Hedge Fund Manager Of The Month

INOKS Capital Ltd is an independent asset manager headquartered in Geneva and licensed by the Swiss Financial Market Supervisory Authority (FINMA). Since its inception in 2004, the company's focus has been to promote sustainable growth by designing impact-efficient and innovative investment solutions in Emerging Markets and Commodity Value Chains.

The investment vehicles managed and advised by INOKS actively provide both capital and hands-on support to real actors and their added value business activities. They invest in companies throughout former CIS countries, Africa, Latin America, Central and South-East Asia. Over the past 10 years INOKS has helped over 100 companies to grow through capital provided by the alternative vehicles it manages, deploying over US$ 2.8 billion across all major commodity types.

Central to the success of structured commodity finance investments is the manager's ability to understand and isolate the performance risk of the invested entities whilst proficiently mitigating the remaining risk factors. Ultimately, success is achieved through the good conduct and self-liquidation of the underlying invested transaction, or in an adverse situation its proper liquidation without a loss. Through due risk mapping and assessment the skilled manager can hence benefit from a risk perception arbitrage.

Traditional investors no longer have the resources or the incentives to support this highly specialised, granular process. In addition, the financial crisis has brought about stricter regulatory requirements (such as increased capital ratio requirements) and increasingly enforced Anti Money-Laundering / Know Your Client controls. These have increased the cost of investment, pushing providers of capital to either reduce their exposure to these arts or to seek higher capital remuneration, thus creating an ever increasing liquidity crunch.

INOKS Capital on the other hand is ideally positioned to service precisely the type of business models that are no longer attractive to traditional lenders. Their proprietary investment process enables them to source, invest, monitor and divest businesses entirely in-house. Their better understanding of the underlying commodity value chains, business segments and their performance drivers enables them to take on the performance risk whilst identifying and mitigating the remaining risks inherent to the good conduct or liquidation of the underlying transaction.

Contrarily to traditional investors, the company's structure is flexible enough to customize the capital solutions it proposes to fit the specific needs of different businesses. Its approach is not based on the rigid balance sheet frameworks favoured by financial institutions. Rather, INOKS gain a better understanding of the risks specific to underlying transactions through their pre-investment assessment and bespoke deal structuring. The company's post-investment risk management process is just as effective and flexible, and includes surprise on-site visits, whilst also relying on local service providers which conduct daily inspections and appraisals of stock. The efficiency of its investment process is underlined by the absence of losses since it began trading for the Ancile Fund in 2006.

INOKS Capital has innovation in its DNA. The company was amongst the first to offer the qualified investment community direct participation in Commodity Structure Trade Finance (or CSTF) through its collective investment schemes, with the launch of Ancile Fund (Cayman) Ltd in August 2006. Since then the company has paved the way for several other alternative capital solution providers to propose structured trade, value chain, and commodity finance collective investment strategies. Such is the popularity of these strategies that they are now talked of as part of a potential asset class in its own right.

The company's strength is its ability to lead by example by renewing its offering to adapt to the evolution of the tangible commodity universe. It is committed to financing all stages of the value chain, not just the trade segment. Far from being a passive trade finance lender, INOKS is an active partner which supports tangible commodity businesses throughout the value creation process. The company contributes its knowhow, experience, and vast network of partners, to enhance its investees' operational effectiveness. At the heart of this commitment lies an understanding that businesses which are performing generate performance for the investment manager's funds and their investors. This alignment of interest ensures a mutually beneficial relationship, and profitability for all stakeholders involved.

The company has also identified the need for infrastructure as paramount to achieving sustained growth in emerging markets. Its latest strategy, Debt to Equity Conversion (or DECO), launched some two years back in December 2013 to provide longer term operational and capital expenditure of up to three years to companies which are committed to growth, in order to assist them in the vertical integration of the tangible commodity value chain, by constructing infrastructure such as warehouses and mills. This ensures that value is generated locally and benefits local populations. This novelty approach testifies to INOKS' long-term commitment to accompanying Emerging Market business throughout their J-curve growth in order to help establish lasting local governance.

