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British Virgin Islands

Oyster Bay
Dar es Salaam
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20 June 2022

Dear Investor,

African Lions Fund gained 0.2585% in May before performance fees. For some series of shares, including the recent March and May 2022 Series, a slightly smaller gain ensued after deduction of performance fees. But, for most series there was a slight loss, after performance fees. **For the Lead Series, the net result for May was -0.1805%.**

Performance fees were significant, as our hurdle index, the S&P Africa Frontier BMI (Total Return) Index dropped 2.81% for the month. Indeed, every single series of shares issued monthly since the Fund began operations has now beaten the hurdle index. The global market sell-off affected many of the large liquid names in this index, most notably Safaricom in Kenya which suffered a 23% drop for May alone.

We have taken the opportunity to start building a position in Safaricom during the sell-off that began in March. While I still don't feel the stock is particularly cheap, it is a robust, high-quality business with a dominant share of voice and data in Kenya's mobile communications market, and an unassailable market-dominant position in Kenya's vibrant and innovative mobile money industry, where it has well over 90% market share.

I wasn't smart enough (or lucky enough) to exactly time the bottom, indeed, there may be further for Safaricom to fall in the near term as the NASDAQ rout continues, and central bank policy interest rates continue to normalize around the globe, but we are happy to average down and build a position in this high-quality company for the long-haul.

There are uncertainties about Safaricom's expansion into Ethiopia, where for the foreseeable future the business will be cash flow negative, as it rolls out its network. But if it can crack this highly promising and under-penetrated market of over 100 million people, nearly twice the size of Kenya, the prize could be enormous. I believe the risk/reward ratio stacks up for Safaricom's Ethiopia expansion.

Balanced against those risks are the possible positive catalysts that would come for the share price from any separation and / or partial spin-off of the M-Pesa and Fintech business from the telco. There is always chatter about this. One day I believe it will happen. We can be patient.



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In short, for the first time since I started the African Lions Fund, I feel comfortable that the valuation risk on Safaricom is outweighed by the positive fundamentals of the business. So, we are accumulating shares.

It is dividend season for us, and we are collecting some very handsome payouts

On June 15th we got our NMB dividends in Tanzania. Twiga Cement pays by month-end. Sonatel paid last month, and we reinvested the dividends. The same goes for MCBG, the largest and best-run bank in Mauritius. which pays this month.

We also collected dividends for Bralirwa, Dangote Sugar, and MTN Ghana. Other dividends to be paid in June and July include CAL Bank, BK Group, Equity Group, Kenya Reinsurance, and Stanbic Uganda.

You might say it's "raining dividends." This is one of the truly great things about investing in high-quality businesses here in Frontier African markets. Even when many stocks and market indices here, and around the world, are under significant selling pressure, as they have been lately, the dividends roll in.

So far in June, our hurdle index is down by nearly 5%. The Fund is down less than 1% in the same timeframe, partly thanks to better dividend income flows than the hurdle index.

Exchange rate weakness, in the face of dollar strength, continues to be a concern

We repatriated our NMB dividend from Tanzania when we collected it in mid-June. We may do the same with our Twiga Cement payout, at the end of the month.

It's a good time to be sitting on some US dollars, in cash. Exchange rates all over the world, sub-Saharan Africa being no exception, are weak vs. the US dollar at present, and with the Fed starting to get serious about hiking interest rates, and some relatively attractive coupons starting to appear on USD bonds, I see this continuing.

As always, we're very mindful of negative consequences for our portfolio due to exchange rate weakness, and we continue to tread cautiously.

In recent days I have initiated a trade to take advantage of the parallel, or "grey market" exchange rate situation in Nigeria. Specifically, we bought a small "test" position in Nigerian oil and gas producer Seplat Energy on the London Stock Exchange, which we will have the custodian transfer to Nigeria.

Based on the relative prices in the UK and Nigeria, for what is exactly the same, fungible stock, we are going to get our US\$50K odd test amount into Nigeria at an exchange rate of over 1,000 Naira to the USD, versus an official rate of about 418.



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That's a juicy arbitrage in anyone's language. Problem is, as things stand, there's no guarantee we can get our money out of Nigeria on a reasonable timeframe. My carefully calculated bet is that this will change in the coming years.

Nigeria faces a Presidential election in February 2023. Already it is starting to become hotly contested. Let's hope someone with some serious policy making skills steps forward. Right now, I am not seeing it. But the election is still about 9 months away, and much can change between now and then.

For now, we are taking some preliminary steps, and getting ready to invest in Nigeria, should the foreign exchange controls be removed, the exchange rate trade closer to a market level, and the political situation present some more clarity. I am planning an investment research trip to Nigeria sometime in the second half of 2022.

