



Welcome

In this edition of the Actis Macro Forum Insights and Perspectives, we are covering a huge number of air miles as we move from Kenya's electoral tumult to the contrasting fortunes of the countries of Francophone West Africa, before heading north to Egypt and its progress along the path of reform. Then we head west over the Atlantic to review recent developments in Brazil, one of the countries where we have made significant investments as a firm over the past 12 months. Finally, we turn to the newest member of our forum, Nico Escallon for his report on the improving fortunes of the three countries making up the Andean pact, Colombia, Peru and Chile, where as Actis, we have already invested in the energy sector and are increasingly seeing interesting opportunities in our private equity business as well. Of course, all of the insights we glean from our presence on the ground in our markets must be seen against the backdrop of increased volatility and uncertainty across the world, most notably in traditional developed markets. This may translate in the short term into a period of dollar weakness and an increased appetite for EM risk amongst investors. However, we all hope that by the time of our next issue we will be able to reflect on some reduction in the geopolitical tension we see manifested currently on the Korean peninsula and elsewhere.



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The Brazilian bossa nova

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As Tom Jobim, the famous Brazilian composer once observed, "*Brazil is not for beginners*". If he were still alive, he might be surprised that decades later, his famous quote is still fully applicable to the current political environment.

President Temer's *bossa nova* certainly began at a good pace with the duo of Henrique Meirelles (Minister of Finance) and Ilan Goldfajn (Governor of the Central Bank) taking multiple measures to return the economy to sustainable growth. As one of the first steps towards tackling the fiscal deficit, the Government last year approved a reform bill to cap public spending over the next 20 years. Simultaneously, the finance team put forward a plan to re-design Social Security. Both measures are closely linked for a simple reason: nearly 90% of the national public spending is fixed by the Constitution; hence, in order to meet the cap imposed on public expenditure, the Government must take structural measures to reduce its fixed costs, of which Social Security is the most relevant component. In 2016, this accounted for over R\$515bn or 30% of total public spending in the year.

On the monetary front, taking advantage of a lower inflation environment in which the IPCA index tends to close the year at 3.5% (vs the 6.29% in 2016), Goldfajn led the Central Bank to implement an unprecedented interest-rate cut, causing the SELIC rate to drop 500 bps in 12 months, from 14.25% to the current 9.25%. The market widely expects the SELIC to close 2017 at around 7%, meaning a real interest rate of 3.5%. Both domestic and foreign investors have enjoyed the dance so far. The benchmark IBOVESPA index reached its all-time high at 71,300 in late August 2017, the BRL has strengthened and domestic consumption and production has picked up.

The Government was hoping to put the Social Security reform to Congressional vote last June. Sadly, it didn't go quite as smoothly as hoped. With exquisite timing, the founders of JBS, the largest meat processing company in the world, released a tape that allegedly provided evidence against the President in connection with a bribery scheme to silence former allies arrested under the Car Wash operation. The JBS founders acted jointly with the Federal Prosecutor, Mr. Rodrigo Janot, who after the release of the tape started a motion against the President.

In order to proceed, the motion against the President required the support of 2/3 of the votes in the lower house. As a consequence, as the lower house prepared to vote, the reform agenda lost momentum, as the President and his cabinet turned their focus towards re-building political support. Then, on August 2nd, the lower house voted against the motion, clearing the President from further action on this particular allegation. More recently, the discovery of a large amount of undisclosed cash in an apartment belonging to another former political ally of the President has again given rise to allegations of corruption, but whether this will similarly slow the progress of reforms is at this stage uncertain.

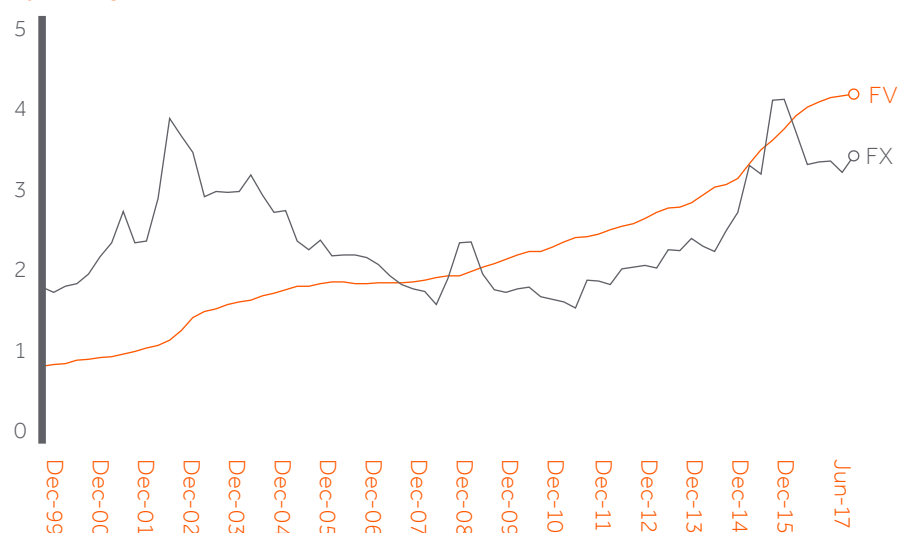
Till the final flicker of life's ember¹

There is a famous *samba* song that says the show must go on (*O Show tem que continuar*), which reflects the mood of Temer and his cabinet after being cleared by the lower house. Underpinned by the credibility of his finance team, the President has proceeded to put forward a plan to resume reforms and restore credibility. The social security reform and macro productivity increase became his key priorities.

As an attempt to foster productivity, the Government managed to approve the Labor Reform, which aims at modernizing employment regulations, reducing inefficiencies and cost and introducing greater flexibility. In the infrastructure sector, the Government launched a far reaching privatization program encompassing assets in multiple sectors: power generation, distribution concessions, transmission lines, ports, airports and toll roads; including the privatization of Eletrobras.

¹ Verse extracted from *Corcovado*, a famous bossa nova song composed by Tom Jobim.

