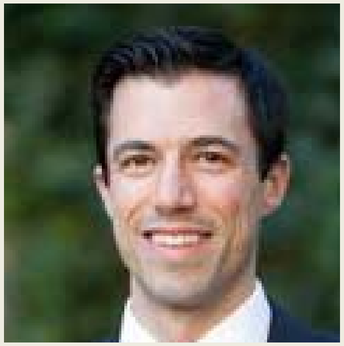
Spring 2014 TH!NK Forum

Africa: A market whose time has come?

BALLENTINE
PARTNERS

230 3rd Avenue, 6th Floor Waltham, MA 02451 | Phone 781-314-1300 | Fax 781-259-8412
P.O. Box 1860; 55 Mill Street Wolfeboro, NH 03894 | Phone 603-569-1717 | Fax 603-569-5264



Eric Werker

- Associate Professor in the Business, Government, and the International Economy Unit at Harvard Business School
- Research explores the political economy, macroeconomics, and business environments of emerging and frontier economies, particularly in Africa
- Lead Academic for the International Growth Centre's program in Liberia and economic advisor to the President of Liberia
- Serves on the Advisory Group of the Center for Global Development

Larry Seruma

- Managing Principal of Nile Capital Management LLC
- Has over 20 years of experience in portfolio management, investment research, and quantitative investment strategies
- Founded Nile Capital Management in 2004
- Authored several articles on investments in Africa and other emerging/frontier markets, and has been featured in many leading financial publications and www.moneywatchafrica.com
- Serves on the Board for the Segal Family Foundation

Ryan Ansin

- President of Family Office Association (FOA)
- Founded and managed start-ups in both the non-profit and for-profit worlds aggregating them into an initiative he calls, For-Purpose
- Co-Founder of Clarity Project, a program that leverages the diamond industry’s vast supply chain to support primary education and adult literacy in diamond-mining communities like Kono, Sierre Leone

Frontier Markets

Eric Werker
Harvard Business School

TH!NK Forum
May 15, 2014

20 Fastest-growing economies in the world, 2013-15, WB forecast

1. Mongolia
2. Iraq
3. Timor Leste
4. Sierra Leone
5. China
6. Mozambique
7. Ghana
8. Laos
9. Angola
10. Ethiopia
11. DRC
12. Rwanda
13. Gambia
14. Uzbekistan
15. Sri Lanka
16. Panama
17. Zambia
18. Tanzania
19. Cambodia
20. Uganda

Making Sense of a Frontier Economy

- Two axes of variation
- One: why are investors here?
  - Either to serve the **domestic** market
  - Or as a base for **export** due to low factor prices
- Two: how are profits earned?
  - Either from normal business **competition**
  - Or from natural or regulatory **monopolies**, including legitimate government concessions, regulatory oversight, or regulatory “oversight”

We can divide the economy into four markets along these two dimensions.

Frontier economies contain four distinct markets

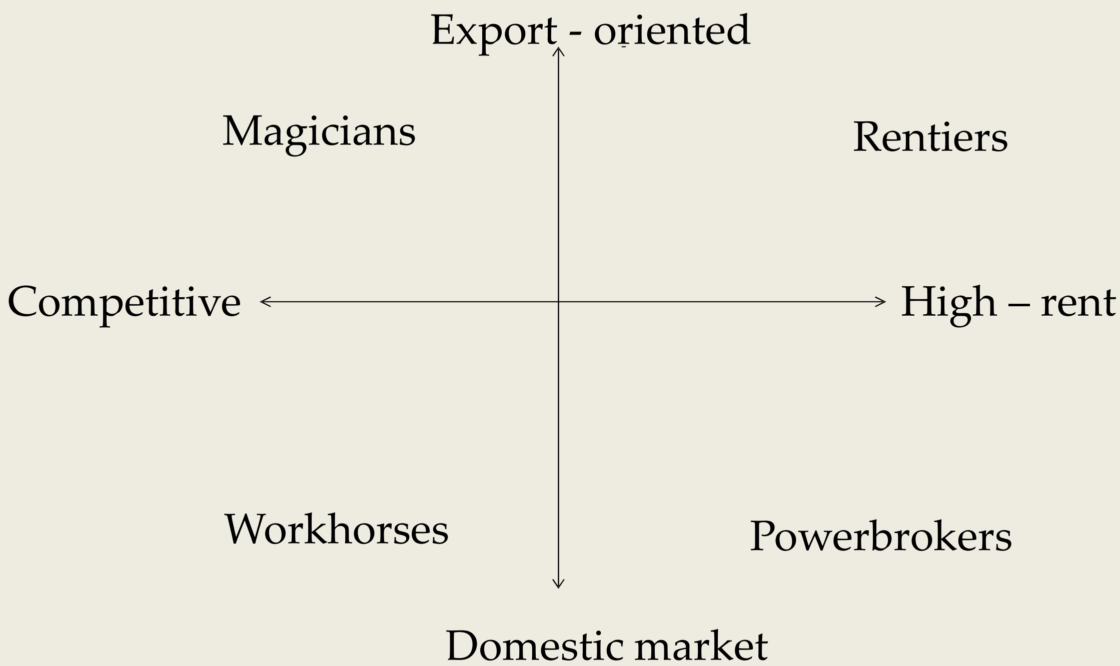
	Competitive	High Rent
Export-Oriented	**MAGICIANS** Non-sponsored agricultural exporters, manufacturing, apparel	**RENTIERS** Mining, oil and gas, sponsored agricultural exporters
Domestic Market	**WORKHORSES** Light manufacturing, homebuilders, restaurants, retailers	**POWERBROKERS** Power generation and distribution, ports, natural monopolies

- Each market necessitates a different strategy for private sector development and regulation
- Business strategy is distinctly different in each market, so **firms in each market will have a very different demand of the state**

Rents, lobbying, and the dynamics of growth and institutional development

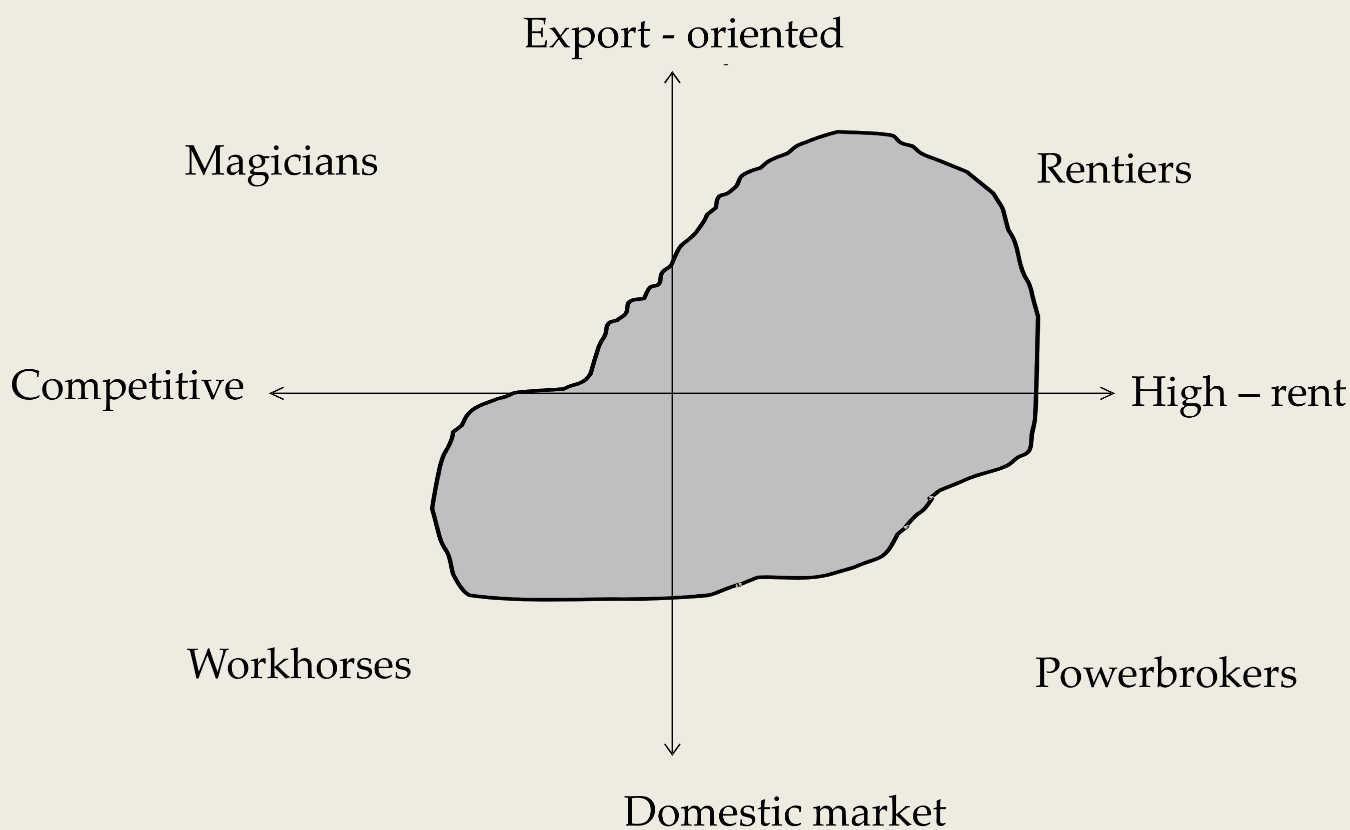
- The dynamic created in a frontier economy by the different demands of firms in each of the four markets can determine the country's success
- When foreign exchange and rents are appropriable and transferable, e.g. through natural resources, foreign aid, or remittances, Powerbrokers define the business environment
  - Protected, inefficient, high-lobbying, corrupting, unequal, expensive inputs, non-diversified
- When they are not, Magicians can define the business environment
  - With positive spillovers to Workhorses, and competitive regulating of "Powerbrokers"

