

Into Africa

It's not just more and better aid that is going to improve the lot of the African population, says John Hildebrand. Investment is needed too – and with Africa offering huge potential in both bonds and equities, it might be high time for trustees to consider investing in the continent

In 1876 King Leopold of Belgium read an article in *The Times* from its correspondent in Angola commenting on untold riches in the Congo, "the interior is mostly a magnificent and healthy country of unspeakable riches...where minerals such as gold, copper, iron and silver are abundant." And so began the scramble for Africa. As so often seems to be the case with Africa the wish to get involved was twofold. In 1876 it was both to make money and to bring an end to slavery.

Now people again want to make money and end world poverty. While the G8 were meeting in Edinburgh, the CDC group (formally known as Commonwealth Development Corporation) was holding a conference for people wanting to invest in Africa.

The wish to make money while doing good is pertinent to three groups of people. The first group is investors in general. These people normally seek out the best money making opportunities and know that they can usually be found in under-researched, riskier markets. The second group consists of 'responsible investors' who may be willing to risk a small amount in the hope of getting a better return with the added benefit of positive social results. The third group is organisations whose aims are to end world poverty.

The task for the first group, the

investors, is relatively easy since they simply need to assess whether the potential risk and returns are attractive, and that can be done by comparing the price of shares to corporate cash flows and other measures of potential return. A superficial examination suggests there may well be attractive investment opportunities in Africa. There are 54 countries in Africa and 20 stock exchanges. Shares in countries like Egypt trade on 10.5 times one year of earnings, which is lower than the 14.5 times price to earnings multiple of the UK market. Africa's economic growth is also better than the UK – in 2005, estimated GDP growth is 5% compared with 2.5% for the UK.

Responsible Investors have to decide whether they can legally make responsible investments and determine the purposes of their funds. Private investors just need to make up their own mind. Charities have the more challenging task of relying on their trust deed and on trust law. The Trustee Act 2000 states that trustees should ensure that investments are 'prudent' and 'suitable'. In general, trustees, in interpreting their

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role, view investment return as key.

Gradually, the emphasis within responsible investment has been moving away from avoiding negative areas to attempting to bias portfolios to positive factors. For some time it has been recognised that medical charities can avoid making investments that run contrary to their aims, such as investing in companies that make tobacco products. More recently, charities have started to consider voting their shares in favour of practices they support.

This can range from ensuring that companies operate equal opportunities policies to monitoring the effects of companies on the environment. At present the evidence that this either harms or boosts returns is limited. Consequently, many trustees can argue that there is insufficient proof that they should not be investing in a responsible manner.

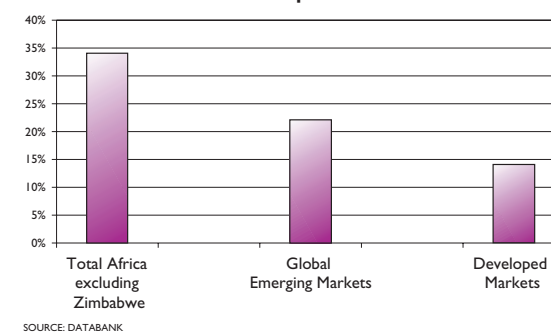
The issue for the third group of investors, those organisations whose aims are to end poverty, is the most challenging. They have to work out their aims and the best ways of achieving them. A reasonable argument can be made that aid alone will not end poverty and that only when people



Photos courtesy of CDC

There are a wide range of investment opportunities in Africa, including credit card companies, energy providers and horticultural businesses among many others.

African Markets Outstrip Global Returns in 2004



are willing to invest will countries produce sufficient economic growth for conditions for the general population to improve. They have to assess whether, in the light of their goals, 'mission related investment' is both possible and preferable to investing in other assets. If the result is that it ends up being a better way of meeting their aims, then charities need to consider whether they should be allocating some of their assets to this activity.

Once investors have worked out whether they want to make mission related investments, their next questions ought to be whether the timing is right and how they achieve their goal.

Timing is relatively easy to decide. People can make money from investing in Africa. Most markets in Africa performed well in 2004 and could still be seen as cheap. Five of the best performing markets in 2004 (Egypt, Ghana, Malawi, Zambia and Uganda) were in Africa. Eleven markets trade on lower price to earnings multiples than the UK, although the lowest

multiple is in Zimbabwe and some many feel the price there does not reflect the risks. With governments keen to break down trade barriers and cancel debt it is unlikely that timing is going to get much better.

A number of firms can offer exposure to investments. Many of these firms have operated in Africa for many years and some, like my own firm, have strong African roots. This is clearly important in understanding and monitoring the risks involved in making such investments.

If the timing is good and the means of investment area available, the next issue is how much money to commit to Africa. This has to depend on the aims of the charity and its reasons for making the investment. Many UK charities will think their beneficiaries are based in the UK and so could view investing in Africa as high risk. For them any amount invested is likely to be small. For charities whose aims are to help end poverty and who normally spend money in Africa, making investments in Africa correlates well with their objectives and so a higher exposure would be sensible. Ultimately it has to be the choice of the trustees.

What I want to stress is that trustees could consider investing in Africa for both mission related reasons and for investment reasons. They know what their aims are and whether investment in Africa will help them meet them. Investment managers can tell them that both bonds and equities in Africa offer value and are beginning to attract a wider investment audience. It's up to them to take the next step.

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