“We received the mandate first and foremost because of our good investment performance”

After the publishing of the Paradise Papers, the media accuses the Swiss-Angolan Investor Jean-Claude Bastos de Morais of dubious business. What does Bastos have to say about the accusations? By Beat Gygi

The Paradise Papers, published ten days ago by an international journalist network, also touched on Switzerland. In the “Tages-Anzeiger” as well as in the “NZZ”, the Swiss-Angolan dual citizen Jean-Claude Bastos de Morais was portrayed as a case to illustrate how the "Paradise Papers" had unmasked dubious business practices. Bastos is the Founder and also 95% owner of “Quantum Global”, which is mainly geared towards investment projects in Africa. Last July “Weltwoche” introduced Bastos’s curriculum vitae and activities as well as his engagements in various investment projects. The topic resumes in this article, following the media coverage about him and his funds. The “Tages-Anzeieger” and the TV program “Rundschau” accuse Bastos and his firm “Quantum Global”, which manages Angola’s $5 billion sovereign wealth fund, of not working transparently and with conflicts of interest in a corrupt country, using sophisticated constructs and thus unjustifiably receiving unwarranted personal benefits.
Following the publications, former member of the Swiss Federal Council Ruth Metzler, resigned from the advisory board of Quantum Global, while the other members remained. Walter Fust, the former boss of the Swiss Agency for Development and Cooperation (SDC) on the other hand, mentioned that he will continue the collaboration with Bastos in African development projects. For him, the limit of a cooperation lies at the border of legality, which he does not see overstepped. Law Professor Monika Roth from the University of Lucerne says that according to today’s norm it is not illegal but “stupid”. The president of the board of directors of Swiss Federal Railways (SBB) Monika Ribar, who provided advice for the Port of Caio project’s business administration and logistics, considered the port a “great opportunity” for the economy in the region. In connection with the charges raised, we have asked Jean-Claude Bastos questions about his business, which he answered as follows:

**Mister Bastos, your businesses in Africa are mentioned in the “Paradise Papers”. Due to this, the media regards your activities in Angola as questionable, and consider the approach of your firm Quantum Global not transparent.**

On Quantum Global’s website, I’ve always transparently indicated that our funds, which invest money from Africa into Africa, are domiciled in Mauritius. We were looking for a location with a regulator that has the necessary understanding for African investments in Africa. The regulator in Mauritius seemed suitable.

**Would the Swiss standards not be suitable?**

It is not about the standards but rather about the culture. The African culture is very different to the European one, and Africans prefer like-minded people as regulators.

**Wouldn’t it be a more trustworthy signal to regulate the funds according to European or Swiss regulations when dealing with large amounts of money?**

The money for the criticised private equity funds in Mauritius is not from Switzerland but from the Angolan sovereign wealth fund and the investments are taking place in Sub-Saharan-Africa. In Switzerland, we only provide some back office services.

**But Mauritius is also not Angola.**
Yes, but the people who work for my funds are hired in Mauritius. In addition, Mauritius has a double tax regulation with most African countries, because the country wants to become a platform for investors who would like to invest in Africa. All information about our funds were always publicly available on the internet.

**Also criticised are the fees you collect for the management of the Angolan sovereign wealth fund, which amount to 2 or even 2.5 percent.**

This criticism is not justified. We have standards, which correspond to international as well as European norms. We receive 2 percent of the funds volume plus 20 percent of the generated capital gain, if it exceeds the hurdle rate of 8 percent of the market average. The “2 plus 20” rule is widely used by private equity investors around the world.

**This formula is now also being criticised even more when it comes to Hedge Funds.**

Hedge funds typically have lower production costs than private equity funds. And a private equity fund, that acquires medium-sized companies in Europe or the US, has much lower costs than a fund that, like us, makes direct investments in Africa. In Africa everything is complicated, you have to collect data by yourself, send people to the field in order to clarify the conditions. The laws are often unclear, the bureaucracy cumbersome. The market is still in its infancy.