Mapping the 4Ms

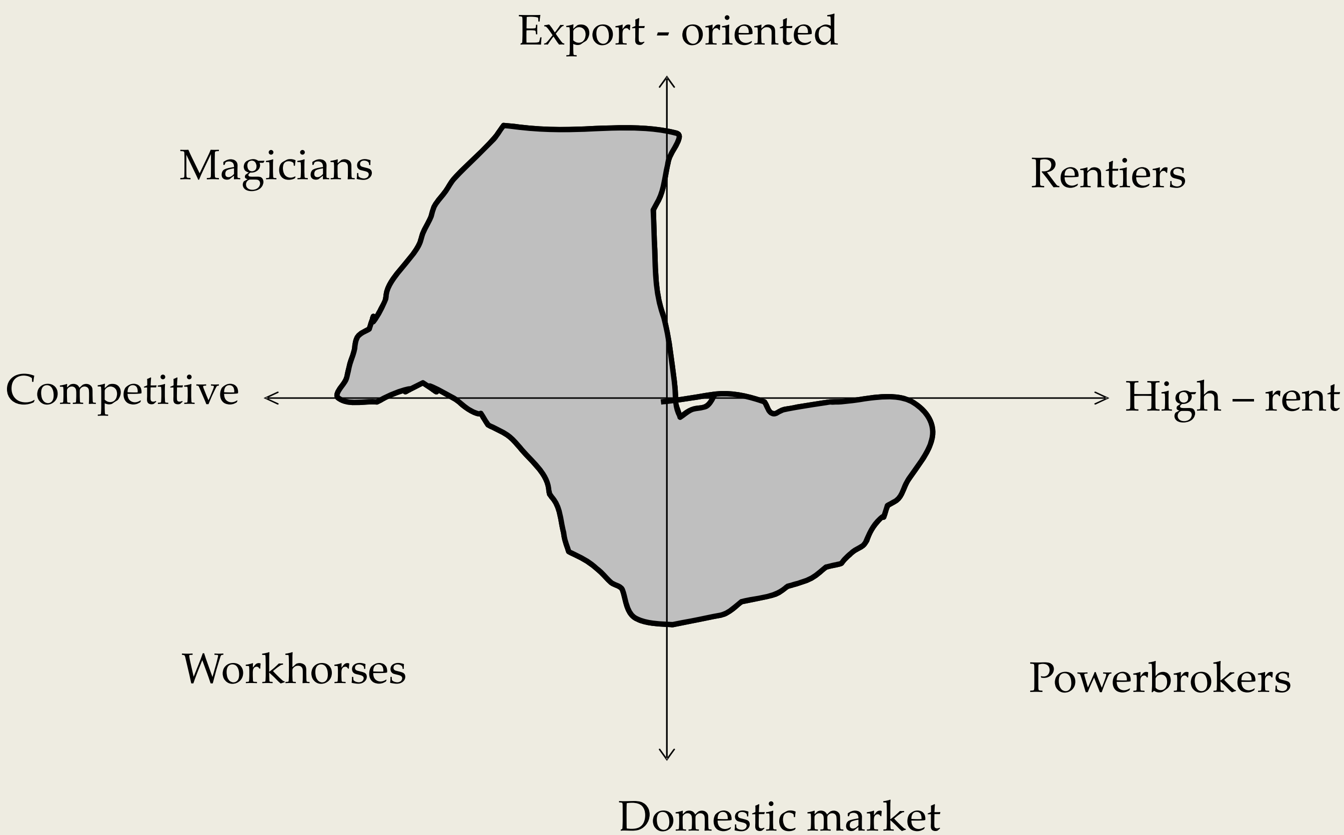


Use GDP value-added, or workforce
Challenge: E-W axis difficult to measure

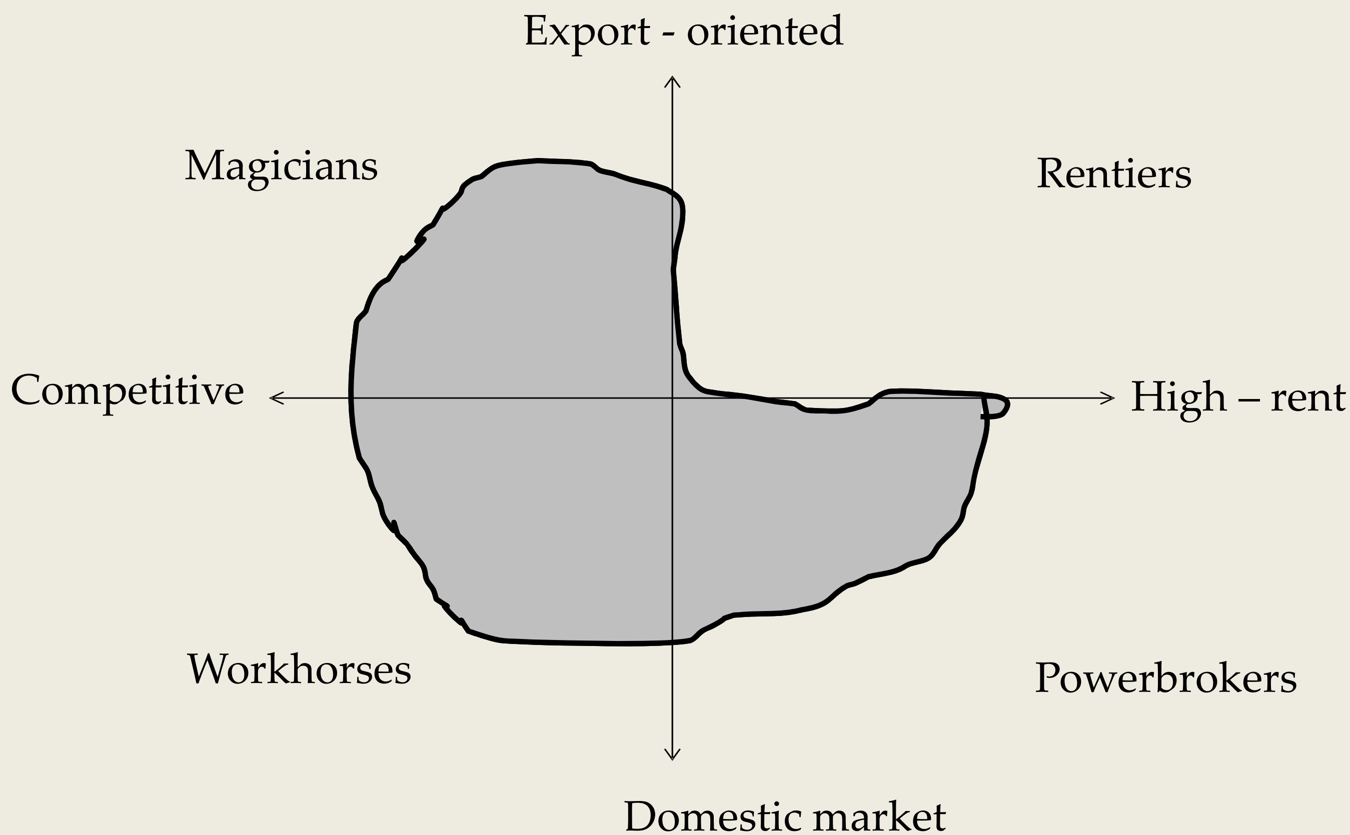
Angola, or the "Resource Rentier"



