accountability. A long-serving dictatorship wears down the division between political and commercial power. Leadership cannot tell the difference and government becomes a service for the elite"
>
> ***Peter Leger***

before the election he had embarked on a major corruption crackdown, warning offenders to come clean and surrender ill-gotten gains.

The appointment of Mnangagwa's new cabinet will be closely watched with the hope that new, younger technocrats will replace Mugabe-era stalwarts especially in the key finance minister post. The president will have to make an impact fast by fulfilling his promises as foreign sentiment easily shifts when nothing happens. The stories of the two new African presidents and the countries they now need to transform is remarkably similar and their future actions will be monitored with interest.

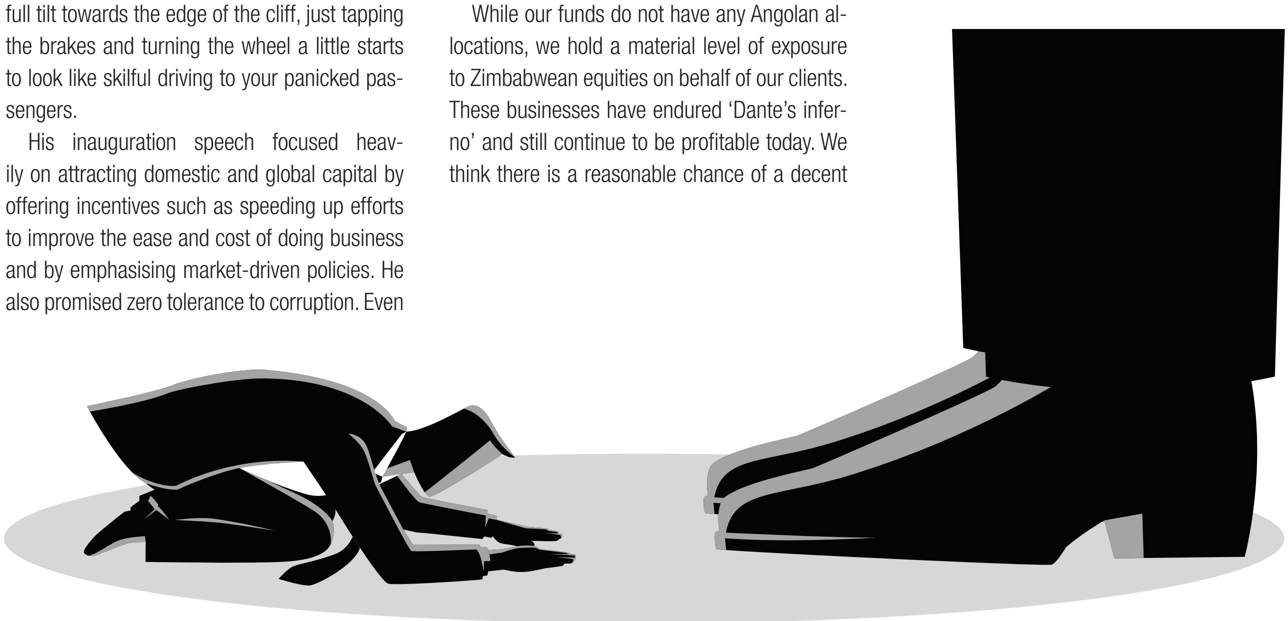
While our funds do not have any Angolan allocations, we hold a material level of exposure to Zimbabwean equities on behalf of our clients. These businesses have endured 'Dante's inferno' and still continue to be profitable today. We think there is a reasonable chance of a decent recovery in Zimbabwe. With some of the highest literacy rates in Africa, many of Zimbabwe's three million diaspora would like to return home, but still need to be convinced by meaningful actions from their new president.

The country has a rich institutional memory and structures. There is reasonable international goodwill but a lot more is needed such as support from Washington should Zimbabwe need an IMF loan. But excitement about small pockets of change like exiled white farmers being invited to return, could all just be hope for a return to some normality. The stark realities of Zanu-PF's history and the power of the military remain to be addressed.

