

Voltan to launch fixed income spin-out of Frontier Markets Fund



Alison Graham

Alison Graham, CIO of New York-based boutique [Voltan Capital Management](#), told Opalesque a year ago she was planning on launching several sub-strategies of the Voltan Frontier Markets Fund (see [Opalesque Exclusive here](#)).

Launched in May 2009, this fund invests in a universe of 60 developing countries that are not part of the MSCI Emerging Markets index, but that are instead early-stage markets such as Georgia, Bangladesh, Vietnam, Nigeria and Botswana. It usually has 50 to 100 positions across 15 to 20 countries, typically in listed long-only equity. The fund, which has offshore and onshore versions, features in [Opalesque](#)

[Solutions' Emerging Managers Database](#).

The fund returned almost +6% in September and is up 12.5% YTD. It returned +27% in 2009, +25% in 2010 and -21% in 2011.

"Last year we had a fair number of smaller companies that were quite high beta; very cheap and very good prospects," Graham told Opalesque in an interview. "But when the markets overall got difficult, people pulled out of smaller and less liquid names regardless of the quality. There was not really any particular sector or theme that did poorly, it was more just capital flight from frontiers."

The [MSCI Frontier Markets index](#) is up 2.6% YTD (as of 19th October, 2012). It returned 0.03% in the last year, -5.7% in the last three years and +6.2% in the last ten years.

Graham recently told Opalesque that Voltan is spinning out a frontier fixed income product of the main fund, as it is "looking quite attractive."

It is quite unique as it is trading mostly local currency treasury bills and bonds where foreign participation is less than 5-10% of the turnover. Its universe will be

around 100 countries.

This would be the first sub-strategy of the Voltan Frontier Markets Fund. This fixed income product will come out in both onshore and offshore versions and should be launched around December. A rough estimate of the return of the fixed-income section of the main fund since inception is 75%.

"The yields are in the 10-12% range even after currency movements (some of the currencies are even appreciating)," she explains. "The volatility is much less than one would expect since most of these assets are held by local-country pension funds and similar, which hold them to maturity. The average debt to GDP ratio in frontiers is 38%, so hard defaults are not as likely as they were 20 years ago."

"The normal yields are quite high," she says. "For example in Nigerian treasury bills are about 15%, 16%; in lots of other countries such as Pakistan, Egypt, the nominal yields are quite high too. At the same time you could say that is because inflation is fairly high as well. But the naira for example has been appreciating

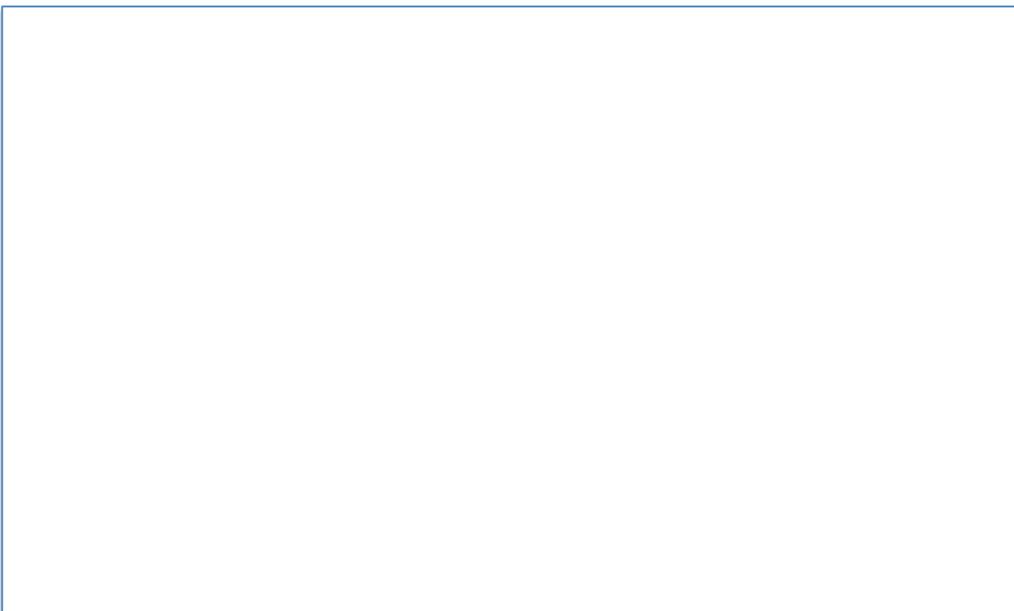
this year instead of depreciating. So we actually are getting something pretty close to those nominal yields, double-digit yields.” (The Nigerian Naira is currently worth around \$0.0064; a year ago, it was \$0.0066 and four years ago, it was about \$0.0084.)

According to Graham, the average debt-to-GDP in frontier markets is around 33%, which is very low. Some initiatives wrote off most of the debt of the African countries and similar initiatives took place at other locations. Anything that really needed to be restructured has been written off or restructured, she says. Which give those countries a very clean sovereign balance sheet.

“The other key issue is the thing they used to call debt crises in frontiers with pegged currencies,” she continues. “That is also changed for countries that used to have lots of debt in US dollars and a fixed exchange rate. Now it is the reverse; most of the debt is in local currency and exchange rates are flexible. That also takes a lot of pressure off. For all those reasons, the chance of actual default in most of our countries is really minimal.”

She also notes that the liquidity in frontier fixed income (sovereign and corporate) is much better than in equity.

Foreign participation tends to be under 10% and usually under 5% of the trading volume of debt of those markets. Furthermore, it is an area that is mostly dominated by the local pension funds and the local



banks as the latter own lots of local treasury bills that foreigners tend not to play in.

“For that reason, it is also interesting to us as the volatility tends to be quite minimal because the locals are captive buyers of the treasury bills. So that is not money that can flee in a crisis.”

Voltan is currently studying the possibility of creating another spin-out; this one would be focused on equity takes in listed companies.

- Benedicte Gravrand

The Voltan Frontier Markets fund can be found in [Opalesque Solutions' Emerging Managers Database](#), which is available to Opalesque' subscribers. You can subscribe here: [Source](#).

If you want your fund to be in the Emerging Managers Database, please send your information to: db@opalesque.com.