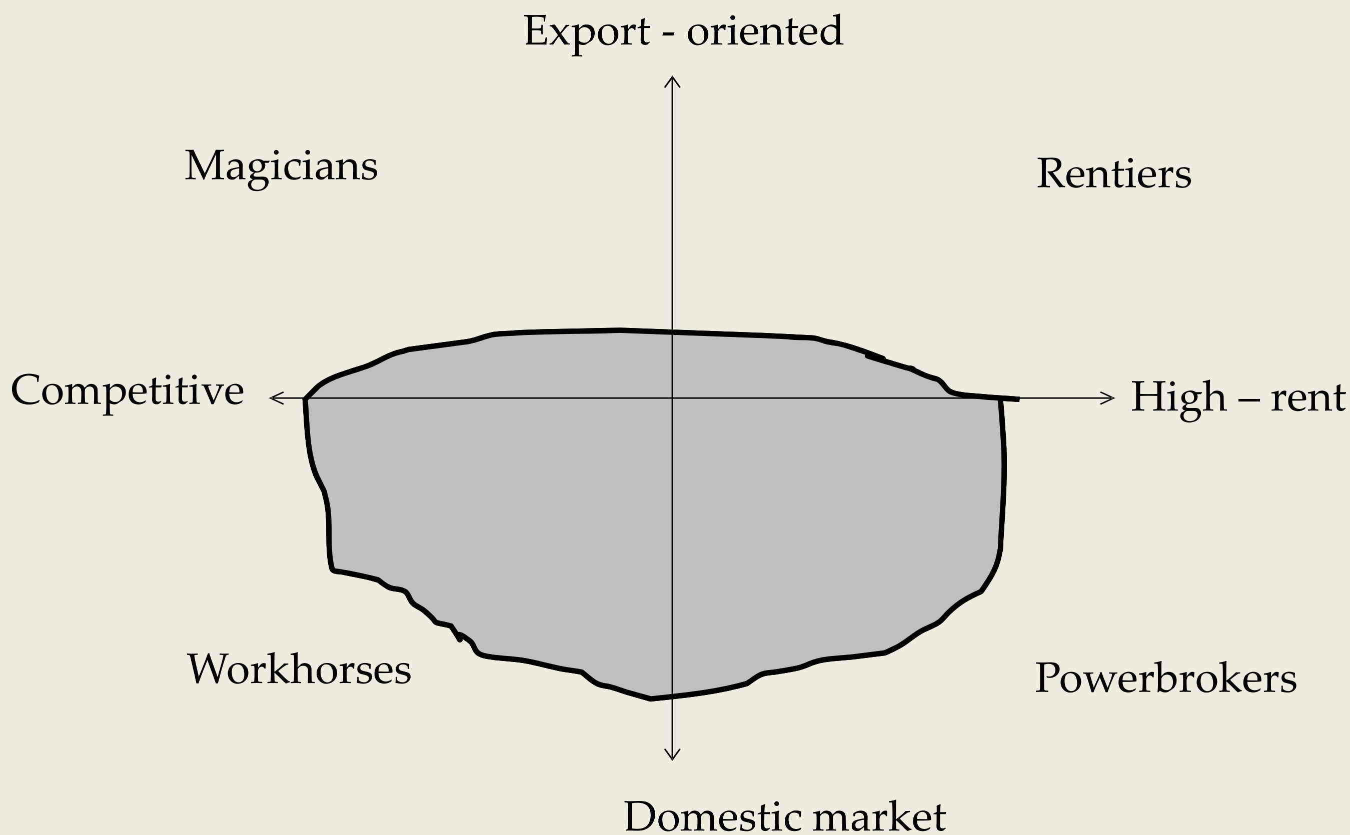
Dubai, or the "Entrepot"



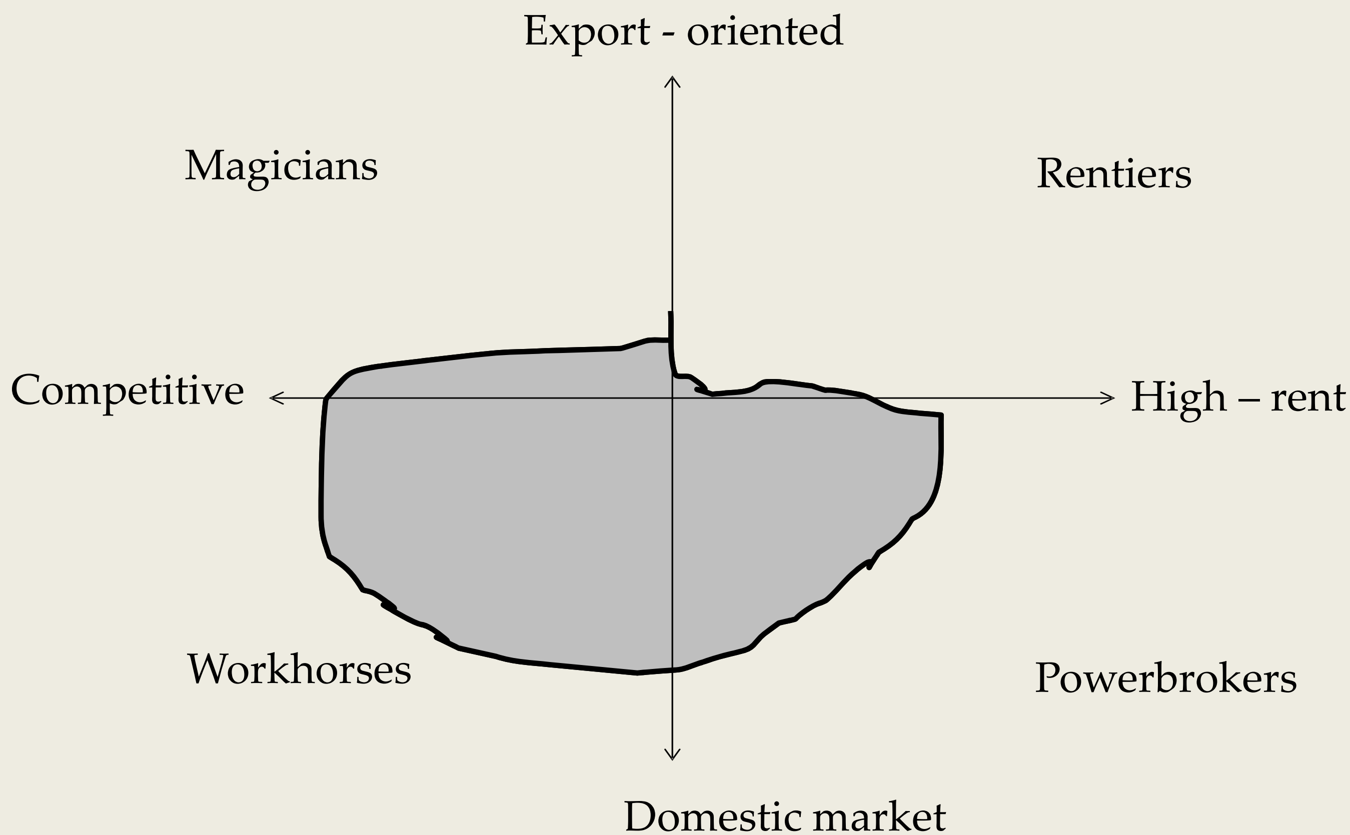
China, or the “Manufacturing Exporter”



Argentina, or the "Domestic Diversified"



Pakistan, or the "Transfer Addict"



Investing in Africa

- Not:
  - Magicians (probably FDI)
  - Workhorses (probably small/informal, low margins)
    - Social entrepreneurs
  - Powerbrokers (expropriation risk)

- Extractives
  - But a simple resource play
- Powerhorses

Thanks!

ewerker@hbs.edu

WHY AFRICA? WHY NOW?

Nile Capital Management, LLC

116 Village Blvd, Ste 306
Princeton, NJ 08540
Telephone: 1-646-367-2820
Email: info@nilecapital.com

Index

I	Introduction
II	Reasons to Invest
III	Investment Opportunity
IV	Why Africa Will Catch Up to the Rest of the World
V	What's the Best Way to Invest

Larry Seruma

- Managing Principal of Nile Capital Management LLC, the Advisor of the Nile Africa Funds , based in Princeton, NJ
- Author of several articles on investments in Africa and other emerging/frontier markets, including www.moneywatchafrica.com, a financial blog focused on understanding Africa investment opportunities.
- Born in Uganda and a US citizen
- Board member for Segal Family Foundation
- MBA in Analytic Finance and Statistics from the Booth School of Business, The University of Chicago, in 1996

Reasons to Invest

- High Historical Return
- Low Correlations
- High Risk Adjusted Returns
- Political Stability

High Historical Returns

Annualized Returns Mar 2004 to Mar 2014				
Annualized Returns	**1 Year**	**3 Year**	**5 Year**	**10 Year**
S&P 500	21.86%	14.66%	21.16%	7.42%
MSCI Emerging Markets	-1.43%	-2.86%	14.48%	10.11%
MSCI Frontier Markets	24.99%	8.17%	14.89%	7.66%
Africa Composite	9.15%	9.89%	16.02%	15.56%

Source: Bloomberg and MSCI; Africa Composite data Includes South Africa, Nigeria, Kenya, Mauritius, Ghana, Egypt, Morocco, Botswana equal-weight and rebalanced annually.

