

Enko thrives in a growing market with opportunistic Africa debt fund

Managed by a skilled team, the fund focuses on sovereign and corporate debt across sub-Saharan Africa with a strong emphasis on sustainability

The Enko Africa Debt Fund reached its 18-month anniversary at the end of March, generating a net annualised return of 13.03% since inception in October 2016.

The fund is one of very few to focus solely on African debt, and is noteworthy for its strong, low-volatility returns in decidedly unpredictable African markets, turning in positive numbers for 15 consecutive months.

The portfolio has gained 2.93% to the end of March after a net 16.25% return in 2017.

“Enko has built a unique infrastructure of local and international trading relationships that allows us to operate in both the local markets and the areas where international players focus,” notes Craig Stanley, who joined the company in March as a partner and head of investor relations after eight years with Terra Partners. “The fund straddles both buy and hold and more opportunistic investments, providing investors access to a range of untapped opportunities thanks to a dedicated and experienced investment team.”

The fund is managed by Enko co-founder and CIO Alain Nkontchou, who has more than 25 years’ experience, working previously at JPMorgan, Credit Suisse and BlueCrest Capital Management. Kojo Amoo-Gottfried, ex FM Capital Partners, and James Marshall, previously with JPMorgan, are senior portfolio managers, bringing a wealth of asset management and investment banking experience, and assisted by senior analyst Tendai Sakaike.

The debt fund is the largest part of Enko’s business, comprising assets under management of US\$179 million, with new inflows expected soon.

Stanley notes that the opportunity set is strong, particularly when compared against the low-return environment in developed markets.

“The strategy is predicated on understanding the macro conditions of each market and being able to execute trades with a high degree of confidence,” he adds. “African debt markets are growing and, at the end of the day, yield and carry can present solutions to help investors meet absolute-return thresholds. This is a unique strategy

and we want investors to see it as complementary to their other holdings.”

The fund is a committed frontier Africa debt product, focusing on North Africa and sub-Saharan Africa. The mandate includes Egypt but excludes South Africa.

“We believe our edge is having an entirely Africa-focused portfolio, where our managers are constantly critiquing the Africa landscape and unearthing opportunities,” says Stanley.

The fund’s investments are governed by four key themes of value investing, debt sustainability, asymmetric returns and active risk management.

It invests primarily in sovereign and corporate debt across sub-Saharan Africa in local as well as hard currencies. It has a top-down approach, with a deep-value bias and a strong emphasis on debt sustainability. It also has opportunistic investments predicated by macro shocks, market dislocation and volatility.

The fund currently allocates to 10 African countries, with 37% of the portfolio in Nigeria and 22% in Egypt, which the team sees as particularly attractive markets in the wake of significant market dislocation in recent years.

It also has 13% in Ghana and lesser allocations to the DRC, Kenya, Côte d’Ivoire, Angola, Uganda, Zambia and Tanzania.

Around 80% is invested in sovereign debt, with the balance in banks, corporates and supranationals.

The fund’s 1.34% gain in March was



Alain Nkontchou

driven by local-currency investments in Egypt, Ghana and Nigeria, while the hard-currency book was slightly positive, driven by strong performance from corporate picks.

In its February commentary, Enko noted the portfolio’s resilience during a particularly difficult month for global markets, as a sharp rise in volatility led to a sell-off in risk assets. The Emerging

Markets Bond Index declined by 1.96% for the period, while 10-year US Treasuries added 26 basis points to 2.9%.

Enko has recently added to its investments in Francophone West Africa, diversifying its geographic footprint to include countries whose bonds are likely to perform well under multiple market scenarios. The team is particularly attracted by the domestic macroeconomic story in Côte d’Ivoire, where it sees the potential for strong economic growth over the medium term with a debt to GDP ratio of 43%, giving comfort on debt sustainability.

Looking ahead, it is eyeing new bond issues from Angola, Ghana, Côte d’Ivoire and Senegal, which had indicated that they would like to raise capital before the end of the first quarter. On the domestic front, it is keeping a close eye on inflation data from Nigeria, Ghana and Egypt, and had closely followed the Egyptian elections where the incumbent President Abdel el-Sisi won by a landslide.

Enko notes that global markets are currently being driven by concerns that US interest rates may rise faster than anticipated due to a combination of expanding fiscal policy and a weakening US dollar. “We are of the opinion that volatility will persist in the near term given the uncertain outlook on rates, fading growth momentum and political worries, most notably from trade tensions,” it notes.

Besides the debt fund, Enko also manages private equity and listed equity funds under the leadership of Cyrille Nkontchou, co-founder of Enko, with total firm assets under management of around US\$250 million. It has offices in London and Johannesburg.

FUND FACTS

Enko Africa Debt Fund

Strategy: Pan Africa debt (ex-SA)

Inception date: October 2016

Fund manager: Enko Capital

Administrator: Trident Trust

Custodian: Standard Bank Mauritius

Auditor: Ernst & Young

Open to investment: Yes

Investment minimum: US\$250,000