The funds which the company manages and advises enable businesses in developing countries to access much needed capital and networks which are severely lacking in these markets. Increased regulatory requirements following the financial crisis are impeding the development of commodity value chains in developing markets to the tune of US$ 2 trillion, with over 200 million SMEs in developing countries in need of a loan. Whilst analysing capital access gaps, various organisations such as the ICC, the International Trade Centre, and the Asian Development Bank, are calling for more alternative actors such as INOKS Capital to help bridge a financing gap which is detrimental to economic growth and poverty alleviation in these regions.

The company is proud of this social utility and believes that the quality of its investments lies not only in the financial performance it delivers to its investors, but equally in the social impact it can achieve for its investees and their environment. This double-bottom line is upheld by carefully screening the direct and indirect social and environmental impacts of any potential investment during the assessment process, through both discriminating and qualifying criteria.

To avoid negative externalities, the company does not invest in countries or entities which are sanctioned by OFAC, the UN, the EU, or the DFAE. The company also discriminates against companies which manufacture non-industrial alcohol, weapons, tobacco or genetically modified food; companies which are engaged in gaming or animal testing; companies guilty of human right validation; or that do not treat their workers, people and animals with respect.

To generate positive externalities, the company looks for qualifying criteria to invest in companies which contribute to one or more of the following: sustainable development; poverty alleviation; food security; environmental protection; corporate governance. INOKS is recognized by its peers as an industry leader in the field of sustainable and responsible investing, and is the proud recipient of several awards commending the positive social impacts generated through its investment vehicles.

The company's focus on emerging markets enables its portfolios to achieve higher returns than similar strategies which are being deployed in established economies. It benefits from higher growth rates, both economic and demographic, which in turn stimulate local consumption, transformation and infrastructure growth. Meanwhile, regulatory changes have precipitated a liquidity crunch for commodity value chains in Emerging Markets. INOKS Capital is able to capitalise on this arbitrage opportunity by leveraging its specialist knowledge and networks within these markets; whilst generating positive externalities in sustainable development and environmental respect.

Amongst the return characteristics of INOKS' portfolios, a significant benefit is their absence of correlation to traditional asset classes and their directionality. This is appreciated by investors looking for return diversifiers offering downside protection in economic downturns, and improving their portfolios' efficiency frontiers. Their alternative vehicles have posted consistently positive performances no matter what the economic outlook: in fact the strategy tends to perform better in times of economic stress, as returns are marginally higher during liquidity crunches.

It is also worth underlining the reliability of the strategy, which boasts a historical volatility of only 1.3%. This consistency is preserved by the low default rate of the asset class (0.02% according to the ICC); by the due-diligence and risk management processes that the manager has put in place as described earlier; by the absence of any use of leverage; by the predictability of returns due to the self-liquidating nature of the financing structures. This measured, sustainable approach has brought success to INOKS Capital's investors regardless of the global economic outlook.

The partnerships that INOKS fosters with the companies it invests in are the best indicators of what is happening at different levels of the physical commodity value chain. Their collaborative relationships add to the unique network of local value chain stakeholders working together to achieve mutual growth. Their alignment of interest ensures completely transparent communication which enables the company to always remain at the forefront of emerging developments.

INOKS' unique investment philosophy, creating value by investing in values, underlines that by aligning their objectives, INOKS generates performance for each of their stakeholders. Its impact-driven investment objective is engineered for durable economic growth, tangible wealth creation and sustainable development in emerging markets. Simultaneously, their unique investment process combined with decades of commodity finance experience ensure next-to no defaults and returns that are unrivalled amongst peers. The company is committed to institutionalising its asset class, and strives to remain at the forefront of regulation to provide the most transparent and reliable service on the market to its clients.

The future is bright for INOKS Capital. To accommodate the firm's sustained growth, its team in Geneva is moving to new offices twice the size of their current space. New team members are shall be joining in the first quarter of 2016, as INOKS prepares to deploy two new funds within its Luxembourg umbrella which are seeded and await CSSF approval. These important milestones set the company in good stead towards its goal of institutionalising commodity finance for the alternative investment community, whilst strengthening its position as the leading innovator of this exciting asset class.

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