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Lead Left Interview – Gavin Vorwerg

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This week we chat with Gavin Vorwerg, Director at Laurium Capital. Laurium is a hedge fund dedicated to investments in Africa.

The Lead Left: *Gavin, this is an unusual space for us, but Africa seems like a huge growth opportunity.*

Gavin Vorwerg: It is, Randy. We started six and a half years ago focused on equities in Africa and South Africa. About 60% is oriented to South Africa, with Nigeria, Kenya and Egypt covering the balance.

TLL: *Africa has been much in the news of late. On many fronts.*

GV: South Africa had its biggest credit event in August – the default of African Bank Investments – resulting in $5 billion of defaulted debt. The Bank lent unsecured to consumers, things like payroll deductions. But more than one lender was lending to the same individual. It's all still being sorted out.

TLL: *How are the bondholders faring?*

GV: The senior bonds are held by European investors. They're yielding over 20% currently. The Reserve Bank stepped in to avoid systemic risk. The bondholders took a 10% haircut, which is unprecedented there. The share price of the public equities has fallen to zero.

TLL: *What was the rescue plan?*

GV: The Reserve Bank called five other banks into a room, saying we need to come up with a plan. The preferred shares and junior bonds were written down to zero – that agreement is being challenged now. The senior bonds also took a serious hit in the days leading up to the Reserve Bank bailout. We nibbled on some of this.

TLL: *Is that typical for your strategy?*

GV: Where there's no equity or the debt looks better, we occasionally get involved in fixed income instruments. Another example is Edcon, a Bain-owned company. In 2007 it was one of the last to issue pre-crisis high-yield bonds. The company is doing ok, but has too much debt. We tripled our money on that.

TLL: *How would you characterize African debt in general?*

GV: Except for sovereign bonds, it's an extremely opaque market. But sovereigns are a good way to develop credit markets. Eurobonds for African sovereign debt is a growing market.

TLL*: Which countries are the most active in terms of equity investing?*

GV: Outside of South Africa, Egypt has the most active trading – a daily volume of $70 million. Nigeria and Kenya are next, with $30 million and $15 million, respectively. Nigeria is the biggest economy in African, but the numbers are spurious. The exchange there is valued at around $60 billion.

TLL: *But Africa has a reputation as a tough place to do business.*

GV: South Africa ranks very highly on regulation of its financial markets, but there are very different operating environments on the continent. We look for inefficiencies, gaps in the market. Cash flow forecasts on companies and actually visiting them are two critical elements of our investing.

TLL: *Are you both short and long equities?*

GV: While the vast majority of the shorts are in South Africa, we're pleased that as the capital markets in the rest of Africa are opening up, its become possible to short in certain markets. Generally, these are very under-researched markets. A handful of stocks are tier 1 names that are well researched, but the rest are worth analysis. These are still public companies. Mid-tier is the most attractive stock-picking area.

TLL: *How much have you invested at Laurium?*

GV: We have about $400 million invested, with $100 million outside of South Africa and about $200-300 million capacity there. Outside of South Africa, it's generally not worth putting large dollars to work.

TLL: *How is your fund structured?*

GV: We have a long/short equities hedge fund strategy and a long-only equity strategy. Two-thirds of our investors are from South Africa and one-third from Europe and the US. These include endowments, pensions, and family offices.

To be continued the week of January 19

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