TCM'S AFRICA FUND
Makes the Case for Frontier Exposure

By Anna Lyudvig

As global investors increasingly seek diversification beyond traditional markets, Africa's frontier economies are drawing renewed attention for their long-term growth potential and untapped value. At the forefront of this opportunity is the **TCM Africa High Dividend Equity Fund**, launched in March 2008 and managed by **Trustus Capital Management**, a Dutch asset manager with over 45 years of experience. With a distinctive focus on high-dividend equities and a disciplined, quantitative approach to stock selection, the fund offers investors a unique way to access African markets while balancing income generatiovn and capital appreciation. In an interview with **Africa Global Funds, Marco Balk, Portfolio Manager at Trustus Capital Management**, shares insights into the fund's strategy, its current positioning, and how it navigates the region's complexities—from liquidity challenges to political risk.

AFRICA GLOBAL FUNDS (AGF): PLEASE TELL US ABOUT TCM AFRICA HIGH DIVIDEND FUND.

MARCO BALK (MB): The TCM Africa High Dividend Equity Fund is an open-end investment fund based in the Netherlands. It was launched on March 31, 2008, and is registered under ISIN code NL0006173007. The fund is managed by Trustus Capital Management, a Dutch asset manager established in 1978 with over 45 years of experience.

Trustus specializes in personalized wealth management for private individuals, entrepreneurs, associations, and foundations. The firm manages approximately €700 million for over 3,000 clients, offering discretionary portfolio management, managed investing, annuity solutions, and investment funds.

The Africa fund is part of Trustus' dividend strategy and provides clients with additional diversification and exposure to Africa's long-term growth potential. While most investors are existing Trustus clients, the fund is also accessible via external platforms such as Fundsettle and Allfunds.

AGF: WHAT IS THE CORE INVESTMENT PHILOSOPHY BEHIND THE TCM AFRICA HIGH DIVIDEND FUND, AND HOW DOES IT DIFFERENTIATE FROM OTHER EMERGING OR FRONTIER MARKET FUNDS?

MB: The fund aims for capital growth by selecting stocks with high dividend yields. It distinguishes itself through a systematic, quantitative stock selection approach, rather than relying on top-down macro views.

In contrast to many emerging market funds that are market-cap weighted, this fund employs an equally weighted portfolio. This provides a more balanced exposure across holdings and helps reduce concentration risk. ESG considerations are integrated using the UN Global Compact principles, with exclusions for companies involved in controversial weapons.

AGF: HOW DO YOU IDENTIFY HIGH-DIVIDEND OPPORTUNITIES IN AFRICAN MARKETS WHERE LIQUIDITY CAN BE A MAJOR CHALLENGE?

MB: We begin by screening for dividend-paying companies with strong balance sheets and consistent returns on equity. A stock must meet several quantitative thresholds, including an above average dividend yield and solid current and historical ROE. We then perform qualitative analysis to assess the sustainability of dividends, looking at earnings forecasts, cash flow, profitability trends, and capital structure.

External research is used to monitor special situations like mergers or rights issues. ESG screening is conducted using Clarity AI data. Given the liquidity constraints in African markets, we require that the portfolio can meet specific liquidity thresholds - *25% must be sellable in one day, 50% within three days, and 80% within fifteen days (assuming 30% participation in average daily volumes).*

AGF: HOW DOES THE FUND MANAGE COUNTRY-SPECIFIC RISKS, SUCH AS POLITICAL INSTABILITY OR CURRENCY VOLATILITY, PARTICULARLY IN MORE VOLATILE REGIONS LIKE NIGERIA OR EGYPT?

MB: By maintaining a broadly diversified portfolio across multiple African frontier markets, the fund reduces its exposure to individual country risks. The maximum country weight is capped at 40%. The fund's quantitative investment approach inherently leaves less room for discretionary macroeconomic views, which are often difficult to predict reliably. Volatility in exchange rates and political instability are considered part of the natural maturation process of African markets. Rather than reacting to short-term uncertainty—such as frequently trading in low-liquidity environments or incurring high costs to hedge currencies—the fund adheres to a long-term

> **"The most attractive opportunities are currently found in Nigeria and Egypt, which together account for nearly half of the portfolio. These markets are benefiting from improving macroeconomic conditions and offer compelling long-term potential**

investment horizon. This disciplined approach is designed to unlock value over time and capitalize on the structural growth potential of these markets.