While we are all going to die, a lengthy status quo can beguile us into expecting more of the same. Three seismic leadership changes occurred in the last quarter of 2017, setting the scene for significant future changes. We do not expect more of the same and are feeling very optimistic for what may come, both at home and north of our borders. The countries are now more aligned than ever to make the region great again.

PETER LEGER

Peter is head of Global Frontier Markets at Coronation and manager across all strategies within the investment unit. He joined Coronation in 2005 and has 20 years' experience in African financial markets as both a portfolio manager and research analyst.



Why Africa?

By André Steyn, Paul Farah and Bernard Griesel,
Steyn Capital Management

André Steyn

Paul Farah

Bernard Griesel

"If you just stick to buying good companies (ones that have a high return on capital) and to buying those companies only at bargain prices (at prices that give you a high earnings yield), you can end up systematically buying many of the good companies that crazy Mr. Market has decided to literally give away."
Joel Greenblatt, Gotham Asset Management

The core of our investment thesis in Africa is to invest in high-quality companies trading at attractive valuations. If one buys into this thesis, then the first question to ask is: "Can one find high-quality businesses in Africa?" For us, the answer is an easy "yes".

In our opinion, this large universe is filled with many high-quality businesses, including businesses that have local monopoly or oligopoly-type businesses, strong brands and large market share.

For example, look at the valuations on beer stocks across Africa. Many are subsidiaries of world-class brewers trading at discounts to their parents in countries where beer consumption is far lower than the global average and beer prices have significant room to rise. All of them are trading well below the 20 times EBIT (or more than US$100 billion) that AB-InBev paid to acquire SABMiller in 2006.

Local tobacco monopolies in volume growth markets are trading at discounts relative to British American Tobacco, which is seeing declines in tobacco volumes.

Local subsidiaries of Standard Bank are trading at discounts in Nigeria and Kenya. Standard Bank has called the Nigerian business "the most attractive business in our portfolio in the long term", see figure 1. Recently, they put their words into action by acquiring shares in both their Nigerian and Kenyan subsidiaries, at a premium to the current market price.

However, maybe the most important reason for investing in Africa still needs to be addressed. To better understand that, we turn to investment legend Julian Robertson, founder of Tiger Management, who stated: "Hedge funds are the antithesis of baseball, in baseball you can hit 40 home runs on a single-A-league team and never get paid a thing. But in a hedge fund you get paid on your batting average. So you go to the worst league you can find, where there's the least competition."

For us, the presence of inefficient markets is the true attraction of Africa. Market perceptions gyrate from manic-depressive to euphoric, leaving both buying and selling opportunities in their wake. Many investors and stock analysts focus only on large index components, leaving many stocks woefully under-researched.

There are many examples of inefficiency in Africa in recent years, such as companies trading below the value of cash on hand, markets ignoring valuable hidden assets, and structural inefficiencies surrounding rights issuances in certain markets.

The obvious hesitation that investors face is the risks that come with investing in Africa. Corporate governance can be an issue in Africa, as it can be in South Africa. To mitigate this risk, thorough forensic accounting analysis on all stocks helps to catch most companies with poor corporate governance and/or fraudulent activities.

A world-class trading and operations team also helps to deal with the complexities of actually buying and selling stock in Africa, collecting dividends when due, and dealing with the ever-changing foreign-currency risks.

Another risk in Africa is that it has historically been a "boom-bust" market as investors fall in and out of love with the continent.

This results in higher volatility and currency illiquidity risks than are found in most markets, which can be unnerving for investors who don't have a long-term perspective. However, volatility should be seen as part of the opportunity set.