Brazil FX vs FV



Source: Actis, Bloomberg, Oxford Economics

Concurrently, the debate surrounding's BNDES role in providing long-term funding, at subsidized cost, to the infrastructure sector has gained momentum. The Ministry of Finance is in favor of gradually reducing the bank's role in the supply of long-term financing. It is also in favor of converging BNDES' benchmark lending rate closer to market standards, contributing to the further development of the local capital market.

The combination of these initiatives should not only drive increased private long-term investment in the infrastructure sector, increasing productivity in the long-run, but also contributes to reducing public spending even further. Now that momentum is picking up again, the Government plans to have the Social Security reform approved in Congress before the end of 2017, albeit in a more diluted form.

We continue to believe that the perspective for the country in the near future is positive, though still reliant upon the approval of the Social Security Reform and effective actions to boost productivity. Through investments in consumption-driven companies and credit management services by our Private Equity Funds, and in the renewable energy sector by our Energy Funds, we already see credible signals of recovery underpinned by growing demand and credit activity. The privatization program also brings attractive opportunities, which is also on the radar of our newly-created long-life infrastructure fund team.









Kenya: Ruling renders results redundant – Seconds out, Round Two!

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"The greatness of a nation lies in its fidelity to the constitution and the strict adherence to the rule of law."

Kenya's chief justice David Maraga teed up a re-run of the presidential elections when he announced on September 1st that "irregularities and illegalities" in the transmission of the results rendered last month's poll invalid. New elections must now take place within 60 days.

The race was already a Kenyatta vs Odinga re-match. Opposition leader Raila Odinga, now 72, first contested the presidency ten years ago against Mwai Kibaki, an electoral defeat followed by widespread violence and bloodshed. He came back in 2013, standing against Uhuru Kenyatta, when after a second defeat, an appeal seeking to overturn the result was filed with the Supreme Court and swiftly dismissed.

The 2013 elections were the first held under the new constitution and the first run by the new Independent Electoral and Boundaries Commission (IEBC). In 2013, Kenyatta won with 50.5% of the popular vote, this time as the incumbent, his Jubilee party "won" 54% of the vote. Markets reacted positively to the preliminary result and to the re-election of Kenyatta, rallying to a near two year high, and initially at least, most observers believed Odinga's petition would fail in the same way as in 2013.

The unexpected judgement, described by The Economist as "an astonishing decision", prompted hyperbolic headlines (although little *actual* impact) around the markets in the immediate aftermath:

- trading on the local Exchange was suspended for 30 minutes after foreign investors, attempted to block sell their shilling assets;

- yields on Kenya's foreign debt climbed the most in almost two months according to Bloomberg with the \$2 billion of Eurobonds due June 2024 soaring 21 basis points, the most since July 6, to 6.23%; and
- the Kenyan shilling fell by 0.4% within an hour... but swiftly recovered.

The September ruling was unprecedented in Africa, and Kenya now joins a very small group of countries including Maldives and Austria where in recent years the courts have overturned the will of the people on legal and administrative technicalities.

Despite the short term fallout following the announcement, the ruling has been lauded as an important landmark for democracy and governance. It has been more than seven years since the new Constitution was adopted in August 2010, and it seems to have passed this stress test. Looking back to the trauma of the 2007 elections, it is also reassuring that it has proven possible to contest a result without provoking immediate violence and civil unrest.

The Supreme Court judgement was particularly damning of the IEBC, stating that the body had "failed, neglected, or refused to conduct the presidential election in a manner consistent with the dictates of the Constitution." There will be a more detailed assessment following the judgement but this leaves the IEBC and the country in a sticky situation - it will be difficult to press ahead with new polls with certain key senior figures potentially facing criminal charges. This impending delay will also impede important decisions and discussions in particular around changes to the interest rate cap - the limited availability of credit in the banking system that has followed the imposition of this cap is widely seen as a material constraint to further economic growth.

In terms of the direct costs to the economy, the cost of the first election was reported to be around US\$500m, some portion of which will now be re-incurred. However, there is another fiscal implication to consider - a re-run of the race means more campaign promises. The manifesto pledges in the August elections already included expensive crowd pleasers like increasing public sector wages (up 17% year on year by June 2017) or large scale

infrastructure projects that looked set to push up Kenya's US\$4.5bn budget deficit.

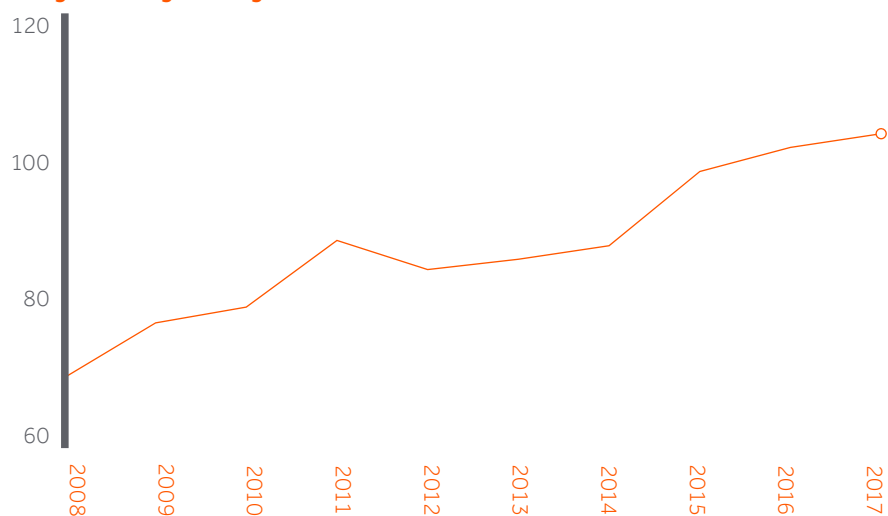
Debt levels are generally seen as dangerously high and a slowdown in corporate earnings and tax revenue collection has put further pressure on the Government's ability to service the national debt. Prior to the election, the Government had made progress in reducing the deficit to single digits as a proportion of the national income from the double-digit levels common in periods prior to 2015. Before the elections, the Treasury had also committed to curtail overall public spending as part of reducing imports to keep the current account deficit stable.

