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New **Imara** fund focuses on fintech in Africa

Run by African equity experts Tony Schroenn and Rainer Orth, the Imara Fintech fund has a strong pro-forma track record of over 20% so far in 2021

Imara Asset Management is about to launch its Imara Fintech Fund, a concentrated long-only equity fund tapping into the mega-trends of a non-cash revolution and scaleable technology unfolding across the African continent.

The fund, managed by African equity experts Tony Schroenn and Rainer Orth, will invest in a concentrated portfolio of 10-15 stocks, including some pre-IPO opportunities.

The fund will go live soon with a strong pro-forma track record – reflecting a 25.1% gain in 2019, followed by 78.9% in 2020, and more than 20% so far this year. This compares with a respective 16.6%, -4.8% and 2.9% from the MSCI Africa ex-SA Index.

Imara's Harry Wulfsohn and Anthony Schroenn

By sector, the pro-forma portfolio has around a third each allocated to payments and communications with the remainder in financials, software and e-commerce. Kenya and Egypt are its biggest geographical allocations followed by Morocco and Senegal, with a sizeable portion also invested in internationally listed stocks.

Imara notes that cellphone penetration across the key economies of Morocco, Egypt and Nigeria is high – at 70-100% – with internet penetration moderate at 50-70%. Yet card penetration is low – with just 4-20% of people making purchases with debit or credit cards, and digital payments even lower, with only 2-30% of people making or receiving digital payments.

"Despite all the factors that can blow Africa off course – China, politics, commodities – the e-payment revolution is happening now," says Harry Wulfsohn, joint CEO of the Imara Group. "Africa's urban educated population has 95% cellphone penetration as the cost of handsets came down, and the shift to e-payments has begun. Covid has been a key to unlocking the technology adoption curve, it has pushed it to the next level. We believe we are near the beginning of a very exciting curve in fintech growth. As an example, Commercial International Bank of Egypt, the country's biggest private bank, which previously had announced that it would not have a e-payments offering, in May announced its first mobile wallet."

Importantly, Wulfsohn adds that companies are now delivering the product that is required for the fintech transition in Africa – bridging the gap between 85% mobile penetration and low e-payment penetration rates.

The fund is looking to back businesses that provide basic technology, including facilitators of non-cash payments, such as point-of-sale devices for credit card payments.

"In Egypt, 2% of people use e-payments, by comparison in Brazil the figure is 8%," says Wulfsohn. "Covid is a positive tailwind for the e-payment revolution in Africa, with the ESG benefits that financial inclusion brings by helping people out of the economic shadows and taking economies to the next level. It is a very exciting transition. Not all businesses will succeed in this area, but the nascent market means at present they are competing with cash and not against each other. These are well-run businesses which have been doubling turnover year on year but unlike their international peers are highly are cash generative and still at attractive valuations."

"We target high-quality companies with scaleable technology and low customer acquisition costs that have long and wide runways for growth. We also see tremendous value unlock as banks and telcos spin off their fintech arms on potentially substantially higher multiples."

The team's flagship Imara pan Africa ex-SA fund taps into consumer themes across the continent, with 70% of the portfolio currently in fintech either directly or through financial services and telcos.

The new fund will allocate to profitable, cash-generative businesses at sensible valuations, investing in stocks that have been included in its broader pan-African equity portfolio but at adjusted weightings.

The fund will be dollar-based, tapping into Imara's investor base of high-net-worth and institutional allocators in Africa, the Middle East, the UK and the US.