AGF: WHERE'S YOUR HIGHEST EXPOSURE AT THE MOMENT AND WHY?

MB: Currently, the fund's highest country exposure is in Nigeria (24.8%) and Egypt (21.7%). This outcome is driven by our screening process, which currently identifies the most attractive stocks in these markets based on valuation and fundamentals.

Both countries are emerging from extended macroeconomic challenges—such as FX shortages and high inflation—and are showing signs of stabilization. With the prospect of interest rate cuts, there is meaningful re-rating potential, making these markets attractive for long-term investors.

AGF: WHAT ROLE DOES SECTOR DIVERSIFICATION PLAY IN YOUR STRATEGY, AND ARE THERE ANY SECTORS IN AFRICA YOU CURRENTLY AVOID OR OVERWEIGHT?

MB: Sector diversification is not something we actively steer through top-down decisions. Instead, sector weights are largely the result of our bottom-up stock selection process, which is driven by dividend yield and fundamental criteria. That said, we do monitor sector exposure to ensure sufficient diversification, with a maximum sector weight capped at 40%. Currently, the largest sector allocations are Financials at 38% and Consumer Discretionary at 13%. These weightings reflect where we find the most attractive opportunities based on our screening process, rather than any intentional sector bias

AGF: HOW HAS THE FUND PERFORMED RELATIVE TO ITS BENCHMARK AND PEERS OVER THE PAST 3–5 YEARS, AND WHAT HAVE BEEN THE KEY DRIVERS OF PERFORMANCE?

MB: As of May 23, 2025, the fund has returned 25.11% over five years, compared to 32.70% for the benchmark (MSCI EFM Africa ex South Africa). Over three years, the fund returned -0.64% versus 11.46% for the benchmark. However, in the past 12 months, the fund has outperformed, returning 31.12% against the index's 28.71%.

The medium-term underperformance was mainly due to a sharp devaluation of the Nigerian Naira in Q1 2024, where the fund held an overweight. Since then, the portfolio has recovered strongly. Key contributors in the past year include Lafarge Cement (Nigeria) and Marsa Maroc (Morocco).

AGF: GIVEN THE FUND'S FOCUS ON HIGH DIVIDEND YIELDS, HOW DO YOU BALANCE INCOME GENERATION WITH POTENTIAL CAPITAL APPRECIATION?

MB: We believe income generation and capital appreciation go hand in hand. By targeting stocks with high and sustainable dividend yields, we identify companies with strong fundamentals and disciplined capital allocation.

Our screening process helps us select undervalued stocks with long-term growth potential. In less efficient markets, dividends often indicate resilience and quality. Rather than timing markets or reacting to short-term noise, we maintain a long-term view that allows compounding and valuation re-ratings to drive total return.

AGF: WHICH AFRICAN MARKETS OR SECTORS ARE YOU MOST OPTIMISTIC ABOUT OVER THE NEXT 12 TO 24 MONTHS, AND WHY?

MB: As a bottom-up, dividend-focused fund, our optimism is reflected in current portfolio weightings rather than macro predictions. At present, we are most heavily exposed to Financials (39.6%) and Consumer Discretionary (14.0%), where we find the best mix of yield, value, and financial strength.

From a country perspective, the most attractive opportunities are currently found in Nigeria and Egypt, which together account for nearly half of the portfolio. These markets are benefiting from improving macroeconomic conditions and offer compelling long-term potential.

AGF: HOW DO YOU SEE FOREIGN INVESTOR SENTIMENT EVOLVING TOWARD AFRICAN EQUITIES, AND WHAT COULD CATALYZE GREATER INFLOWS INTO THE CONTINENT'S STOCK MARKETS?

MB: We believe that the currently cautious stance among foreign investors may gradually shift as structural reforms and improvements in governance begin to take hold across several African countries. Over the longer term, such developments can lay the foundation for more sustainable and broad-based investor confidence.

In the short term, however, sentiment could improve more rapidly if we see renewed momentum in share prices and a clear decline in inflation, particularly in key markets like Nigeria and Egypt. Lower inflation would create room for interest rate cuts, potentially triggering a re-rating of equity valuations and attracting new inflows.

Momentum and liquidity remain key elements in convincing international investors to re-engage with African markets. As fundamentals stabilize and investor visibility improves, we expect interest in the region's undervalued, dividend-paying equities to increase.

Your Insight Into African Asset Management