What promises we can expect now remains uncertain, but both candidates will certainly be looking to improve from their current levels of support, and the temptation to make expensive campaign promises will be hard to resist.

Kenya has been a leading light in East Africa of late, and had been forecast by the IMF to grow GDP by more than 6% this year. It remains to be seen if these figures still add up - the economy is vulnerable - agriculture is a major source of employment and the country's largest sector, accounting for 25% of GDP and roughly 50% of export revenue. Tourism contributes another 10%, and post-electoral uncertainty could well impact on tourist arrivals. From what we see on the ground, we already know that growth has slowed markedly in Q3, and we anticipate that this will continue into Q4, making the earlier estimates of 5-6% annual growth a difficult target to achieve.

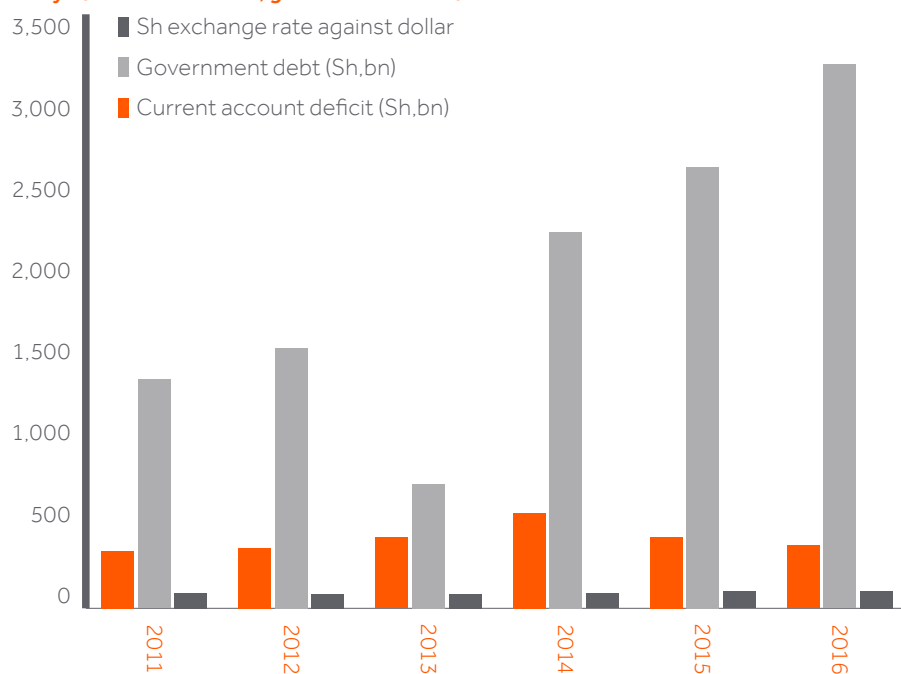
So from our perspective, how does the election result change our view on Kenya? On the one hand the ruling can be seen as a longer term victory for democracy and governance in a country where historically regime changes have suffered either from accusations of impropriety or from periods of extreme civil unrest. On the other hand, even if the final electoral result seems unlikely to change, key decisions in the medium term are now going to be subject to delay, and this may well threaten the continuation of the path of improvement and growth we have seen in Kenya in recent years. We will be keeping fingers crossed for a peaceful outcome, independently of which candidate is finally elected.

Average exchange rate against the US dollar



Source: GoK (Government of Kenya)

Kenya (current account, government debt) vs forex rate



Source: GoK (Government of Kenya)

Into the Andes

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What if a single place seemed to have it all? Terrain spanning from deep Amazonian rainforests to dune-laden desert landscapes, snow-capped mountain ranges to pristine Caribbean beaches. Long-winding coastlines and bustling ports on two major oceans. Accelerated GDP growth making it the fastest growing market in its region since the turn of the millennium. A young population of 100 million ranking amongst the most educated across all emerging economies. Deep capital markets, investment grade credit rating and more free-trade agreements than any other market in its vicinity. Well...it exists. And yet, challenges (and opportunities) still lie ahead for it.

Chile, Peru and Colombia, home of the rugged Andes Mountains and commonly referred to as the "Andean Three", are increasingly looked at as a single bloc from a geopolitical and investment destination perspective. The assimilation has as much to do with what they share in common, as with how they contrast against their neighbours. After the Latin America debt crisis of the 1980s, the Andean economies branded themselves as poster-children for orthodox economic policy, strong institutions and stable bi-partisan rule. In contrast, Venezuela, Ecuador, Bolivia and Argentina went the route of more questionable policy choices, resulting in little growth and prosperity for their populations over the past fifteen years. This "us vs. them" dynamic reinforced the regional integration storyline and created a bipolar, yet conveniently peaceful, contrast between both groups of countries.

The story is by no means the same across the three markets. Chile stands out by having the highest GDP per capita in region (comparable to Poland's), an OECD club seat, a sustained and steady growth trend, and a life expectancy higher than that of Germany. Peru and Colombia are more similar economies, earlier in their development lifecycle, while still among the wealthier in Latin America from a GDP per capita perspective. They have young populations which have recently undergone a massive shift, becoming first-time consumers as part of an emerging middle class (over a third of the region's

population rose from poverty between 1990 and 2015).

