Weltwoche Interview with Jean-Claude Bastos:
All of the information was available!

“We received the mandate primarily because of our good investment performance”

After the Paradise Papers’ publishing, the media accuses the Swiss-Angolan Investor Jean-Claude Bastos de Morais of dubious business. What does Bastos 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 double citizen Jean-Claude Bastos de Morais was portrayed as a case, which should 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 the “Weltwoche” introduced Bastos’s curriculum vitae and activities as well as his engagements in various investment projects. After the media coverage about him and his funds, the topic resumes in this article. The “Tages-Anzeiger” and the TV show “Rundschau” accuse Bastos and his fund “Quantum Global”, which manages the $5 billion sovereign wealth fund, of working non-transparently and with a conflict of interest in a corrupt country, using sophisticated constructs and thus unjustifiably receiving 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. Legal professor Monika Roth of the University of Lucerne says that according to today’s norm it is not illegal but “dumb”. The president of the board of directors of the 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 answers in the following:

Mister Bastos, your businesses in Africa are mentioned in the “Paradise Papers”. Due to this the media is criticising your activities in Angola, regarding them as questionable, and considers the approach of your fund Quantum Global non-transparent.

On the website of Quantum Global I always indicated transparently that our funds, which invest money from Africa into Africa, are domiciled in Mauritius. We were looking for a location with a regulator, who 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 completely 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 of the fortune.

This criticism is not justified. We have standards, which correspond to international as well as European standards. 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 at 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 the people to the countryside 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 are burdened with the same low fees as 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, each fund specialised in a topic. In this area, which as aforementioned is connected to a lot of work and clarifications, the fees have to be higher. It is the same case for our competition.

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

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

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

The leadership of the sovereign wealth fund has contacted us and, according to its own data, 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 achieved the best results 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 subsidies, measured as a certain fraction of the tax and licences from the petroleum 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 petroleum prices it remained at the initial amount and in our sole mandate.

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

The fund received 5 billion. As I previously explained, more money was supposed to flow, which then was delayed due to the development of the oil prices.

**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 leadership of the Angolan sovereign wealth fund made specifications regarding the weighting of the investment types?**

There is a decree by the President, which 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 in which external experts give their opinion, and in the end the board of the investment managers decide.

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

No, we were given the mandate primarily 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.
I began this in 2007/2008 with clarifications for the construction of a new port. I drew up technical and economic studies and then I reached out to the Angolan government with the proposal to build this port under a public-private partnership. Then, a concession for a thirty-year operation was negotiated and a financing plan was drawn up. After significant changes in the situation, there were 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 concession, the port passes to the state without any residual value payment. Until then, we are running the port on our own bill. According to our estimates, in this period, the state receives direct and indirect taxes of about $350 million dollars in tax revenue per year at full operation. The contribution to the construction costs can thus be brought in by tax revenues of two years.

**Why have you not added any additional investors to the project?**

There are interested parties. But we do not want to open up to investors until the construction risks have been further reduced as this increases the value.