



Sea Meadow House
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Masaki
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11 March, 2021

Dear Investor,

Numbers just back from our Administrator show the Net Asset Value (NAV) of the Fund **gained 0.96%** for February. That compared with a 5% drop for the month in our benchmark, the S&P BMI Africa Frontier (Total Return) Index.

It appears my decision to NOT invest any of our capital in Nigeria at this stage was vindicated last month. Nigeria had a small currency devaluation (from 390 to 410) during the month. But it is still murky as to what exchange rate Standard & Poor's uses to calculate the indices, such as our benchmark, which contain Nigerian stocks, given there is more than one official exchange rate and also several parallel or "black market" rates.

It will also be interesting to see if they make any changes based on the foreign exchange situation when they rebalance our benchmark index this month.

I can report firsthand that the situation with foreign exchange shortages in Nigeria does not appear to have been alleviated, despite the recent rally in oil prices.

This week and last, I attended approximately two dozen meetings with companies across Africa as part of the EFG Hermes Virtual Investor Conference. One of these meetings was with Guinness Nigeria, the Nigerian arm of Diageo PLC. There is an inter-company loan of US\$22.5 million that the local subsidiary owes the parent, which the Guinness Nigeria CFO says he'd happily repay, as he has plenty of Naira available to do so. However, he cannot source the necessary foreign exchange to do it.

When a big multinational company can't get its hands on US\$22.5 million to wire to head office, you can see that there is a serious problem.

Let's hope it resolves itself one way or another as the year wears on. I'd like to be able to invest in Nigeria for the longer term, as there are some good companies there.

Certainly, the stronger oil price should help Nigeria source more hard currency. And if the exchange rate were allowed to adjust to find a market level, some dollar supply might come out from under the mattress. Time will tell.

I did meet with several Nigerian companies as part of the virtual conference, and I have some on my watchlist for possible future investment.



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Besides this...

**With the strong outperformance in February,
for the first time since inception the Fund is now ahead of its benchmark**

The Fund is now **up 13.7% since inception**, *after* deducting all expenses and fees. The Benchmark is up 13.6%. So, it's only by a nose, but it's good to be ahead.

Of course, the (hypothetical) benchmark return has the advantage over us that it has zero expenses and pays no brokerage commissions. Like all indices, it even gets to rebalance at zero trading cost when changes are made to the index.

The real world, of course, doesn't work like that. To buy the 130 stocks that constitute the benchmark index we are using to determine the hurdle rate the Fund uses for its performance fee computation would chew through a significant amount of capital.

To remind you, the performance numbers quoted above numbers are for the **Lead Series** of shares owned by all "day one" investors. If you invested in a later series, your returns, and the benchmark returns, will vary accordingly. But for each series, we are ahead of the benchmark. This is most pleasing.

During the month, we saw six of our 12 positions gain in value, with gains ranging from 0.8% to 16%. Three of our positions lost ground (-3.8% to -9.1%), and three positions were unchanged.

Note that the way closing prices are determined for shares on many of the frontier markets where we invest is not the same as in developed markets. On most developed stock exchanges, it's simply the last traded price, no matter what volume has traded, which determines the closing price. Occasionally, for a stock that has not traded in a while, a position may also be marked to market at the last "bid" price.

On many African stock markets, however, there are rules that a certain percentage of the company's issued shares have to "turn over" or trade, before the "last traded" price is adjusted. Also, often the "volume-weighted" average price is used rather than the "last traded" price.

But our Administrator is very conservative in its valuations. For example, Twiga Cement here in Tanzania last traded in sufficient volume (0.005% of the company's total outstanding shares need to trade in a session) to move the closing price, at a price of TZS 2,500. But there are current bids in the market for smaller volumes of stock at higher prices, and some shares have in fact traded at prices as high as TZS 2,680. We still use a price of TZS 2,500 in our NAV computation.



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Other examples of this, where we use the last pre-arranged block trade price to value our holdings, include Tanzania Breweries, which is on our books at end-Feb at TZS 5,000 per share, versus the Dar es Salaam Stock Exchange last traded price (on the main board) of TZS 10,400; and NMB Bank (booked at TZS 1,700 versus a last traded quote on the DSE of TZS 2,340.

Housekeeping updates

Once again, I want to wish a warm welcome to all our new investors. I'd also like to thank those existing investors who have added to their initial investments. There are quite a number of you, which I am very excited about. It shows I must be doing something right.

We now have approximately US\$6.5 million under management, with commitments for another US\$1.5 million+ in the pipeline.

We owned 12 investments spread across six different markets at the end of February. I am in the process of buying into a 13th company in our seventh market this week.

If you didn't catch the quarterly Zoom presentation I gave for investors, a few weeks back, you can watch it on the [Investors Information](#) page of the website.

The password to play the video is: **a7z9p^Bc**

If you have not yet joined our Telegram Channel, I encourage you do so here: https://t.me/joinchat/AAAAAE6il5_Gjw00lyNwg

As always, should you have any questions about the Fund, please reach out. The easiest way to contact me is via email: tim@africanlionsfund.com.

Until next time...

Kind regards,

Tim Staerose
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