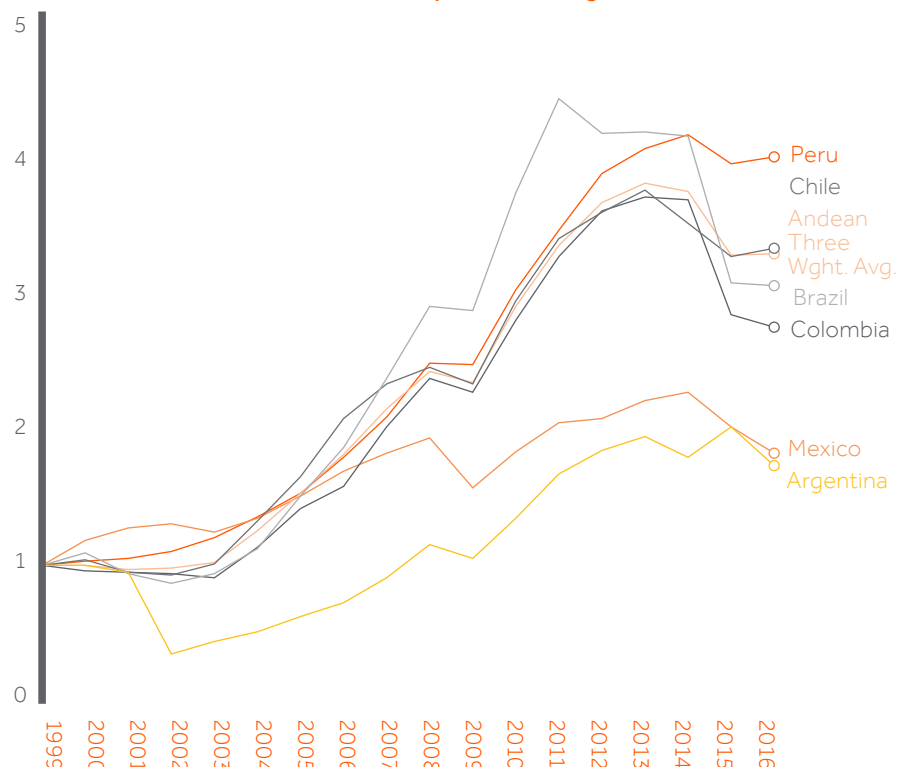
So why are these markets attractive to us? The starting point is a rock-steady base of institutions and a focused and deliberate policy orientation. Chile was the reform pioneer starting in the 1980s, with an agenda aimed at liberalising the economy, fostering private investment and controlling inflation (then, a major issue for most Latin American countries). Most notable were the establishment of an independent central bank, a pension system overhaul and a step towards privatisation of major state-owned sectors. Chile was the front-runner in energy sector reform in the region. Its reform established the sector framework prevalent in most of the Latin American markets our Energy fund invests in today. Based on the UK model, the reform instituted transparent regulatory bodies and unbundled sector monopolies to effectively attract private investment (Chile's electricity sector is 100% privately owned today). Nearly a decade later, Colombia and Peru followed with similarly broad-based and aggressive reform agendas. Given their later start and years

of domestic conflict with Shining Path and FARC, there is a natural catch-up for Colombia and Peru over a pathway well-trod by Chile in the 1980's and 1990's.

Despite sustained periods of high growth since the implementation of reforms, all three countries have kept inflation in check and maintained relatively stable free-floating currencies through well-managed and independent central banks. High rates of domestic contractual savings and the resultant natural bid for domestic assets have helped smooth relative FX volatility along this path, which is great news for a long term investor. All three markets are highly coveted as private investment destinations, being the second FDI receptors in the region. They benefit from investment-grade ratings, Chile having had one for two decades.

In light of this common ground, the Andean Three have been increasingly promoting regional integration. The recently-signed Pacific Alliance Trade Agreement significantly reduces tariff duties and trade restrictions between the three countries (plus Mexico) and plays a crucial role in expanding trade links to Asia. They also created MILA, a program that seeks

Andean Three vs. Peers (Normalised compounded GDP growth, Nominal US\$)



Source: Oxford Economics

to integrate the three countries' stock-exchanges, creating the second largest bourse by market capitalisation in Latin America after Brazil's BOVESPA.

The private sector, too, is an important integrating force. Yearly cross-border merger and acquisition activity within the bloc rose over three-fold from 2003-2006 to 2010-2015. Transaction activity has centered on industries such as financial services, consumer-retail and energy, all key sectors for Actis and where we currently hold or are pursuing investments in the region. CorpBanca and BCP, two of Chile and Peru's leading commercial banks, completed major acquisitions in Colombia in the past five years. Grupo Sura, a Colombian asset management conglomerate, acquired pension operations in Chile and Peru in the same period. Falabella and Ripley, Chile's retail giants, have expanded aggressively across Peru and Colombia over the past decade. Energy players EEB/ISA, Colbun and IC Power, from Colombia, Chile and Peru

respectively, have come to play a leading role in each of the Andean economy's power grids.

The Andean markets continue to make strides in the right direction. Last year the Colombian Government signed a peace accord with FARC, ending a 60 year civil conflict. Researchers estimate this could boost medium-term GDP growth by up to 200 bps. However, challenges still lie ahead for the trio. After a sustained high-growth period from 2000-2015 (briefly interrupted by the 2008 financial crisis), the Andean economies have hit a slower patch, with growth estimated at between 1.5-2.5% in 2017. Oil-producing Colombia and mining-centric Chile and Peru were affected by the commodities downturn in 2015, and underwent relevant current account adjustments and currency devaluations. This was compounded by a strong El Niño phenomenon which caused major flooding and impacted inflation in Peru and Colombia. Oil, copper and gold will continue to play a significant

role in the Andean economies (with Chile particularly well placed for the electric vehicle revolution with its significant lithium deposits in the Atacama) but major external adjustments have now been absorbed. This setback has re-focused policymaker efforts to the right areas: tax reforms and productivity-enhancing infrastructure investment. The three economies have swiftly undergone an adjustment phase and are poised to rebound during 2018.

Looking into the near-future, politics are in focus, with elections in Chile in 2017 and Colombia in 2018. Chile's race is currently led by center-right ex-President and industrialist Sebastian Pinera, while Colombia's candidacy list is still being populated. Both electorates hold high hopes around a political transition, eager to see the dynamism of the past decades re-injected into their economies. Hopefully, the recipients of that mandate realise that they nearly have it all in order to deliver.



Egypt's IMF Program: The Storm Before the Calm?

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It is always interesting to observe how market participants' expectations and speculations often become self-fulfilling prophecies. Sadly, this is clearest when one has the benefit of a rear-view mirror, but whether it was the Asian Crisis of 1997, or the Global Financial Crisis of 2008, there have been multiple episodes where the market has seen the approaching train but failed to jump out of its path and avert the crash. The same holds true for the Egyptian economy, where macroeconomic imbalances and foreign exchange market distortions have been glaringly obvious since the Arab Spring, but it seemed as though Egypt would just stand there and wait to be crushed by the toxic combination of slowing growth, acute foreign currency shortages due to exchange rate system rigidity, and weak investor sentiment. On this occasion, however, what we appear to be seeing is a narrow escape, albeit by the smallest of margins.

