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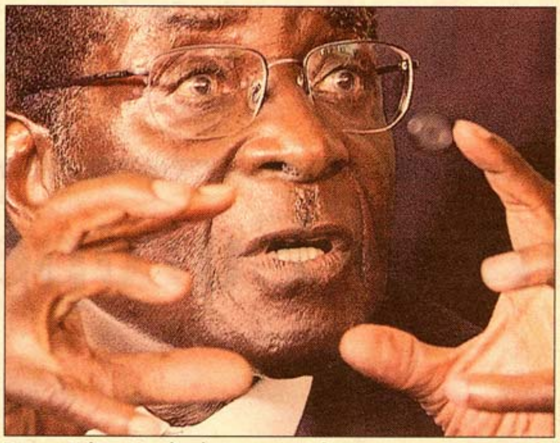
MARKETPLACE

Zimbabwe fund lures the brave with 'contrarian recovery play'

By Steve Johnson

Conventional wisdom has it that the time to invest in an asset is when it is out of favour. If so, a Zimbabwe investment fund launching this month could prove a stroke of genius.

In what it admits to be a "contrarian recovery play", Botswana-based Imara Asset Management is launching a fund dedicated to a country where inflation is estimated at 2,500 per cent, real GDP has halved since 1999 and an all-powerful despot shows no signs of relinquishing power any time soon.



Despot: Robert Mugabe shows no sign of giving up power AFP

Imara's own fund documentation cautions investors that they face hyperinflation, political risk and the danger that assets may be nationalised. "A permanent loss of capital is possible," it adds helpfully.

However, John Legat, chief executive of Imara AM and lead manager of the fund, prefers to look on the bright side. "Inflation is estimated to be 2,500 to 3,000 per cent and there are very few regimes around the world that survive that," he says.

"We believe the economic situation is unsustainable and Zimbabwe will be forced to adopt a reform programme like much of Africa before it. Such a programme would result in a sharp re-rating of Zimbabwean assets in US dollar terms."

Mr Legat, who has lived in Harare for the past decade, adds: "When the Berlin Wall fell you couldn't invest in eastern Europe because it didn't have a stock exchange. Zimbabwe is a country with a well developed financial system, stock exchange and pension fund industry, very good infrastructure, good mining prospects and good economic potential. It is potentially an explosive market in terms of upside."

Imara, a specialist pan-African investment house, certainly has hands-on experience in Zimbabwe.

Its 15-strong Harare team already manages $130m (€99m, £67m) worth of assets for domestic pension funds, which cannot invest outside the country due to exchange controls and therefore invest in Zimbabwean equities as a hedge against hyperinflation.

The stock exchange, which has 79 companies listed on it, rose 12 per cent last year in US dollar terms, adjusted for inflation and exchange rate distortions, according to Imara.

Despite this, valuations are still low. Jon Chew, managing director of Imara's UK office, estimates that stocks are trading on about one or two times earnings, and just 5 to 10 per cent of replacement costs.

For brave punters willing to stump up the minimum investment of $100,000, the fund could at least benefit from the inherent advantage of long-only investing: while your downside is capped at 100 per cent, your potential gains are much greater.

Mr Legat, who says the launch was driven by client demand, puts a different spin on it. "I would say the potential downside is limited, but the potential upside is five to 10 times. The question is when."