



“ Following the old silk road”

A new asset management firm has been built around the trade and investment connections of the old Silk Route between Africa, the Middle East and Asia. Caroline Allen reports

SilkInvest is a firm that aims to capitalise on change. The team collects senior executives from Cameroon, Zimbabwe, Nigeria, Egypt, Morocco, South Africa, Pakistan, Netherlands, the UK, Belgium, Germany and Australia. Each is closely connected to local networks, bringing the kind of market insights and contacts that cannot be matched by visiting analysts. CEO Zin Bekkali describes that as 'authenticity', a key value for his new firm.

"There is a new pattern evolving across the world," he explains. "It's about growth in Asia, Africa and the Middle East, and the reformation of an economic block that used to exist but then fell apart for a while. For a long time, people – investors – have expected too little of these regions, or too much. Then, more recently, they reduced the scenario to a simple resource play. But the changes happening go far beyond that."

SilkInvest executives include chairman Heinz Hockmann, a veteran of Commerzbank's asset management business, Bekkali, who presided over Fortis' revenue growth, CIO Daniel Broby, lately of Renaissance Capital and previously at Bankinvest, Waseem Khan, who brings 30 years experience with ADIA, KIA and Citigroup, and Baldwin Berges, ex Credit Agricole Indosuez and Ahorro Corporacion.

The firm is tapping into the growing business between "emerging" financial centres – Mumbai to Sao Paulo, Lugano to Lagos. Within Asia, Bekkali observes, two market models are evolving. China has a top down structure where the government retains strategic decisions and underpins risktaking. In India, where entrepreneurship is highly prized and rewarded, there appears to be more "creative chaos". "We feel India would be of more interest to Africa," Broby comments, "while the Gulf region is probably following the China model."

Bekkali admits to a torrid few months. "It kept us humble," he says. "But at least we were not losing assets as the market fell." The investment case, he adds, is now all the more compelling. "What happened across much of the

Middle East and Africa is that the markets dropped, but the earnings outlook didn't. So we are at historically low valuations for many stocks, but with solid earning expectations."

Some other well argued positives: a reduced, but still positive GDP growth rate in most target countries; young, growing and economically active populations, and above all, little personal or national debt. Those factors will turn the investment world upside down within a few short years.

SilkInvest's principal vehicles at the moment are its Africa Lions Fund and Arab Falcons Fund. Two other products are in the pipeline, including a fixed income fund, set for launch in September and a private equity fund, targeting food chain firms (but not primary agriculture) in Africa, due to be brought to market in December.

It is clear that even if emerging market and developed market stocks are correlated, their economies are not. Why do investors not take the plunge into these new markets? "Indices and benchmarking have much to answer for," replies Bekkali. "Then there are the consultants and the credit rating agencies. Of course, everyone needs to have their parameters and filters, but this comes at a cost." The cost is that investors are herded into strategies that are by definition average performers.

"Benchmarks at best point to mature opportunities. At worst, they point to strategies in decline," he explains. "Instead, investors should be seeking marginal growth – by country, sector and company." Increasingly investment business is being conducted on "south-south" lines – Cape Town to Sao Paulo, or Mumbai to Dubai, rather than going through the biggest financial centres. That reverts to a pattern that was the norm 200 years ago, but which became distorted.

Although the firm covers all markets in the region, he sets a premium on diversification and liquidity. "Liquidity means three business days to exit. That implies a good network of brokers." SilkInvest was frustrated by the large fees charged by brokers in these markets, so they set up their own network. The firm outsources all middle and back office functions to Germany's DZ Bank.

Broby thinks global institutional investors should have some 4-5% of their portfolios in the Arab and Africa markets. "There is the perception that these are small markets. But at least 10 of them are the same size as Portugal," he argues. And the use of these markets as a pure commodity play is misguided. "It is not a basic materials story – it is more about the growth of local and regional champions challenging global players, building the value chain to meet local demand."