Housekeeping notes

Some of you expressed an interest in seeing our regular investor conference calls continue. I am scheduling one for Friday June 24th, 10am Dar es Salaam time. Invitation link follows.

<https://us06web.zoom.us/j/84967991792?pwd=cDdKK2F2RXAvZmFnbzBQUU90dTlIQTO9>

That's 8am UK, 9am Central European time, 3pm in Singapore, Hong Kong, and Perth, 5pm in Brisbane, Melbourne, and Sydney, and 7pm in Auckland, hopefully giving our Kiwi investors a chance to participate, should they want to, at a reasonable hour for the first time.

Final, audited accounts for the period October 1, 2020 to December 31, 2021 are ready and just need to be signed off by me and the rest of the board. You'll get them by month end.

Bolder Investment Services has sent your statements up to May 31 already.

The Fund has remained resilient despite the bear market now well and truly upon global equities markets. Our hurdle index felt the brunt of the sell-off in May and has continued to decline in June so far. The Fund has not been completely immune. But our dividend payments are helping to cushion the price and currency declines.

Here is a sobering chart from the folks at Tellimer research, showing the equity market declines around the globe in June so far. Africa ex-South Africa comes out looking OK, with the smallest declines. The only risers have been China and Russia. But Russia is for all intents and purposes uninvest-able for foreign investors. China also carries highly elevated political risk for non-Chinese investors in this day and age.

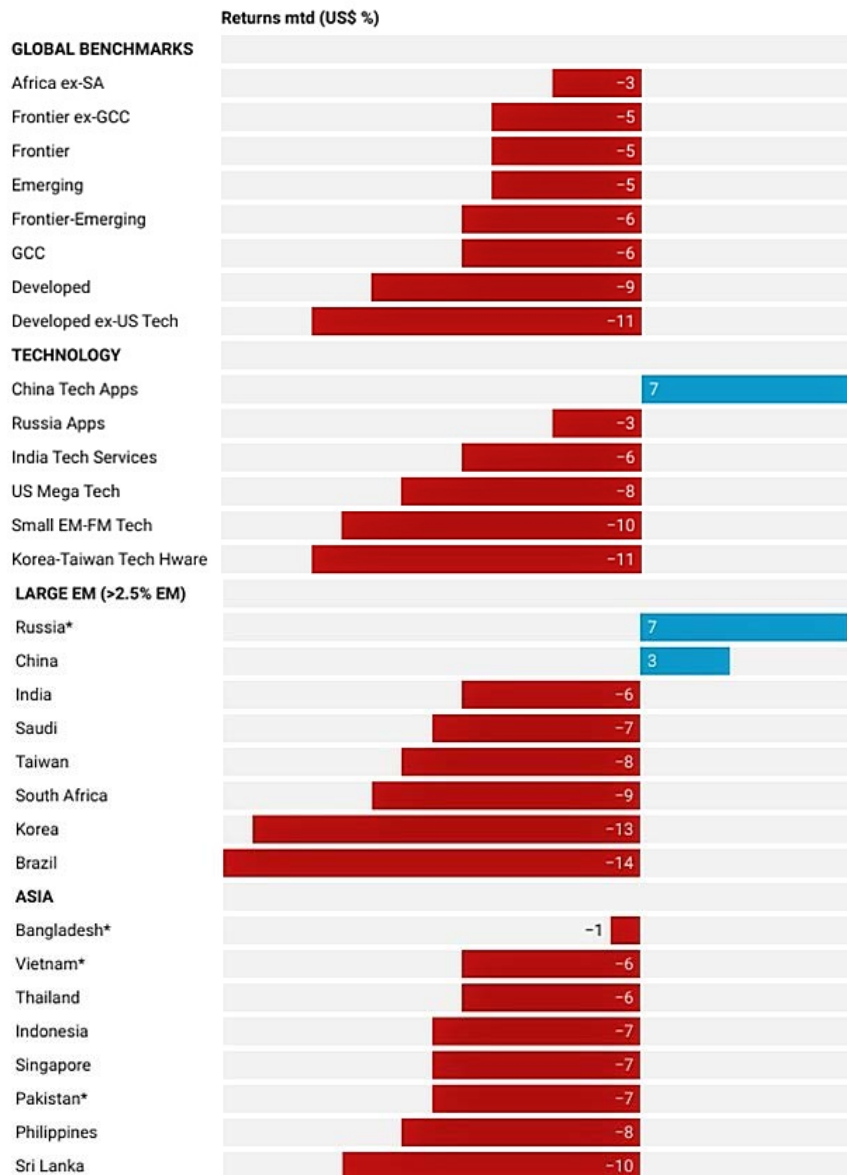
Having part of your capital exposed to African frontier markets via African Lions Fund looks pretty wise, on balance, given how the world looks today.