Low Correlations

Correlation of Monthly Returns

- Independent Economic Cycles: Africa returns are generally not Oil or Emerging Markets driven.
- Nigeria stock market correlation with large capitalization US stocks (S&P 500) is 25%.

Base Case (Growth Cycle)

Jan 2002 – Dec 2007	Africa	Nigeria	Ghana	South Africa	Crude Oil	Russia	S&P 500	MSCI FM	MSCI EM
Africa	–	0.41	0.20	0.48	0.01	0.25	0.35	0.41	0.46
Nigeria	0.41	–	0.14	-0.09	0.04	0.00	0.06	0.15	-0.03
Ghana	0.20	0.14	–	-0.12	-0.08	-0.14	-0.04	-0.13	-0.13
South Africa	0.48	-0.09	-0.12	–	0.16	0.49	0.50	0.18	0.78
Crude Oil	0.01	0.04	-0.08	0.16	–	**0.20**	**-0.23**	**-0.02**	**0.12**
Russia	0.25	0.00	-0.14	0.49	**0.20**	–	**0.27**	**0.04**	**0.59**
S&P 500	0.35	0.06	-0.04	0.50	**-0.23**	**0.27**	–	**0.17**	**0.73**
MSCI FM	0.41	0.15	-0.13	0.18	**-0.02**	**0.04**	**0.17**	–	**0.23**
MSCI EM	0.46	-0.03	-0.13	0.78	**0.12**	**0.59**	**0.73**	**0.23**	–

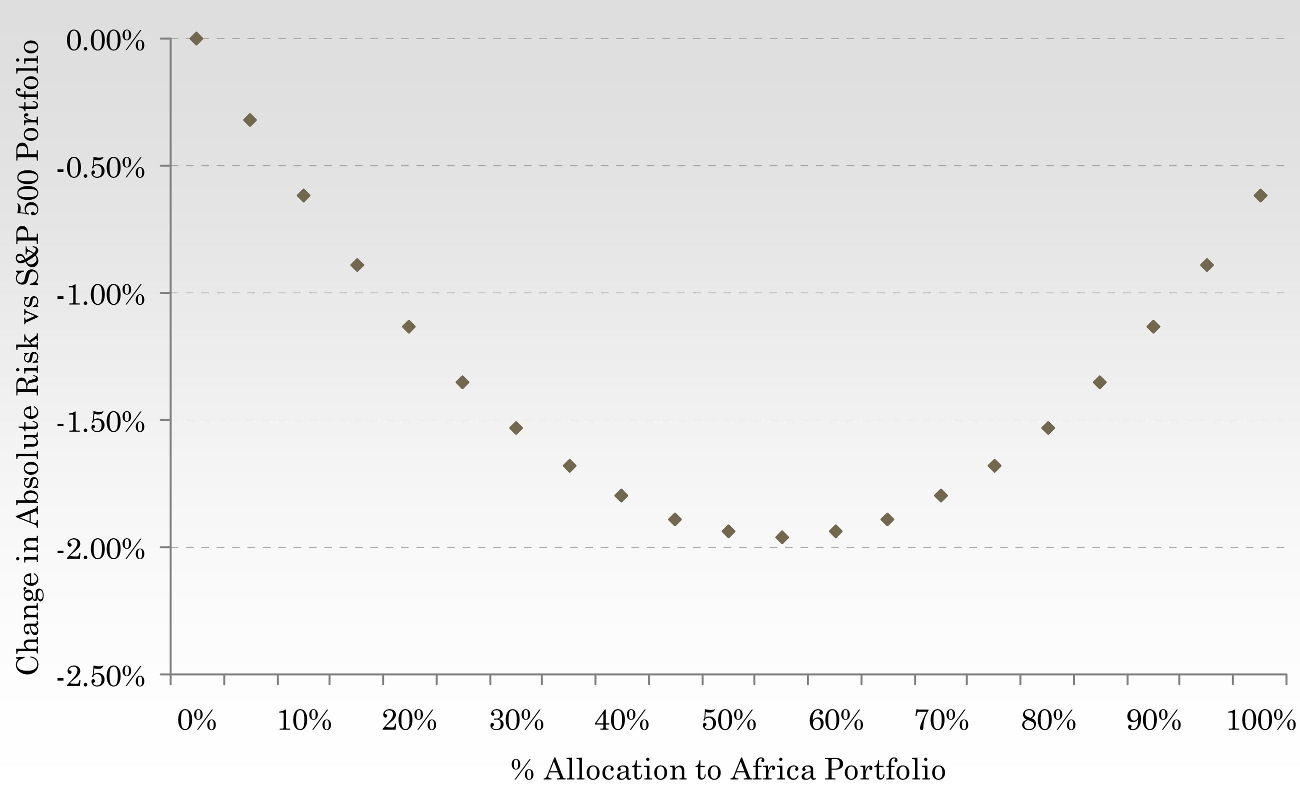
Historical Case (Full Credit Cycle)

Jan 2002 – Sep 2013	Africa	Nigeria	Ghana	South Africa	Crude Oil	Russia	S&P 500	MSCI FM	MSCI EM
Africa	–	0.57	0.27	0.68	0.39	0.62	0.62	0.73	0.71
Nigeria	0.57	–	0.07	0.19	0.32	0.35	0.25	0.52	0.26
Ghana	0.27	0.07	–	-0.04	-0.04	-0.08	0.06	0.01	-0.04
South Africa	0.68	0.19	-0.04	–	0.45	0.72	0.71	0.53	0.89
Crude Oil	0.39	0.32	-0.04	0.45	–	**0.53**	**0.28**	**0.44**	**0.44**
Russia	0.62	0.35	-0.08	0.72	**0.53**	–	**0.59**	**0.53**	**0.80**
S&P 500	0.62	0.25	0.06	0.71	**0.28**	**0.59**	–	**0.55**	**0.80**
MSCI FM	0.73	0.52	0.01	0.53	**0.44**	**0.53**	**0.55**	–	**0.59**
MSCI EM	0.71	0.26	-0.04	0.89	**0.44**	**0.80**	**0.80**	**0.59**	–

An Africa Investment Increases Return And Adds Diversification

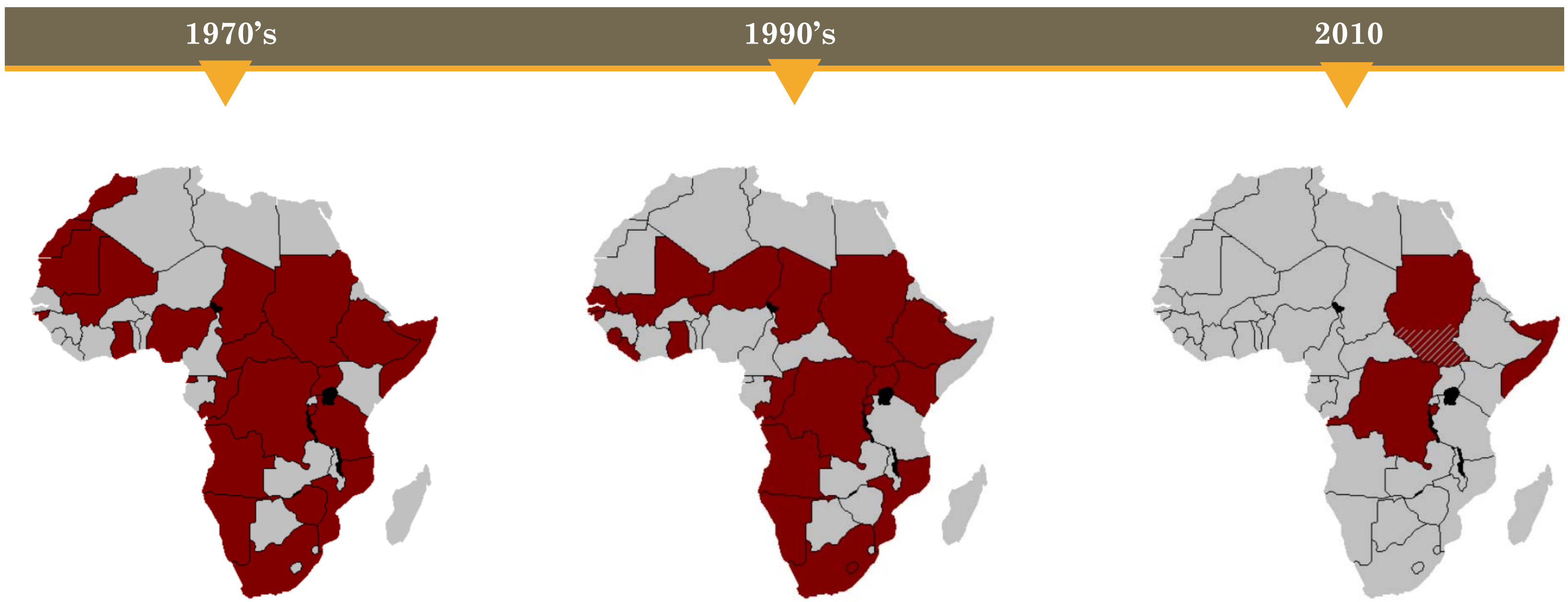
- An allocation to Africa has the potential to increase your emerging market exposure while reducing your risk.
- As an illustration, the S&P had monthly standard deviation of returns of 15.63%, while a 50/50 Africa/S&P portfolio would have had 13.69%, nearly 2% less risk.