**And the money comes mainly from the sovereign wealth fund?**

Funds from the Angolan state fund make up just over half of the 8 billion dollars that Quantum Global manages. The other funds come from national banks and international, institutional investors. This other part is primarily invested in securities traded on various international stock exchanges, under the title "African Money for the world". We charge between 0.1 and 1 percent, depending on the design of the mandates. Complex hedging models cost more than simple investments, but all investments in sophisticated financial markets occur the same low fees that the competition demands.

**And the higher fees apply to the sovereign wealth fund part?**

These apply only to investments in private equity projects in Africa, under the title of “African money for Africa”. The funds are allocated to the
aforementioned private equity funds from Quantum located in Mauritius. There are seven funds in total, with each one specialised in a sector. In this area, which as I mentioned, is connected to a lot of work and clarifications, the fees have to be higher. It is the same case with our competitors.

**What is the amount of the sovereign wealth fund’s money?**

4.6 billion dollars. A total of 3 billion dollars is invested or allocated to projects in the private equity funds. The remainder is liquid and currently invested in the international market outside of Africa, at correspondingly low fees.

**Why are the funds of the Angolan sovereign wealth fund managed solely by your firm Quantum Global and why was there no public tender for the mandate?**

The management of the sovereign wealth fund had contacted us and, according to its own words, two other institutions at that time and asked us for our ideas, proposals as well as references and experiences in Africa. Out of the three, we scored best and received a mandate. We negotiated an eighteen-month exclusivity deal before further mandates should be awarded. The starting capital of the fund was 5 billion dollars. It was planned that the fund would receive daily government contributions, measured as a certain fraction of the tax and licenses derived from the oil business. Like this, the fund would have received between 3 and 4 billion dollars of new funds per year and should have been awarded further mandates. But due to the collapse of the oil prices it remained at the initial amount and with our sole mandate.

**Out of 5 billion dollars, $3 billion invested in private equity in Africa astonishes industry observers. This is in contradiction to an asset allocation, i.e. a distribution of money to individual asset classes, as is normally the case in the financial industry. Why is such a high proportion concentrated on the low-liquid investments in Africa?**

The firm received 5 billion dollars. As I previously explained, more money was supposed to flow, which was then delayed due to oil price developments.

**Is there any other sovereign wealth fund that has a similar investment pattern?**

Many sovereign wealth funds in developing countries and emerging markets are heavily pursuing private equity investments to enable local economic development, for example Mubadala in Abu Dhabi.
Has the management of the Angolan sovereign wealth fund made specifications regarding the weighting of the investment types?

There is a Presidential decree that stipulates which investment classes the sovereign wealth fund should invest in. This concerns both, private equity and liquid investments.

**Who is the body that makes the investment decisions at Quantum Global?**

First, there is an internal committee, then an external committee where external experts give their opinion, and in the end the board of the investment manager decides.

**Did you get the mandate of the sovereign wealth fund’s money due to your good relationships with the government?**

No, we were given the mandate first and foremost because of our good investment performance for the Angolan National Bank in the years 2007 – 2011. But because of my professional activity and my family connections, I have also established good contacts; the African economy relies heavily on relationships and experiences.

**Currently, there is also the accusation that you have personally benefited from the construction of a new deep-sea port.**

Beginning in 2007/2008 with clarifications for the construction of a new port, I carried out technical and economic studies and then I reached out to the Angolan government with the proposal to build this port as part of a public-private partnership. Then, a concession for a thirty-year operation was negotiated and a financing plan was drawn up. Considerable changes of the conditions led to renegotiations with the state. The state decided to carry 85 percent of the infrastructure costs of a total of 831 million dollars. Private investors took on 15 percent.

**And how does the State benefit from the project?**

At the end of the thirty year concession, the port passes to the state without any residual value payment. Until then, we are running the port at our own cost. According to our estimates, in this period, the state will receive about $350 million dollars of revenue per year from direct and indirect taxes at full operation. The contribution to the construction costs can thus be claimed back with two years of tax revenue.
Why have you not added any additional investors to the project?

There are interested parties. But we only want to open up to investors once the construction risks have been further reduced as this increases the value.

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