During these manic swings, the fundamentals of the underlying companies often do not change nearly as much as the stock prices, and this means investors can either buy high-quality companies at attractive prices, or sell these companies as the market becomes overly confident. A case in point would be the Zimbabwean Stock Exchange, which went up 300% in eight months during 2017, leading us to sell aggressively, only to come crashing down overnight after the resignation of President Mugabe.

As Mr Robertson says, "I suppose if I were younger, I would be investing in Africa". We couldn't agree more.

	Standard Bank	Stanbic IBTC Bank	CFC Stanbic Kenya
Branches	1,211	180	26
Capital Adequacy	15.3%	25.4%	18.5%
Valuation (P/PTP)	7.2x	5.9x	3.2x

Figure 1: The discount at which local subsidiaries of Standard Bank are trading in Nigeria and Kenya.

5

Alternatives finding Mauritius

an attractive destination

By Claude Harvey, Maitland

Mauritius is the gateway for US$600 billion of annual investment into Africa. So it comes as little surprise that Mauritius is as well known for being a leading international finance centre as it is for being a tropical holiday destination. What is more surprising is that only 40% of the investments via Mauritius leverage its comprehensive list of tax treaties, illustrating that the island state has much more to offer. Indeed, Mauritius is increasingly demonstrating its position as a domicile of substance and value-add.

The World Bank's 2018 *Doing Business* report has rated the financial hub at 25th for ease of doing business globally. This consolidates Mauritius' position as the most competitive economy in sub-Saharan Africa – ahead of other countries such as Rwanda (41), Morocco (69), Kenya (80), Botswana (81) and South Africa (82). There are a significant number of South Africans, French and other Europeans that call the island home and would testify to this assertion.

Mauritius has established a mature regulatory investment fund framework. Investment funds are divided into two broad categories: those that are collective investment schemes (CIS) and those that are closed-end funds (CEF). In order to set up, maintain and/or list any fund or business, an authorised and regulated management company's services are required. At the time of writing this article there are more than 150 such companies on the island, most of which are only able to fulfil the most basic of company registrations and management. One could argue that only a small percentage of these management companies is sophisticated enough to properly ensure the functioning of the CIS/CEF licensing and maintenance processes and compliance with regulatory requirements.

At Maitland, we have seen a renewed interest in Mauritius for investment funds and a significant increase in activity within the alternative investment space in Africa. It has become evident to savvy investors that Mauritius is attractive as a base for a wide range of investment strategies. Most investors are aware of the island's highly attractive business framework that includes a number of incentives, like no capital gains tax and free repatriation of profits, capital and interest. Relatively recently, many South African fund managers who are looking for alternative opportunities have found it interesting that the Mauritian tax authorities provide a five-year corporate tax holiday for qualifying employees in asset management companies. The jurisdiction provides a politically and economically stable environment, which is underwritten by the Privy Counsel of England and Wales – just another factor that contributes to the ongoing attractiveness of Mauritius as an investment destination and launchpad into Africa – and even the rest of the world. It is highly likely that these factors are some of the reasons why Maitland has noticed that European investors in particular are increasingly comfortable with Mauritius' "white list" status and view Mauritius as more than just an "offshore domicile". Indeed the term "mid-shore" is probably more appropriate.

As an example, one of our Maitland clients

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>
> ***Claude Harvey***

Claude Harvey

is involved in a clean technology fund. The investors in the fund are blue-chip European and American institutions who are comfortable with Mauritius as a suitable domicile for their pan-African clean tech private equity fund. We also have a number of clients who have established successful private equity and real estate funds in Mauritius. Some of these funds are invested in a variety of projects across the continent and have similarly attracted blue-chip investors from South Africa and the first world. With our position of strength on the island we support existing clients that have funds invested in African trade finance debt, agri, infrastructure and fixed income funds.

