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## Nile Capital launches Africa-focused hedge fund

September 13, 2011 *Lawrence Delevingne*Read more: [Nile Capital](#) [Larry Seruma](#) [Africa](#)

Larry Seruma's new fund is small, but he's confident the continent is the next big thing.

Hedge funds managers, especially those in America, tend to avoid Africa. It's either illegal or expensive to short stocks, many investments are limited by low capital capacity, and there's still plenty of corruption and political instability. Larry Seruma doesn't discount these challenges but believes that investing in Africa, where the population is expected to double in the next 30 years, is worth the hassle.

The head of Africa-focused New York mutual fund firm Nile Capital Management, Seruma is launching one of the few U.S.-based hedge funds to invest primarily on the continent. Beginning October 1, the Nile Africa Frontier Fund will invest in equities and credit across what some call the last true emerging market. The focus will be on companies that are listed on one of the continent's more than 20 stock exchanges, but Seruma will also invest in companies listed in the U.K., U.S. and other countries that have significant exposure to Africa. Seruma estimates the fund will start small and he hopes to launch with \$5 million.

"The old perception of Africa as an investment backwater is out of date," Seruma said. "The continent is poised to grow both from a growing consumer class and as developed economies invest in Africa to compensate for anemic growth at home."



Larry Seruma

The new hedge fund will invest based on its expectations of population growth and the subsequent necessity for infrastructure development and increased mining of Africa's natural resources.

Africa's population is expected to double by 2040 to two billion. Seruma said such companies as Nestlé Nigeria and South African food company Tiger Brands are well-positioned to take advantage of such explosive growth. The fund will also look at stocks such as Tullow Oil, which drills in Ghana and Uganda, and Sierra Leone's African Minerals, a major miner of iron ore in West Africa. The fund will also look to invest in such companies as Egyptian cement and fertilizer group Orascom Construction and South Africa's MTN, the largest telecom operator in Africa.

Hedging will be a challenge. Shorting the stocks of African companies—when not illegal—can cost up to 25% in some frontier markets. Nile will selectively short African companies for profit, but Seruma said he will mostly create approximate hedges through a combination of currency trades and by shorting the stocks of foreign-listed companies that earn the majority of their revenue from African markets, which are far less expensive than pure African shorts. The fund will be net long, and Seruma said he will avoid countries where the macro conditions are poor, such as the Democratic Republic of Congo and Ethiopia.

There are few hedge funds that invest primarily in Africa, especially from the U.S. Funds tend to touch on Africa as a small piece of a global frontier or emerging markets portfolio, and many are so long biased they verge on a venture capital structure. A good proxy of African investment performance, however, comes from those firms based on the continent (nearly all of them in South Africa). According to an index of 50 hedge funds from HedgeNews Africa and analytics provider PerTrac, the average single-manager fund has gained 8.35% since the index launched in 2007 and is up 3.41% this year through July.

Ugandan-born Seruma founded Nile in 2004 and initially ran a global long/short hedge fund, the Nile Master Fund, from July 2004 to March 2010. It managed as much as \$480 million before closing after falling 23.79% in 2008 and rising just 0.13 in 2009 during a liquidation process. The fund produced a net annualized return of 10.73%, compared with a 0.43% return for the S&P 500 during the same period. Before Nile, Seruma was a principal at Barclays Global Investors in San Francisco, where he analyzed global equities as part of an investment process committee. He began his career as an options market maker in the exchange pits of the Chicago Board of Options Exchange after getting an MBA from the University of Chicago.

Seruma's Nile Pan Africa Fund, a long-only mutual fund launched on April 28, 2010, has outperformed the broader African stock market this year, falling from 16% to 17% through September 12 depending on the share class ([data here](#)) while the [Dow Jones Africa Titans 50 Index](#), is down 18.18% during the same period. Since inception, the fund is up as much as 2.1% against a loss of 10.99% for the index.

Sub-Saharan Africa's recovery from the crisis-induced slowdown is well under way, with growth in most countries now close to the average annual increases ranging from 3% to 6% achieved from 2000 through 2007, according to the International Monetary Fund. Real gross domestic product for all sub-Saharan African countries increased 2.8% in 2009, 4.9% in 2010 and is expected to continue growing at between 5.5% and 6% through 2012, according to an [April IMF report](#).

The Nile Africa Frontier Fund will have two share classes: the institutional class will charge a 2% management fee and a 10% performance fee on a minimum \$1 million allocation; another share class will charge a 2% management fee and 20% performance fee but only require a \$100,000 minimum. Both share classes allow quarterly redemptions and impose a 5% penalty for withdrawals requested within the first year. Nile has the ability to gate assets if there are liquidity concerns.

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