Change in Risk of S&P 500 Portfolio vs. Africa Allocation



Political Risks Have Been Exaggerated

Peace is replacing conflict on the Continent



Countries in Conflict

Source: Department for International Development, Conflict trends in Africa 1946-2004, Nile Capital Management

Investment Opportunity

African Consumer

African Infrastructure

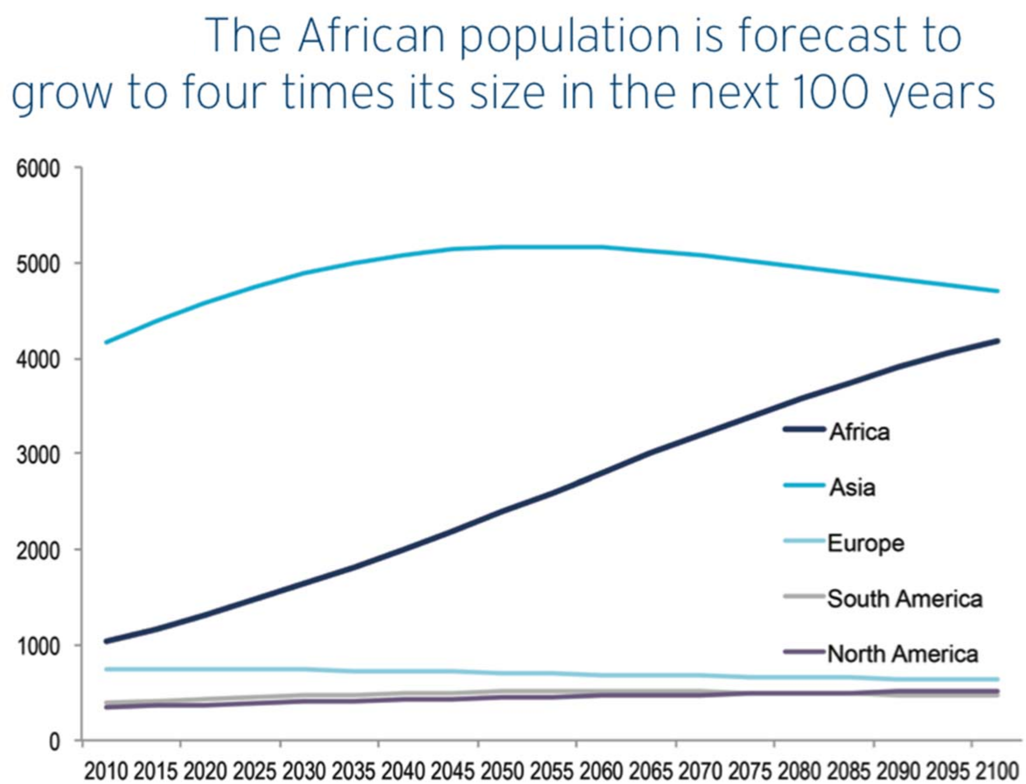
African Natural Resources

African Consumer

- Population
- A Growing Middle Class
- GDP Per Capita
- Demographics
- Cell Phone Penetration and Growth

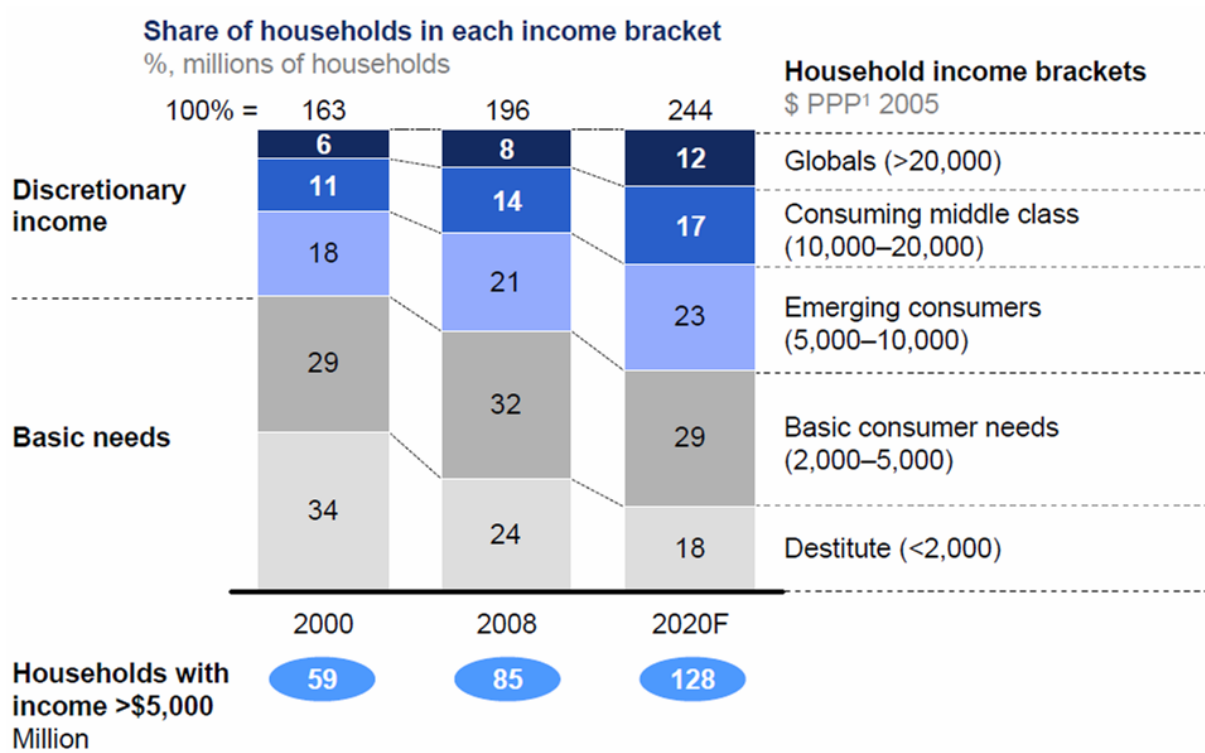
Why Africa is the Hottest Growth Opportunity of the Century

- Business Insider, “In One Chart Here’s Why Africa Is The Hottest Growth Opportunity Of The Century”, January 2014



A Growing Middle Class

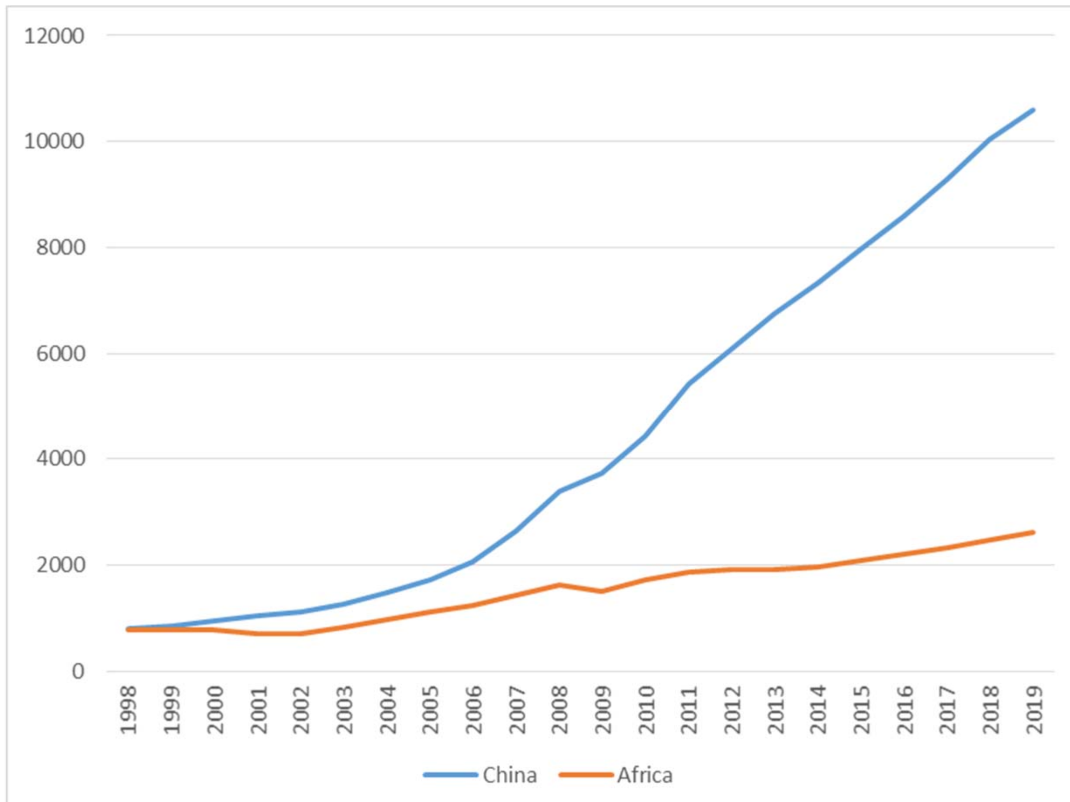
- A growing middle class can drive economic growth in frontier countries
- McKinsey Global Institute cites Africa as a prime example