In our previous edition, we published an exclusive interview with His Excellency Mr. Tarek Amer the Governor of the Central Bank of Egypt. He was clear that Egypt recognised it needed to find and implement a radical solution to its snowballing problems, notably those caused by the fixed exchange rate regime. The parallel market for foreign exchange had become a more important channel for hard currency liquidity than the banking system, and this affected investor appetite both due to the overvalued EGP and the limited ability to repatriate profits as a result of currency shortages. The gap between the official and parallel rates peaked at over 80% in October 2016 and it seemed as if the Egyptian economy was grinding to a halt.

The decision to liberalize the foreign exchange regime by floating the Egyptian Pound on 3rd November 2016 came as the Government recognized the need for action. This radical step aimed to attract back FDI, improve Egypt's international competitiveness, restore access to foreign currency liquidity, and improve liquidity in the banking system. Floating the Pound was not the only part of the reform package. Egypt had been in talks

with the IMF in the run up to the currency flotation, and on 11th November, 2016 the IMF's Board approved a three-year US\$12 billion Extended Fund Facility ("EFF") for Egypt. The purpose of this IMF program is to help Egypt rectify its macroeconomic imbalances, enabling better monetary policy conditions, and restoring a well-functioning FX market. 9 months into the program, it feels to us on the ground that this reform program was not a "false dawn" and much progress has been achieved during the period since.

Growth has picked up, registering 4.3% y-o-y in the third quarter, and up from 3.8% y-o-y in the previous quarter. Growth has been driven by exports which more than doubled. Tourism revenues, which had been very badly hit, also strengthened, with tourist arrivals increasing by over 50% in 1H 2017. Almost 3.5 million tourists visited Egypt in the first half of this year, with tourist nights increasing to 37 million from the 13 million recorded in the first half of 2016.

Local consumption has been negatively impacted by the reform program. This is largely due to high inflation, which has been one of the key side effects of the reforms – currently running at c. 32%. It is typical to see high levels of inflation following an FX rate overshooting once a currency is floated. The CBE's answer to the problem has so far been repetitive interest rate hikes – with the support and blessing of the IMF. The most recent rate hike took place in July 2017. With that rise, the overnight deposit rate reached 18.75% and the lending rate 19.75%, record highs for Egypt. The most recent rate hike brings the total increase in borrowing costs to 700 basis points since the flotation of the Egyptian Pound last November. This is

clearly impacting appetite for credit in the private sector.

And there may yet be more rate hikes to come. An April 2017 statement from the IMF stated that interest rates are "the right instrument" to manage Egypt's inflation. However, a key tenet of Egypt's IMF program is also reducing subsidies on hydrocarbons, electricity, and water. The Government raised the price of electricity by around 42% for household consumers in July 2017. The move, which followed a similar increase to fuel prices one week earlier, has resulted in a fresh wave of inflation given the spill-over effects of raising the prices of energy on agriculture, food, and transportation. It appears that the IMF program has an inherent dichotomy – which is the need for swift removal of subsidies to improve public finances while keeping inflation in check.

However, the interest rate hikes coupled with a currency that our analysis suggests remains potentially undervalued has resulted in significant inflows into treasury bills and bonds since the Pound's flotation – largely from foreign investors. With yields on T-bills and bonds reaching over 20% – the second highest across all EMs – international investors have started to invest heavily in Egyptian debt instruments, and the EGP "carry trade" has been one of the most popular strategies across EMs in 2017. Egypt has also now returned to the Eurobond market for the first time since 2005. In January 2017 Egypt's US\$4 billion multi-tranche international bond issuance was over 3x over-subscribed, and the Government capitalized on the momentum by completing a further US\$3 billion follow-on issuance in May 2017. Sovereign reserves had increased to US\$36 billion by July 2017,



the highest level reached since the start of the Arab Spring in January 2011.

Another key component of the reform has been the successful implementation of VAT. VAT was introduced at 13% in 2016, and has since been hiked to 14% in July 2017. Tax reform is another important pillar of the IMF program for two reasons: (a) shoring up state revenues helps in cutting the budget deficit, and (b) implementing a VAT system is known to be a key tool for accelerating the formalization of the informal economy.

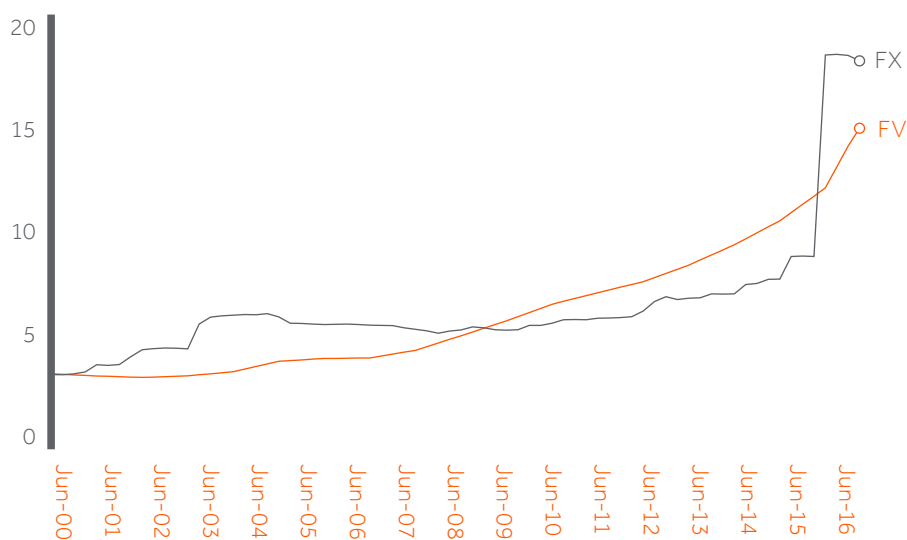
As one looks back, it would be fair to say that more reform has happened over the past 9 months than in the last decade. What is needed now is an environment that supports new investments into an economy that has a newly liberalized FX market (and a potentially undervalued currency), as well as an attractive demographic profile creating a sizeable consumer market. What is also needed to sustain the momentum of the reforms are policies to provide a social safety net for the needy, for indeed the lack of such policies was one of the key precipitating factors of the Arab Spring. It is encouraging to see that Egypt has recently rolled out a conditional cash transfer program called "Takaful and Karama" to ensure that the poorest segments of the country don't bear the brunt of the ongoing reforms. This program (which shares many similarities with Brazil's famous "Bolsa Familia" Program) has been relatively successful so far in providing important protections for the poor in the wake of high inflation. The program is currently covering c. 1.5 million families from the country's poorest and most vulnerable segments, and the aim is to significantly widen that coverage over the next few years.

