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What the future holds

Jenni Chamberlain of **Finch International Advisors** discusses the primary performance drivers of 2010 and how the future is set for the Mena region

As Africa benefits from increased foreign investment, *MENA Fund Manager* talks to Jenni Chamberlain, chief investment officer of Finch International Advisors and portfolio manager for the Finch Africa Fund, the top performing Africa-focused equity fund in 2010 according to data compiled by Bloomberg LLP. Jenni shares her thoughts and views regarding political change, investor sentiment and the most attractive opportunities for future growth.

MENA FM (MFM): What were the primary drivers of fund performance in 2010?

Jenni Chamberlain (JC): The region's long-term bullish trend remained intact as an improving macroeconomic landscape was further supported by increased foreign direct investment, relatively subdued inflation and strong forward-looking growth. In terms of country attribution, the Fund rose +32% on the year with Kenya, Nigeria, Namibia and Ghana, accounting for 20%, 20%, 15% and 12% of positive performance. In Nigeria, economic reform took hold as the nation overcame a lengthy period of political tension amid Yar'Adua's illness and eventual succession to engineer a successful restructuring of both the banking and energy sectors. Kenyan equities performed exceptionally well as it managed to supplant the loosely held coalition government and emerge from a prolonged drought that constrained growth across the tourism, telecom, construction and agricultural sectors. Namibia and Ghana are future growth engines whose equity markets benefited from the promise of offshore oil and

commodity-related wealth. For example, net interest income from amongst the Tier I Ghanaian banks improved significantly as the sector shows vast potential for large and lucrative lending opportunities. On a sector basis, Fund performance was primarily driven by investments in the mining, consumer and financial sectors, which accounted for 35%, 30% and 15% of positive attribution.

MFM: How have your markets performed in lieu of heightened political tension and civil unrest across the Mena region?

JC: Although spreads on most African Eurobonds widened considerably in the immediate aftermath of Egyptian unrest, they have now returned to pre-crisis levels as the risk of contagion appears largely contained. To further support this view, data supplied by the World Bank's Multilateral Investment Guarantee Agency confirms that insurance risk premiums across Sub-Saharan Africa have firmed significantly while premiums across the Middle East and North Africa remain elevated in the wake of recent events. Broadly speaking, equity performance has held up remarkably well although trading volumes have thinned as investors attempt to digest the changing macroeconomic landscape. In recent years, we have begun to observe a more educated and enlightened investor base whose constituents are better equipped to manage the risks associated with political uncertainty. Empirically speaking, institutional investors have benefited from political risk dislocations and appear more adept at both identifying and isolating asymmetric country risk across

the continent (for example Cote d'Ivoire, Kenya, and Zimbabwe). Nevertheless, political change takes time and we remain cautious as EPFR Global fund flow data reveal deteriorating sentiment on the part of emerging market investors.

MFM: Which markets do you view as the most attractive over the next 12 to 24 months?

JC: Over the medium term, we believe the most attractive opportunities reside within the agriculture, consumer and infrastructure sectors. In agriculture, we see opportunities across the value chain from primary production to processing and distribution. Traditionally speaking, we take a diversified approach to the sector and presently have exposure to food production, cereal processing, livestock farming, dairy, fruit and vegetables, crop protection, fertilisers, seeds, edible oils and agri services. At present, Africa's consumer-facing sectors (for example banks, brewers, consumer goods and telcos) are among the largest and most liquid opportunities available for investment. If recent trends continue, we believe household spending will grow at a breathtaking pace as demographics, personal consumption and urbanisation fuel sector outperform. The infrastructure sector is poised to expand considerably as new investment opportunities range from government privatisations (for example banking, construction and power) to new projects (for example port, rail and mining). In terms of country exposure, we are most excited about Nigeria and Ghana as the macroeconomic backdrop remains favourable and valuations are attractive on both a historical and forward-looking basis.