Source: Canback Global Income Distribution Database (C-GIDD); McKinsey Global Institute, *Lions on the move, June 2010*

GDP Per Capita is Rising

GDP per capita ($ USD)

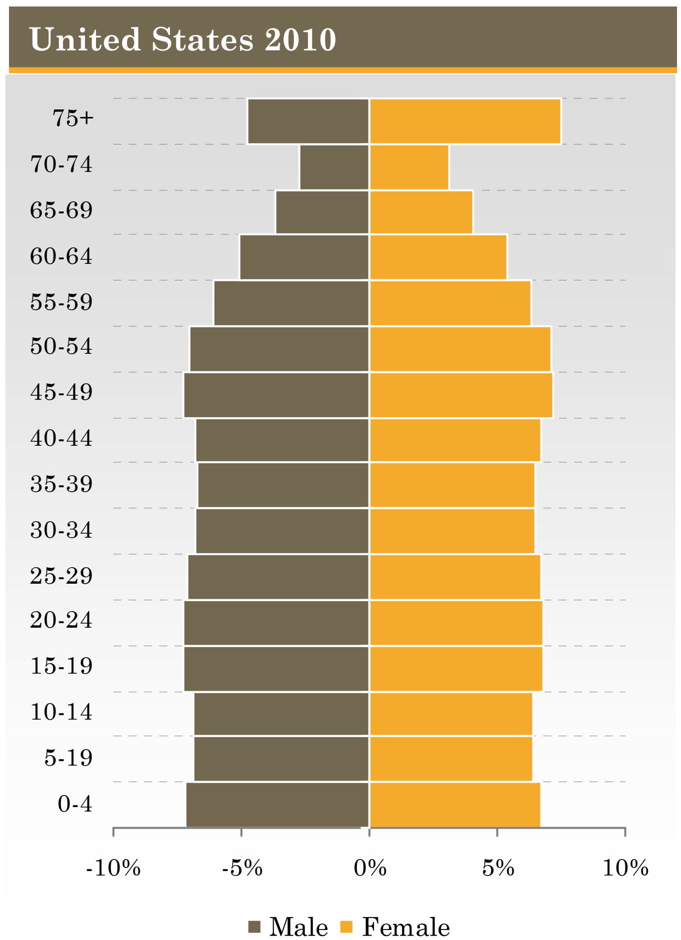


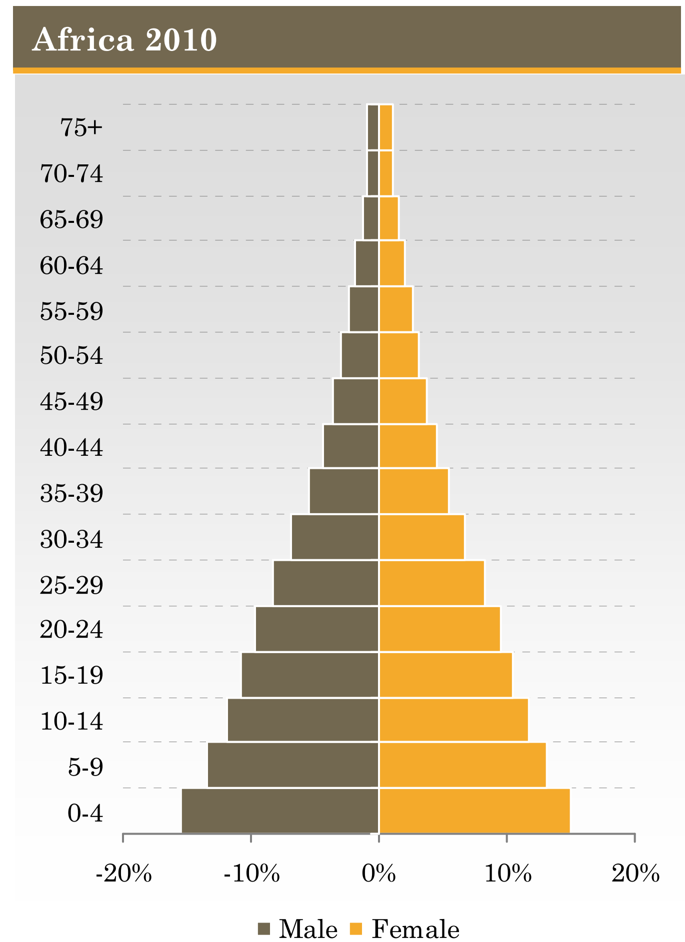
- Average GDP per capita in Africa has risen past where China was in the mid 2000's.
- Africa's growth trend resembles China's 15 years ago.

Source: IMF, *World Economic Outlook April 2014*

Demographics

- Developed markets wrestle with an aging population
- Africa is a fountain of youth, creating opportunities for products and services.



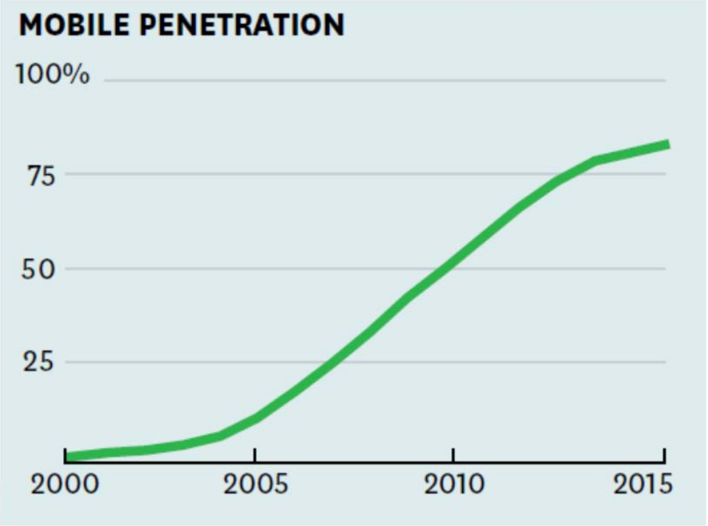


Source: Population Division of the Department of Economic and Social Affairs of the United Nations Secretariat, World Population Prospects: The 2008 Revision, http://esa.un.org/unpp.

Cell Phone Penetration and Growth

Mobile is exploding.

The mobile industry employed 3.6 million full-time workers directly and indirectly in Africa in 2010, according to GSMA. Mobile penetration, which was 2% in 2000, is 78% today and will reach 84% by 2015. Operators across the continent reduced prices by 18%, on average, in 2011. Mobile internet traffic in sub-Saharan Africa will grow 25-fold in the next four years. Companies will need to meet the African consumer on her feature (nonsmart) phone. Smartphones are only 3% of the African market today and will be just 15% in 2015.



