



Sea Meadow House
PO Box 116
Road Town, Tortola VG-1110
British Virgin Islands

Masaki
Dar es Salaam
Tanzania

16 February, 2021

Dear Investor,

It took a little longer this month, as our Administrator was on holidays for Chinese New Year in Singapore last week, but by now you should have received your statement for the month of January, 2021.

The Fund ended the month down slightly, with a decline of 0.6663%. We're still **up 12.6% since inception** last October. These numbers are for the Lead Series of shares. If you invested in a later series, your returns vary accordingly.

Note that you should also have been sent log-in credentials for Circle Partners' online investor portal where you can check on your African Lions Fund investment any time. (Send an email to investors.sg@circlepartners.com if you are not yet set-up, or you have lost your log-in credentials).

The small decline in NAV during January can be attributed almost entirely to an 18.5% correction in the share price of West African telco, Sonatel, from XOF 13,500 at the end of December to XOF 11,000 at the end of January. I am told the selling came from an investment fund which is shutting down. I took advantage of this, a little early as it turned out, to add to our position, paying XOF 11,495 for another 7,000 shares.

Longer term, with an impressive return on equity of 27%, trading at around twice book value, and on an indicated yield of more than 10%, I think we will do very well in Sonatel. There is a slight question mark over the rate of revenue and profit growth, due to the economic slowdown wrought by the pandemic in some of its key markets, but I am comfortable that it meets our criteria. There is still the potential for sales and profits to double on a 5 to 10-year view.

The other major move in the portfolio this month was that I sold our stake in leading Tanzanian bank, CRDB Bank. We booked 38.7% net gains on that investment after all transaction costs, inside four months.

Driving my decision were two things:



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1. The Bank of Tanzania (BoT) released a circular which throws into question whether CRDB will be permitted to pay dividends for 2020 this year.

The BoT is requiring banks to have a Cost-to-Income Ratio (CIR) of less than 55% and a non-performing loans (NPLs) ratio of less than 5% to be allowed to pay bonuses to staff and dividends to shareholders. According to its results announcement for the period to December 31, CRDB meets the NPL test at 4.2%, but fails the CIR test at 61.6%.

While a grace period may apply, and dividends may still be forthcoming this year, the BoT announcement created uncertainty and stopped the otherwise impressive rally in CRDB shares since the start of the year dead in its tracks.

Thanks to being on the ground in Dar es Salaam I got wind of the BoT announcement a bit faster than most overseas investors. Our broker didn't even know until after I'd placed my first CRDB sell order. As a result, we got an average exit price of TZS 230, nicely ahead of where the stock now trades, at TZS 220.

2. There was a chance to move our money into what I believe to be the higher-quality long-term banking exposure here in Tanzania, NMB Bank PLC. We purchased a block of NMB shares the same week as we booked our gains on CRDB. So we have continued exposure to the impressive growth of the Tanzanian banking sector, which reported *record profits* for 2020, via a higher-quality bank.

NMB's cost-to income ratio is 49.8%. Its NPL ratio stands slightly above the BoT's required criterion at 5.4%. It is thus also unclear whether the BoT will allow NMB to pay dividends for 2020 this year.

I believe a way will be found. The Tanzanian government owns 31.8% of NMB and is likely to be keen on receiving its dividend. Large, ongoing bills for infrastructure construction costs mean the government is hungry for all the money it can lay its hands on at the moment.

NMB's results for the year just ended were extremely good. Earnings per share (EPS) for 2020 were up 43% year on year, from TZS 289 to TZS 414. The previous record high was TZS 308 in 2016.

The bank is generating a 20% return on equity and the Fund paid just 0.75 times book value and 4.1 times earnings for its shares. If the BoT does allow a dividend for 2020, I expect it will be in the region of TZS 140 per share. That implies we will collect an 8.2% gross yield.



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Other trades during the month of January included a new position in Kenya, which I will discuss more in due course, and additional purchases of Tanzania Breweries Limited (TBL), and MCB Group in Mauritius.

**Please mark your calendar for our
first quarterly Zoom call conference next week**

Last month I had indicated that I'd host a Zoom call for all investors. However, as I had not yet moved into my office here, I decided to postpone it to this month.

The good news is I now have a dedicated office space for my local company in Dar es Salaam, which serves as the "boots on the ground" investment advisor to the Fund's Investment Manager, ST Funds Management, in Australia.

Recognizing that it is simply not possible to have a Zoom call scheduled at a friendly time for all our investors, a recording will be made available for those who cannot join. Most of our large investors are in Asia and Europe. We have also received interest from an institutional investor in Australia and it is possible they will invest as soon as next month.

I am thus planning to hold the Zoom call at 11am Dar es Salaam time on Tuesday, 23rd February. That is 8am in London, 9am in Western Europe, 4pm in Hong Kong and Singapore, 7pm in Sydney, and 9pm in Auckland. However, it is 12 midnight in Los Angeles the day before, and 3am in New York (so apologies in advance to our US investors). I'll schedule the next one at a more convenient time for you.

For this one, if you have a specific question or topic you would like me to cover, please send it to me via email beforehand. Here is the Zoom link for the meeting. We will also circulate a full invitation via email in due course.

<https://zoom.us/j/91730615903?pwd=anBCMnk3aUl4VnFHejcvZzVGOGQ3dz09>

If you know someone who is seriously interested in investing in the Fund, and you want to invite them to the call as well, let me know and I will consider your request. But the call is designed for investors, and not open to all and sundry.

The Fund is scaling nicely with nearly US\$6 million under management now. There are some administrative changes that will be required once I become a resident of Tanzania. I will cover these on the Zoom call and in a subsequent, separate letter to shareholders.

You can join here: https://t.me/joinchat/AAAAE6iI5_GjwTQ0IyNwg



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Should you have any questions, please reach out. The easiest way to contact me is via email: tim@africanlionsfund.com.

Until our Zoom call next week...

Kind regards,

A handwritten signature in black ink, appearing to read "Tim Staermose", with a long, sweeping underline.

Tim Staermose
Founder & Director
African Lions Fund Ltd
tim@africanlionsfund.com