On 13 July 2017, the IMF Board completed its first review of Egypt's economic reform program and gave the green light for a second disbursement of US\$ 1.25 billion under the US\$ 12 billion program. This coupled with the reserves built up and the international flows into government debt instruments are encouraging indicators that the Egyptian economy is recovering and restoring its credibility. However, on the ground it does feel that we are still in the storm before the calm... and that is mainly because of the inflationary impacts of the reforms on consumption and the general sentiment on the street.

The CBE expects inflation to drop to c.13% by the end of 2018 as base effects start kicking in later this year – but this feels like an optimistic projection. GDP growth for FY 2017/18 is expected to be c. 5%, and the FY 2017/18 budget targets a primary surplus for the first time in ten years. This

is good news, but the key thing is to make sure that social stability is maintained while the impact of the reform storm recedes. By any economic standard, a flexible exchange rate regime that enables free repatriation of capital, a strong monetary policy framework, and a commitment to a continued fiscal adjustment and reform are all good things to applaud – and they are the right course of action for long-term prosperity... but as Keynes eloquently put it: "in the long-term we are all dead" so it is important that Egypt keeps a finger on its short-term pulse as well as an eye on its long-term trajectory. With Presidential elections next year, it will be interesting to observe whether the Government will hold its course on the reforms, or whether there will be some reversion to populist policies to gain broader support from the street and the masses that have been badly hit by inflation.

EGP FX versus FV



Source: Actis, Bloomberg, Oxford Economics

"La vie est belle?" in Francophone Africa

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After enjoying years of strong growth fueled by the commodity super cycle, many Sub-Saharan African (SSA) economies have more recently seen growth slow materially, at the same time experiencing declining foreign direct investment and rising budget deficits. The collapse of commodity prices, tighter international financing conditions, and unfavorable weather across parts of the region all contributed to regional GDP growth falling to around 2.2% in 2016, the

slowest pace in over a decade. That said, IMF forecasts suggest that the region will still remain the world's second-fastest-growing!

From our local perspective, we continue to believe that whilst the headlines may talk of slowing growth, there remain pockets of under-appreciated opportunity, particularly in Francophone SSA where some economies are still growing at an impressive annual rate of over 5%.

Why is Francophone SSA an attractive investment opportunity?

Selected diversified economies in Francophone SSA with limited dependence on commodities are emerging as the "winners" ...

The Africa Rising narrative that fueled investor confidence in the period immediately following the global financial crisis has proven to have multiple speeds, with the biggest winners seeming to be countries located in West Africa (Exhibit 1) that have limited exposure to oil and where weather conditions have been conducive to agricultural sector growth.

Exhibit 1: Composition of export baskets across selected Francophone and Anglophone countries

	Export type (% of commodity reports)			Main exports/import goods		
	Mineral	Energy	Agriculture	Primary export	Secondary export	Main import (excl. oil)
Cameroon	4.6	67.2	28.2	Petroleum	Cocoa	Rice
Congo	6.8	92.9	0.3	Petroleum	Copper	Fishstock
Ivory Coast	0.3	37.8	61.9	Cocoa	Petroleum	Rice
Gabon	8.3	90.2	1.5	Petroleum	Iron ore	Milk
Senegal	5.9	47.6	46.5	Petroleum	Fishstock	Rice
Rwanda	50.8	7.1	42.1	Iron ore	Coffee	Sugar
Kenya	3.5	13.0	83.5	Tea	Produce	Wheat
Ghana	9.4	31.2	59.4	Cocoa	Petroleum	Rice
Nigeria	0.5	98.0	1.6	Petroleum	Gas	Wheat
Mozambique	57.8	27.1	15.1	Aluminium	Petroleum	Rice
South Africa	64.2	22.8	13.0	Iron ore	Precious metals	Aluminium
SSA average	24.1	48.9	27.0	Petroleum	Copper	Rice
Africa total	13.0	77.7	9.3	Petroleum	Gas	Wheat

Source: UNCTAD

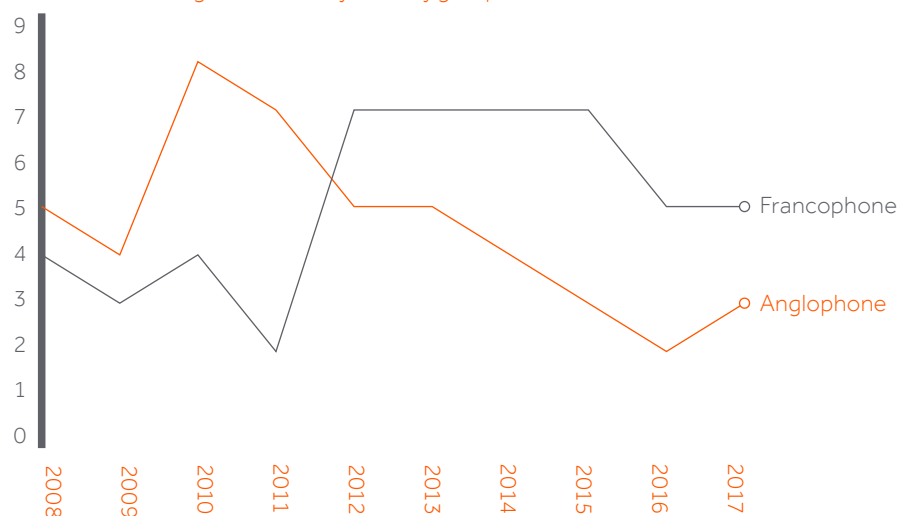
And real GDP growth for some of them has been among the fastest in SSA...