Source: Harvard Business Review, *Seven Reasons Why Africa's Time Is Now,* Oct 2013

African Infrastructure

- Size
- Power and Energy
- Urbanization
- Economic Growth

Africa is Larger Than You Think

Country	Area (x1000 km^2)	Population	Land Area (hectare) Per Person
China	9,597	1,339,724,852	0.72
USA	9,629	312,355,000	3.08
India	3,287	1,210,193,422	0.27
Mexico	1,964	112,336,538	1.75
Peru	1,285	29,461,933	4.36
France	633	65,821,885	0.96
Spain	506	46,125,154	1.10
Papau New Guinea	462	6,703,000	6.89
Sweden	441	9,440,588	4.67
Japan	378	127,960,000	0.30
Germany	357	81,751,602	0.44
Norway	324	4,972,200	6.52
Italy	301	60,626,442	0.50
New Zealand	270	4,418,200	6.11
United Kingdom	243	62,435,709	0.39
Nepal	147	28,584,975	0.51
Bangladesh	144	151,377,000	0.10
Greece	132	10,787,690	1.22
TOTAL	30,102	3,665,076,190	0.82
AFRICA	30,221	1,022,234,000	2.96

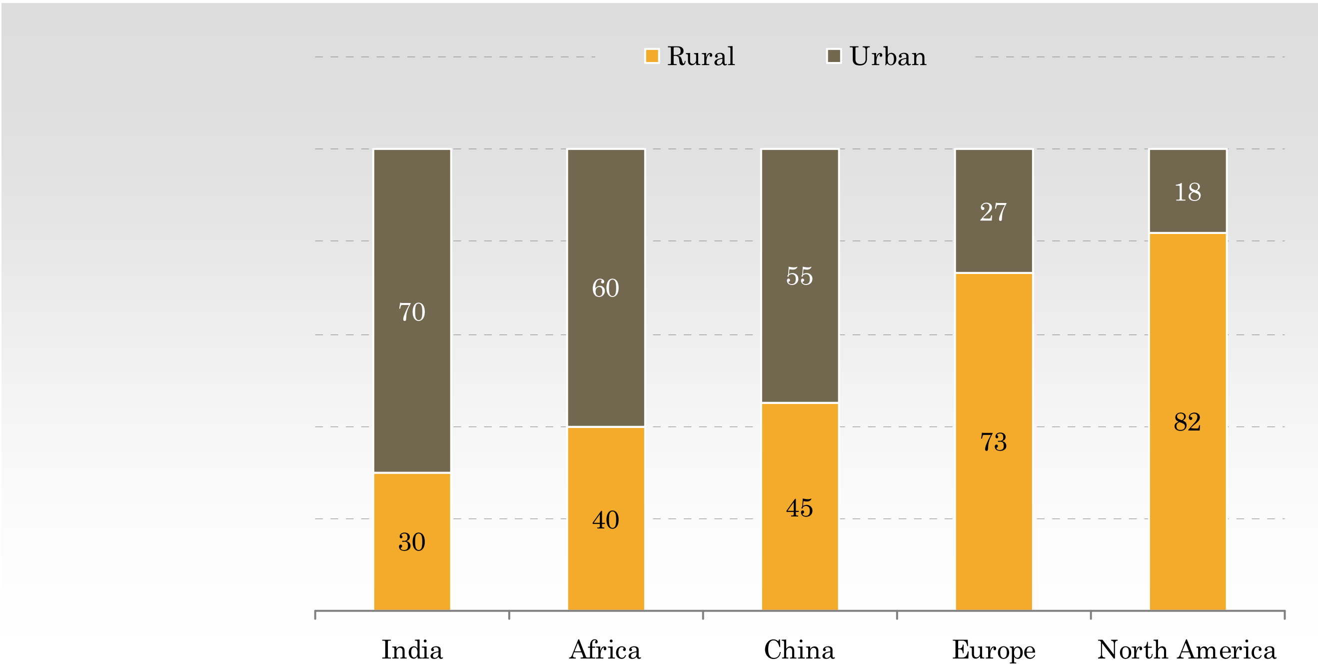
Power and Energy

The World Bank has said that 15% of Africa's GDP ($93 Billion) needs to be spent on infrastructure annually. South Africa has already budgeted $400 billion for major infrastructure projects.

Source: South Africa Government News Agency

Urbanization

- Africa is nearly as urbanized as China is, and has as many large cities as Europe does and more than North America
- Africa has more middle class households (income >$20,000 per year) than India
- Urbanization boosts productivity as companies can spread their fixed costs over a larger customer base



	India	Africa	China	Europe	North America
Number of cities with >1 million of people	48	52	109	52	48
Population (millions)	1,219	1,032	1,351	830	349

Source: United Nations; McKinsey Global Institute analysis 2010.

Africa Represents 9 Out of the Top 15 Fastest Growing Countries in the World

County	Annualized GDP Growth Rate (2013-2018)
South Sudan	20.3%
Mongolia	9.8%
Timor-Leste	9.7%
Libya	9.5%
Guinea	9.5%
Sierra Leone	9.3%
Iraq	8.6%
Mauritania	8.5%
China	8.4%
Congo, Republic of	8.0%
Mozambique	8.0%
Laos	7.8%
Zambia	7.8%
Côte d'Ivore	7.7%
Turkmenistan	7.7%

Source: International Monetary Fund, *World Economic Outlook April 2013*

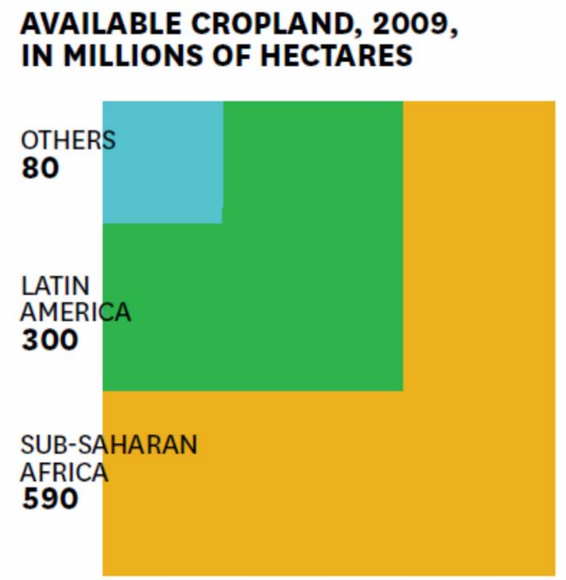
African Natural Resources

- Food
- Oil and Gas
- Inflation

Food

It contains most of the world's uncultivated arable land.

Natural resources aren't the whole story, but they're a catalyst. With 60% of the world's potential farmland, Africa could become an agricultural powerhouse. It is also rich in oil and gas; finds in Mozambique, Tanzania, and Uganda alone are expected to attract more than $40 billion in foreign investment. But companies that pursue pure extraction can't sustain support in Africa. Those that build local supply chains, hire local people, and produce for the local market are more likely to win the day.

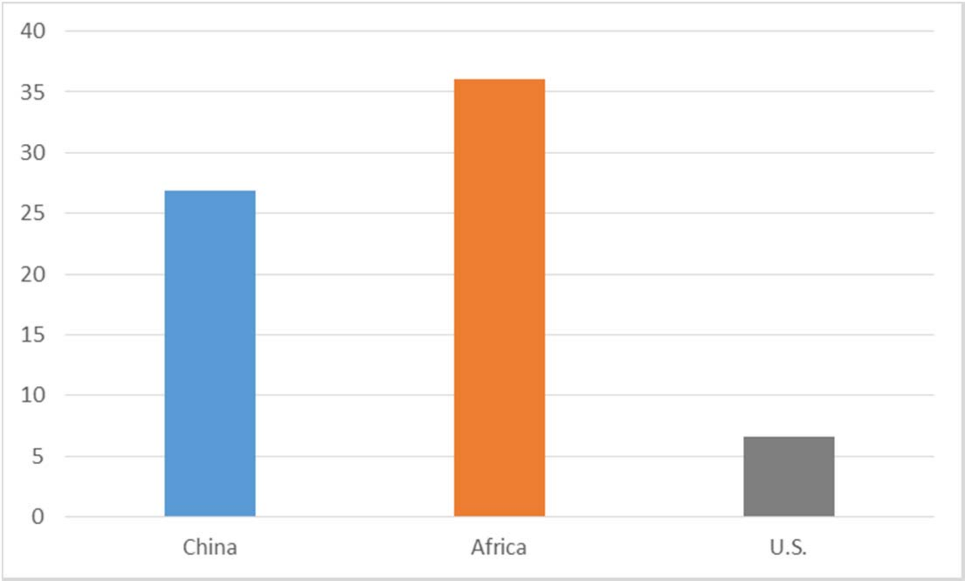


Source: Harvard Business Review, *Seven Reasons Why Africa's Time Is Now,* Oct 2013

Food Prices

- Food prices are a larger part of household expenditures in developing regions such as Africa and China

Food Costs as % of Consumer Expenditures



Source: ERS, USDA calculations based on annual household expenditure data, 2012

Increased Global Demand for Commodities

Commodity Price Strength Is A Major Positive for Africa

Supply of natural resources

- Africa holds an estimated 30% of the world's mineral reserves, including 40% of proven gold reserves, 60% of cobalt, and 90% of platinum global reserves. Additionally, it has 10% of the global reserves for oil (versus Brazil with 3%)
- According to the National Intelligence Council, 25% of US oil imports will come from Africa by 2015. The largest economies in the world including the US and China are looking to Africa for supplies of many valuable and strategic resources

Demand for natural resources

- The U.S. has a ratio of 150 million cars to a population of 300 million people, for a per capita car ownership rate of 50%. China currently stands at 4%. At 12%, the number of cars in China will exceed the number of cars in the U.S. The demand of automobiles will result in heavy pressures on oil, corn, lead, steel and other related commodities
- In 1990, China consumed 2.3 million barrels of oil a day. By 2008, China's consumption rate has grow to 7.8 million barrels a day
- The combination of high debt levels and lower expected growth going forward for developed countries such as the U.S. implies inflationary pressures in the not too distant future. Commodities are a natural choice in the inflation story