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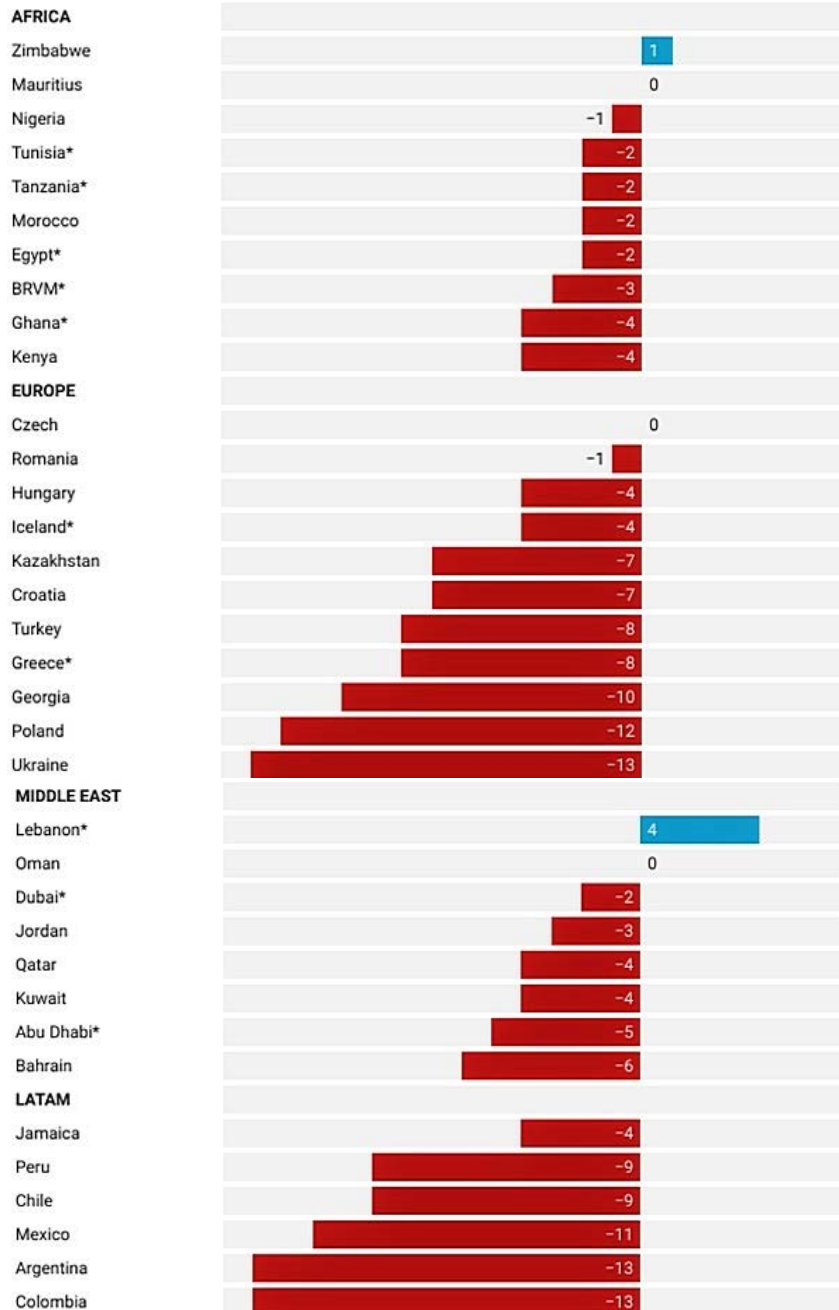
June performance in global equities: China alone is up

Russia is, effectively for foreigners, down 100%. Lebanon, Sri Lanka, Zimbabwe and locally-listed Argentina, Nigeria are effectively off limits for fresh foreign capital because of FX restrictions.





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*Denotes local index, else MSCI. **Denotes customised index (weighted average of largest stocks in each category).

Chart: Hasnain Malik • Source: Bloomberg (17 June 2022), Tellimer Research • Created with Datawrapper



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As I survey the scene across our markets at this time, most stocks are now well offered, with few bids around. Some further weakness in the months to come seems likely.

But we have nicely outperformed our hurdle index since inception, with gains of 42.49% and on a 12-month (+16.88%), year-to-date (+8.20%), 3-month (+0.51%) and 1-month (-0.18%) view, and we have some gains in the bank to draw down on, if the tough conditions on global equity markets do begin to affect us more badly.

All in all, though, the Fund is in very good shape.

Until next time...

Good investing!

Tim Staermose
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