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Silk Invest plans frontier fund launch

24 May 2010 | By [Stefanie Eschenbacher](#)

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Silk Invest, a specialist asset management boutique, plans to launch a Ucits III fund investing in African, Arab and South West Asian equity markets later this year.

The Silk Road Equity fund, a Luxembourg-domiciled Sicav, will be the fourth fund in Silk Invest's range of specialist emerging and frontier market funds. Saudi Arabia represents the largest country allocation in the Silk Road Equity fund's model portfolio, at 14%.

"We are very excited about the investment opportunities in Saudi Arabia," says Daniel Broby, the chief investment officer. "We find a broad range of interesting businesses across sectors: industrials, chemicals, banking and insurance."

As Saudi Arabia does not allow direct foreign ownership, the Silk Road Equity fund will get exposure to local companies through swaps, one of the Ucits III features.

These swaps are contracts for differences arranged between a local institution and an investment bank and give the same exposure as if invested in the underlying equity.

The fund can also get exposure to Saudi Arabia by buying participation notes on the underlying names through institutions such as Deutsche Bank, HSBC and Morgan Stanley.

Silk Invest limits counterparty exposure to any one bank to 10%. (article continues below)



Another 13% of the model portfolio is held in Nigeria, mainly in companies likely to benefit from the fast-growing consumer sector. The fund also holds Nigerian banks and local oil companies.

Within Qatar, where 11% of the portfolio is invested, the managers find the most compelling opportunities in sectors such as utilities, banking and logistics.

Other country allocations include positions in Azerbaijan, Egypt, Kazakhstan and Morocco. All positions in the model portfolio may change before the launch.

Meanwhile, the team is exploring other markets, such as Pakistan. "Pakistan is totally

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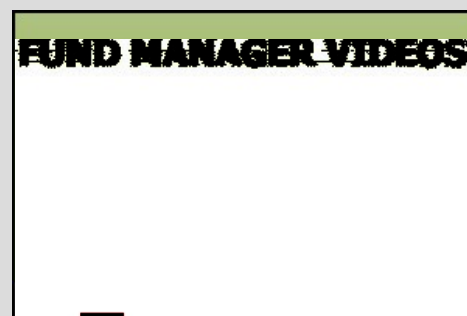
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overlooked by investors because of its risk on the political side but it is still a very deep, liquid frontier market," Broby says.

At an overall sector level, financials represent the fund's largest bet at 28% of the portfolio. Another 20% is held in basic materials, 19% in consumer goods and 16% in industrials.

The launch is subject to regulatory approval. Broby says it is unlikely that the fund will be available to investors before September owing to regulatory requirements.

Silk Invest runs three other funds, which were launched last year: two equity and one fixed income.

The Silk African Lions fund invests in listed equities across the entire African continent and Silk Arab Falcons invests in equities listed in the Middle East and North Africa region.

The Silk Road fund targets the emerging markets of Africa, the Middle East and central Asia.

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