The Stock Exchange of Mauritius (SEM) is increasingly also part of the funds' ecosystem. In a discussion with Sunil Benimadhu, CEO of SEM, he highlighted that the SEM is now a leading exchange on the African continent and that it has been ranked Africa's Most Innovative Stock Exchange four times during the last 10 years by *Africa Investor.* Since 2009, the SEM has successfully implemented an internationalisation strategy and has evolved into a leading multi-asset class international stock exchange, which lists a wide spectrum of local and international products, including equity products, debt products, funds and collective investment schemes, structured products, exchange-traded funds (ETFs), exchange-traded notes (ETNs) and depositary receipts. The SEM's platform has been used by local and international issuers to raise $4.2 billion during the last eight years; this is not massive but is off a small base with significant year-on-year growth. The exchange has a unique multi-currency, capital-raising, listing, trading and settlement platform in Africa. It allows the issuer to list its company's financial products in US dollars, euros, British pounds and South African rand, trade the underlying securities and settle the

underlying transactions in any of these four currencies.

We are currently speaking to existing South African managers that are looking to leverage the island's infrastructure within the ETF space. This is a logical progression for South African managers, some of whom Maitland is assisting in their ambitions to set up funds and complete primary listings on the SEM.

As an example, one of these prospective clients is seriously exploring listing an active ETF on the SEM and instead of following beta, this client is mirroring a successful unit trust in South Africa, so it will not be tracking an index. Arguably it will be the first active ETF. Exciting as that is, the primary listing on the SEM and secondary, or reverse, listing into South Africa, makes this investment appealing to both the global and South African community. In addition, these types of structures can, for example, facilitate exposure to international REIT portfolios that are otherwise prevented by South Africa's foreign exchange control regime. Trading in Mauritius provides exposure to international property stocks and global property funds within the Mauritius ETF structure. Another of our prospects is very close to finalising its Mauritian-based, fixed income fund across Africa. This fund is yet another example of the growing confidence that participating blue-chip investors from the United States, Europe and South Africa have in Mauritius.

As a leading management company on the island, with visibility of our global client base (including in South Africa), we at Maitland are in the fortunate position of being able to see (and forecast) trends in the market. We are starting to see Mauritius consolidate its leading position as the gateway for Africa. There are a number of themes, including (but not limited to) fixed income long plays, PE, RE, clean tech, infrastructure, REITs and ETFs. These have been in existence for a while, but are beginning to move to the next level of sophistication. Mauritius is clearly regarded as a "white flag" or compliant domicile of substance and the government is doing something right in its efforts to win the confidence of international investors and managers. For South African hedge and alternative managers, this presents a welcome diversification opportunity when one considers the challenges, and some would say crisis, in the local South African market.

Mauritius certainly has further room for development, and although it has its own social issues, the society is incredibly safe. Anyone who has visited the island over the last 10 years would have noticed the marked changes on the coastline and in the countryside there is a widely accepted perception that the wealth held in Mauritius has risen 195% in US dollar terms in this period. In addition to a forward-thinking government and technical and legislative enablers, there are some practical reasons that alternatives are finding Mauritius an attractive destination.

These include a bilingual, qualified workforce with the highest literacy rates in Africa, geographical proximity to South Africa, and time zones that are Europe and Asia friendly. Two Emirates A380s fly in and out of the island every day – that is a lot of business-class seats, securing access from everywhere. And access for South Africans is incredibly easy, with free work visas that are requested on landing, and daily flights from South Africa via SAA, Air Mauritius, Air France and Austral.

In short, Mauritius is going places and has the potential to make alternative investors' ambitions a reality.

Port Louis, Mauritius

Africa's local-currency debt shows promise for investors

By Alain Nkontchou and Craig Stanley, Enko Capital

Alain Nkontchou

Craig Stanley, CFA

If we begin from the premise that the potential for alpha is inverse to the number of investors and quantum of capital engaged in a market, then it follows that investors in search of alpha ought to, at minimum, consider those markets that suffer from a dearth of interest and capital.

