

FOCUS ON

# EMERGING AFRICA

Barak Fund Management Limited talks to *HFMWeek* about the advantages of being based in Africa, having a durable track record and bringing a unique commodity flavour to alternative investment



Long before the advent of Africa as a frontier market, a team of traders and financiers was scouring the continent in search of opportunities and partners in commodity markets. “We have been active in the region for many years, long before there was any real interest in Africa, let alone agriculture. In the process, we have built up an enormous network, we know and understand these markets, the players and the finance solutions that work,” explains Jean Craven, co-founder of Barak Structured Trade Finance Fund.

With the continuous growth in African trade and an opportunity for traders and processors to expand their business, bridging the liquidity gap is not straightforward. Traditional structured trade and commodity finance has come a long way and as a conservative discipline with robust risk mitigation techniques, it is adept at enduring the rigours of the continent and its larger clients.

However, a vital adaptation to these methods is required to safely expand its reach, one that demands title over collateral and marking a variety of underlying commodities to market on an ongoing basis. No small achievement in itself and largely unattainable to traditional lenders. “Emphasis on the client’s track record is critical, but taking ownership of the commodity changes the game. By actively monitoring our collateral values, we can take swift remedial action and move to sell the asset through our own network if required,” says Prieur du Plessis, head of deal originations, who took 32 flights from Barak’s Johannesburg office last year to assess deals in Africa. With the emphasis on performance risk, this essential shift in collateral enforcement has, however, never been necessary and no losses have ever been suffered since the fund’s inception in February 2009.

Trade finance strategies are nothing new and like other pure play trade finance funds, Barak slots itself between conventional lenders and the investment community. But Barak has the edge on the continent with a management team that boasts more than 12 years’ average experience and a track record to attest. “Duplicating our skills in Africa will be very difficult. There are very few teams with our IP,” du Plessis

added. A further enhancement is achieved through the diversification of investments across 12 countries, 14 commodities and up to 32 clients. From the investor’s perspective, Barak delivers on the promise of low volatility and stable returns, with a Sharpe Ratio consistently in double digits. Average tenor of the portfolio is varying but comes in around 120 days and is therefore relatively liquid. “At the moment we lend at absolute rates in US Dollar terms, which may change, but the point is that we achieve consistent returns that are uncorrelated to any other asset class globally,” explains Ziyaad Jhetam, head of finance and operations, emphasising the efficiency it may produce in classic investment portfolios.

Demand for Barak’s product is unrelenting and the deal pipeline is significant. Recipients can finally capitalise on long-established capabilities to do business in an environment where Western traders are outclassed. Ultimately, the fund wants to foster trade finance investment in the region and promote the interests of capital providers such as investment funds, development agencies and lenders to engage in commodity finance across Africa. As a much-needed alternative source of funding, Barak alleviates dependence on the existing banking sector and supports local companies to expand their activities. Craven says: “The knock-on effects up and down the value chain are completely unaccounted for. Trade liquidity creates markets and injects efficiencies. Growers of agricultural commodities can now rely on end users to come to the market because there is cash available in the system.

“**EMPHASIS ON THE CLIENT’S TRACK RECORD IS CRITICAL, BUT TAKING OWNERSHIP OF THE COMMODITY CHANGES THE GAME. BY ACTIVELY MONITORING OUR COLLATERAL VALUES, WE CAN TAKE SWIFT REMEDIAL ACTION**”

PRIEUR DU PLESSIS, BARAK FUND MANAGEMENT LTD

And it extends across borders. No other type of financial assistance can accomplish this and Barak is fully invested. Deal demand far outstrips available finance.”

Agricultural commodities remain a core focus of the fund, but are not the only commodities supported. Wherever there is an established trade route, decent track record and a tacit commodity, the model can be applied. The core offering is clear: investors can establish a foothold in Africa and obtain access to its internal and outbound growth in trade without taking outright price risk. As Jhetam explains: “Fluctuating commodity prices do not affect our strategy as the growing demand for commodities is an ongoing necessity. Trade remains the ultimate currency.” ■