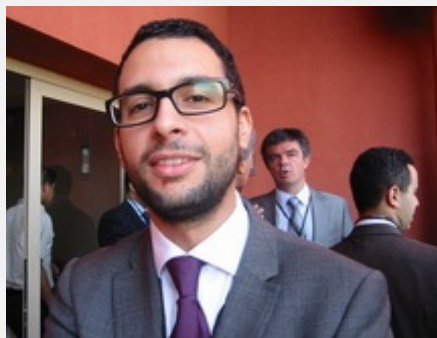




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+ How investment fund managers can succeed in the international crisis

Zin Bekkali CEO of Silk Invest presented his vision of how the asset fund world has changed to the African Finance Forum in Marrakech today. Born of Moroccan parents who moved to Holland, he cofounded Silk Invest in 2008. It is a fund manager focusing on Africa and the Middle East.



In a keynote presentation to the Africa Finance Forum he said that the reality facing the financial world has changed due to the global downturn, or rebalancing if you prefer.

The impact on the asset management industry has been profound, with the world turning upside down. It is noticeable therefore that the Africa Middle East GDP has grown steadily over the years as has Asia. Whilst the USA and Europe decline Africa, Asia and the Middle East have grown to 40% of the world's GDP and the region is confirmed as an important driver of the world's economy. Developing world countries are rebalancing and the developed world is facing challenging economic conditions due to large amounts of debt. Bekkali raised the question of whether

some countries would ever be able to pay these debts back given the level of debt, which in some of them is approaching a very high level of their GDP, and added to this they are experiencing unemployment and low interest rates.

It is indeed ironic if one remembers debt strapped African countries in the 1980's and the West's refusal to reduce their debt at the time. Now the West faces a slowdown in development together with an ageing

Editorial

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Today

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working population and investment challenges which will retard economic performance.

Corrections in stock markets have averaged 60% downwards and investment confidence has been hit globally and the impact on asset management has been substantial. Assets under management have dropped 20%. Industrial recovery will be slow as there is not enough cash and liquidity. What stands out as Western industries fail, is Africa's resilience. Investors are risk averse and the question is more risk or less. Fixed income instruments are failing to produce the yields they used to do. Spanish bonds used to sell more than Germany's but not now. He posed the question whether fixed income investments really are less risky.

Europe is trying to match liabilities with assets and interest levels are declining with low returns (although Bekkali envisages the possibility that interest rates might go up) liabilities are certainly going up and liquidity is a problem. He observes that the situation for the West is not sustainable but it is however logical. Japan is going through the crisis but is learning to live with it and he thinks that perhaps the answer in the West is to accept the changed circumstances and then work from that, rather than no growth, devaluation and no solution. Budget cuts across Europe are severe and will have an effect on growth, especially reductions in the public sector. Investment decisions will be more governed by liquidity issues. An investor may own many properties but it won't necessarily help him to meet his liabilities. Equities as a share of portfolios have come down, however emerging markets are better placed to attract investment: 16% of European funds are in emerging markets.

The key factor is to avoid investments which do not make money-not so easy to do in the current climate. Emerging markets are 90% involved with export and import, the share of financial assets in portfolios is very limited, whereas in the US and Europe 80% of investments are asset based and relatively illiquid.

As financial assets grow and people become richer they need local investments and stock markets which are very important. The Moroccan stock market for instance has dropped far less in volume than many other countries emphasizing the benefits of local rather than international investors. Africa growth equity markets have underperformed, and emerging markets such as the BRIC countries have had a far stronger recovery. Mature capital markets are now experiencing low volumes.

Maghreb institutional funds with the stability offered by local investors are under invested and Bekkali argues that investors should invest in potential growth areas which are seeing local entrepreneurs and companies grow, because the room for growth is there. The private equity industry is developing but is still very concentrated, as in Morocco with very few major institutional investors. He thinks the world is still underinvested -in Africa investment is still only 0.7% of GDP. He emphasises the need for due diligence by fund managers and the need for locally based analysts and advisors who understand the local market, and urges asset management funds managers not to try to make assessments remotely from London or New York.

He is resolutely optimistic about investment opportunities in Africa, as it has more consumers and this population will grow and sectors such as agribusiness, food production and telecommunications are very promising. He feels there is real entrepreneurship in Africa and that this factor amongst others will get the continent moving rather than oil or commodities.

He also emphasises the importance of immigrant networks in disseminating ideas and information and highlights the significant number of Moroccans and Nigerians working in the financial centre of London as an example. As to the struggling European nations like Spain he is more philosophical pointing out how much the country has gained in infrastructure and living standards in the last twenty years. Ageing working populations in Europe will give way to new working populations and he believes strongly in the benefits of immigration to national economies being a fine example of this himself. The financial world has changed in a

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remarkably short time but he feels that despite the pain economies will adapt to new situations as they always have done.

Thursday June 17, 2010
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