In particular, Cote d'Ivoire and Senegal have both seen GDP growth data for 2015-16 revised upwards by the IMF. Cote d'Ivoire has probably been the star-performing economy of SSA in recent years, with growth averaging 7% in the three years 2014-16. (exhibit 2). Cote d'Ivoire is recovering after a decade lost

to a political crisis. Its current growth is supported by an emerging middle class, robust infrastructure development and an improved business environment. **Arguably starting from a low base has helped maintain the growth momentum in Ivory Coast in recent years, but the government has also been using high levels of public investment to drive economic growth. This is changing as there are now signs that the government**

is changing tack and trying to encourage new private sector investment. Senegal is experiencing its highest growth rates in more than a decade because of rising investment flows while Cameroon's economy is expected to remain fairly resilient in 2017, growing at around 5%, supported by a relatively well-diversified economic base, low debt ratios and the CFA (Communauté Financière Africaine) franc membership.

Exhibit 2: SSA GDP growth rates by country group*



Francophone Africa includes Cote d'Ivoire, Cameroon, Senegal and Democratic Republic of Congo.
Anglophone Africa includes Nigeria, Ghana, Kenya and South Africa.

Source: Oxford Economics

In addition to growth, the region benefits from reduced currency risk and structurally lower inflation.

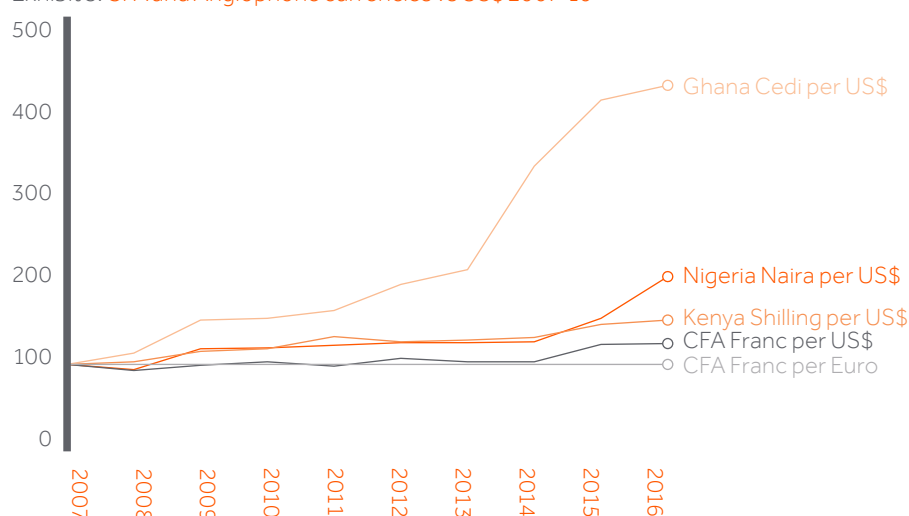
The shared CFA franc is arguably the most important differentiator for the region, mitigating the high FX volatility

seen in other SSA countries (Exhibit 3).

The currency is pegged to the euro and used by over 150 million people and is the only single currency system in Africa.

The IMF expects headline inflation for Francophone SSA to remain below 3% this year.

Exhibit 3: CFA and Anglophone currencies vs US\$ 2007-16



Source: Oxford Economics

The CFA Franc Zone (Exhibit 4) currently comprises a group of fourteen francophone African countries that developed after the colonial era. After achieving political independence from France in the late 1950s and early 1960s, these nations chose to retain close economic links with their former colonial ruler. Africa's franc zone is made up of two economic blocs, the Union Economique et Monétaire Ouest-Africaine (UEMOA) and the Communauté Économique et

Monétaire de l'Afrique Centrale (CEMAC). The two unions roughly correspond to administrative boundaries within the former French colonial empire. Each bloc has its own regional central bank which issue a single currency pegged to the euro at the same rate (655.957/EUR) but the two units are not interchangeable. The two unions' monetary policies are set by regional central banks, and the convertibility of the currency is guaranteed by the French treasury.

Although growing faster, the region is still receiving low foreign capital inflows allowing the first-mover to achieve advantageous returns.

One of the basic propositions for the Francophone SSA investment case is that it remains one of least penetrated regions in terms of investment flows. For reasons that do not always seem logical, investors interested in SSA have long preferred to focus on Anglophone Africa and particularly on commodity-rich countries. Understanding the opportunity in Francophone SSA has seemed to present more challenges. In private equity, of the US\$5.4bn worth of investment into West Africa over the past six years, 64% was invested in Nigeria, 29% in Ghana and just 2% went to Cote d'Ivoire, and less than 1% flowed to every other country in the region. The evidence of under-investment in the region is to be seen everywhere on the ground, and as Warren Buffett famously advised "Be fearful when others are greedy. Be greedy when others are fearful." At Actis, we believe our local presence and understanding gives us good reason to appreciate the risks but also to invest where others may fear to tread.