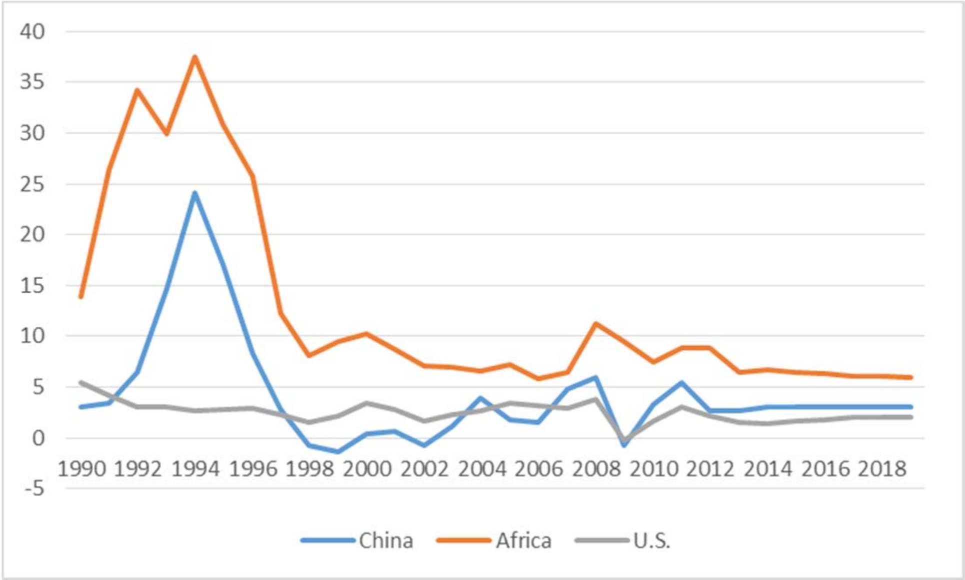
Historical Oil Prices ($ USD / barrel)

Source: IMF 2010, Bloomberg

Global Inflation

- Inflation risk in Africa and China has been higher than developed regions such as the U.S.

Annual Inflation Rate (%)



Source: IMF, *World Economic Outlook April 2014*

Why Africa Will Catch Up to the Rest of the World

- Globalization
- Industrial Policy
- Infrastructure
- Global Cost of Capital is Declining
- Macroeconomic Policies
- Services/Technology

Emerging Markets Have Benefited from Globalization

- Economic growth has been lackluster for developed economies while Emerging and Frontier markets have been beneficiaries of the globalization period
- Growth Models
  - Export
  - Domestic Demand

	1960-1980 Average Annual Growth	Annualized Growth Rate	1980-2012 Average Annual Growth	Annualized Growth Rate
France	4.6%	4.6%	1.8%	1.8%
Japan	6.9%	6.8%	2.1%	2.1%
Italy	4.8%	4.8%	1.4%	1.3%
Sweden	3.3%	3.3%	2.1%	2.1%
UK	2.4%	2.4%	2.2%	2.4%
USA	3.9%	3.8%	2.7%	2.8%
China	7.7%	4.9%	9.9%	10.0%
India	3.6%	3.5%	6.2%	6.2%
Chile	3.7%	3.5%	4.9%	4.7%
Developing East Asia	7.0%	5.4%	8.3%	8.3%
Sub-Saharan Africa	4.1%	4.3%	3.1%	3.1%

Source: World Bank, *World Development Indicators*

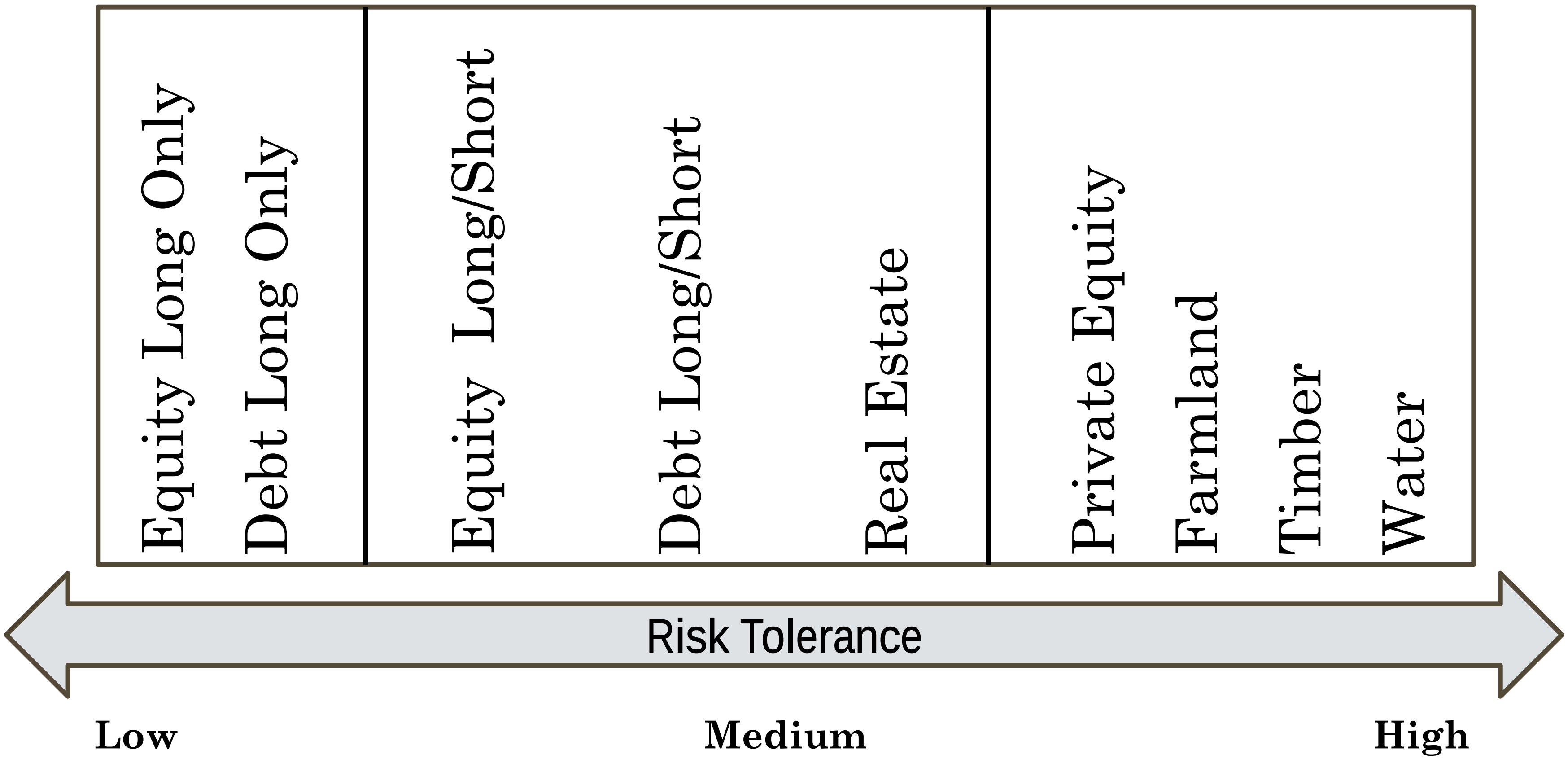
Dynamics for Africa Growth

- Industrial Policy (organization capital)
- Infrastructure
- Global Cost of Capital is Declining
- Macroeconomic Policies
- Services/Technology

What's the Best Way to Invest

- Risk/Utility
- Liquidity
- Time Horizon

How to Invest



Important Disclosures

This document is confidential to the addressee and should not be disclosed or distributed to any person without the prior written consent of Nile Capital Management ("NCM"), or any of its affiliates. Neither NCM nor any of its affiliates has reviewed, passed on or otherwise endorsed the form or substance of such disclosure. This material is provided for informational purposes only as of the date hereof, is subject to change without notice and is not intended to be advice, a recommendation or an offer, or the solicitation of an offer, to buy or sell any securities. No such offer or solicitation may be made prior to the delivery of appropriate offering documents to qualified investors. NCM makes no representations or warranties as to the accuracy, timeliness or completeness of such information. This document is for information purposes only and does not constitute advice, a recommendation, a prospectus or offering circular or an offer or invitation to subscribe for shares. Past performance is not indicative of future results. There is no guarantee against loss resulting from investment. Investments carry significant risk of loss of capital. Certain information, including index/benchmark information, has been provided by third-party sources, and although believed to be reliable, has not been independently verified and its accuracy or completeness cannot be guaranteed. Financial indicators and benchmarks are unmanaged, do not reflect any management fees, assume reinvestment of income, are shown for illustration purposes only, and have limitations when used for such purposes. Indices should not be relied upon as a fully accurate measure of comparison.