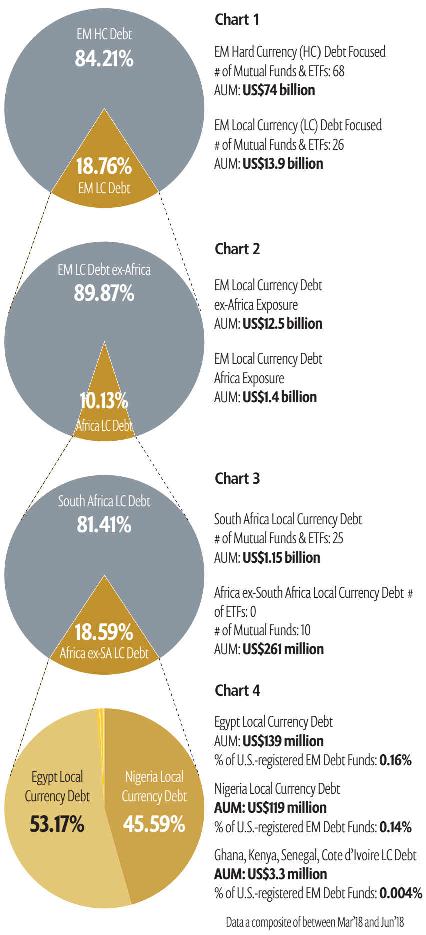
The African local-currency debt market, ex-South Africa, is a market largely bereft of capital from foreign institutional investors. Despite a market size of over US$400 billion, there is almost no substantive allocation to the market.

As dedicated investors in the African debt space (both local and hard currency), we analysed the holdings of emerging-market (EM) debt fund managers that purport to focus on the local-currency markets.

The parameters of the analysis were mutual funds and exchange-traded funds (ETFs) registered in the US. The reason we limited to this group was that *Morningstar* classifies emerging-market debt funds into local or hard currency. While there are some funds that engage in both, the prevailing style-box specialisation and perception of risk between hard and local currency seems to have drawn a line between the two.

Morningstar identified 68 mutual funds and ETFs that invest in hard-currency EM debt and 26 that invest in local-currency EM debt; of those 26, 10 are ETFs. In terms of asset size (as of June 30, 2018), the hard-currency debt group totalled US$74 billion, while the local-currency debt totalled US$13.9 billion (chart 1); in fact, the largest hard-currency ETF (EMB) was only slightly smaller than the entire local-currency group combined (placing the entire US EM debt fund space into perspective, the combined AUM of the two largest US EM equity ETFs (VWO and EEM) is larger than the aggregate US EM debt fund/ETF space).

Moving the analysis further into the local-currency EM debt space, we delved into the holdings reports for each fund and ETF and found that only 10% of the aggregate holdings were in Africa (chart 2). Further decomposing the African holdings into South Africa and Africa ex-South Africa, less than 20%, or only US$261 million, was allocated to Africa ex-South Africa (chart 3). That amounts to less than 0.3% of the entire amount invested in US-registered EM debt mutual funds and ETFs. Further decomposing the Africa ex-South Africa holdings into the constituent countries, almost 99% of the holdings were in Egypt and Nigeria. We tallied US$3.3 million in Ghana, Kenya, Cote d'Ivoire, and Senegal.



US-registered emerging market debt ETFs and mutual funds

Source: Morningstar

> "If we return to our initial assumption…then this analysis demonstrates that the Africa ex-South Africa local-currency debt markets warrant consideration from investors in search of alpha"

We fully recognise that this exercise ignored the separate account, sub-advised (ie: annuities), and offshore fund markets. While that is a substantial amount of capital, the analysis was more an exercise in proportionality. In fact, we would assume the separate account market would be even more skewed towards hard-currency debt given the difficulty in setting up local-currency custody and trading facilities.

If we return to our initial assumption, that the potential for alpha is inverse to the number of investors and quantum of capital in a given market, then this analysis demonstrates that the Africa ex-South Africa local-currency debt markets warrant consideration from investors in search of alpha.