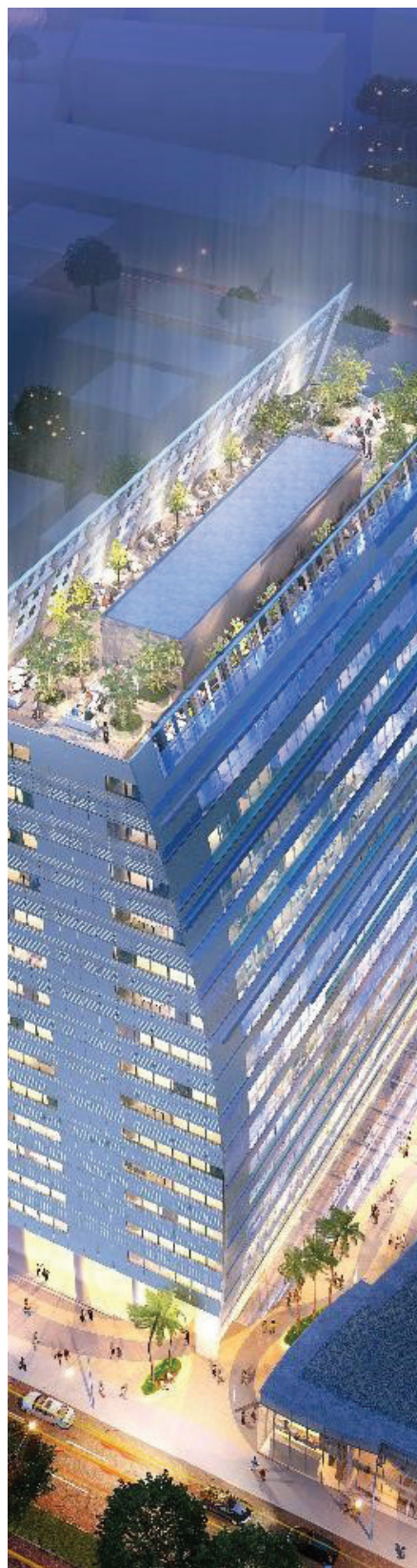
In the real estate sector, there are currently no institutional grade office buildings in Abidjan, the capital of Cote d'Ivoire, and multinationals firms looking to enter the region are forced to refurbish buildings built during the 1970's or convert residential property, with both often failing international health and safety standards. This in a city which in the 1970s was referred to as the "Manhattan of Africa". Our launch of the new Renaissance Plaza office development on a prime site in central Abidjan will see an iconic tower appear on the skyline in 2019 (Exhibit 5). In addition to opportunities in the office sector, the increasing formalization of the retail market, coupled with the shortage of A-grade retail and office stock and strong tenant demand has also created an opportunity to develop international mixed use assets in these markets.

Exhibit 4: The CFA franc zone



Source: Actis

Exhibit 5: No1 Renaissance Plaza in Abidjan: 15,000 sqm of contemporary grade A office space and 3,000 sqm of retail



In addition to growth, the diversification of some economies and the peg of the currency to the Euro, the region has a number of other attributes that make it a particularly attractive destination for foreign investors on the continent: Favorable demographic trends, improving institutional landscape, comparative advantage in natural resources just to name a few.

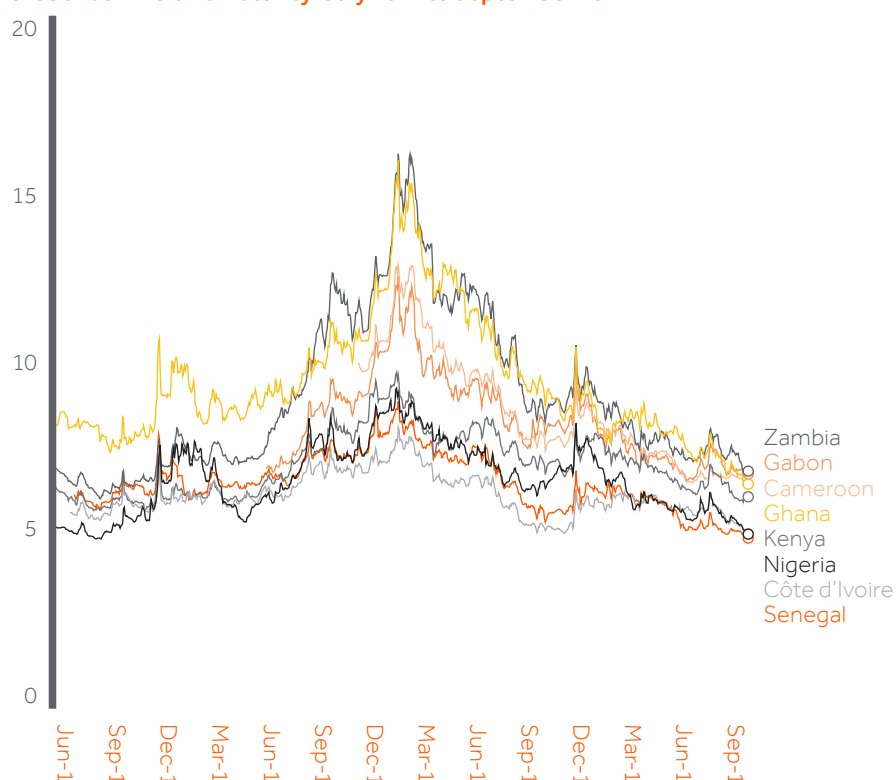
Business opportunities in Francophone SSA are potentially very large, particularly for companies in consumer-facing industries such as retail, telecommunications, banking and infrastructure. Several urban regions in the Franc Zone are emerging as consumption hubs. Cities such as Kinshasa, Abidjan, Douala, and Dakar are becoming increasingly attractive for investors looking to invest in high growth diversified economies with a strong consumer base and growing purchasing power.

How far is Francophone SSA from transitioning to 'Emerging Market' status?

Although Ivory coast, Cameroon and Senegal and other governments in Francophone SSA have all adopted a new development model to accelerate progress towards becoming emerging economies as well as a business hub for their respective region, governments in the region need to greatly up their game and pay due attention to correcting policy and generally creating a climate attractive to business, including foreign investment.

The years of high commodity prices may be unlikely to return soon, but if governments in Francophone SSA learn the lessons of the post-commodity crash, and continue their diversification with investment in infrastructure, encouraging the growth of the consumer goods and services sectors, including tourism, and bolstering financial services and telecoms through improvements in overall governance and the business climates, we expect more investors to follow our lead accelerating the transition of the region to a more mature capital market status.

Eurobonds – Yield To Maturity: July 2014 to September 2017



Source: Bloomberg



Actis is a leading investor in growth markets across Africa, Asia and Latin America. We deliver consistent, competitive returns, responsibly, through insights gained from trusted relationships, local knowledge and deep sector expertise across our chosen asset classes of consumer, energy, financial services, healthcare, industrials and real estate.

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