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

Masaki, Dar es Salaam
Tanzania

19 October, 2021

Dear Investor,

The Fund was up ever so slightly for September, gaining 0.03%. That leaves the Fund **up 26.66% since inception** last October.

Circle Partners, now rebranded "Bolder Investment Services," circulated your September 30 Holding Statement last week.

A 26.66% gain in one year is a great result.

However, the "benchmark" index we compare our result to, and use to compute the Investment Manager's performance fees, was up even more – gaining 32.36% in the past 12 months.

I want to talk a bit about this, in this letter, and canvass your thoughts on whether we should be looking to alter the benchmark, as the Company's Articles and the Fund's Private Placement Memorandum does allow for.

As you recall, we chose the S&P BMI Africa Frontier (Total Return) Index to compare our results with, and to set a "hurdle rate" to compute performance fees.

I don't like to use the word "benchmark," as we are in no way looking at the constituents of this index when making our investment decisions, and we do not use a methodology of "overweighting" or "underweighting" stocks that happen to be in the index.

When making our investment decisions, we are benchmark unaware. Indeed, Tanzania does not have one single stock in the S&P BMI Africa Frontier (Total Return) Index, yet African Lions Fund, at the present time, has approximately 49% of its capital invested in Tanzanian companies.

The leading components of the S&P BMI Africa Frontier (Total Return) Index are Nigerian Stocks (with a current 41.1% weight in the index) and Kenyan stocks with (26.5%). Of these, by far the largest single component is Kenyan mobile phone operator, Safaricom, which single-handedly accounts for about 65% of Nairobi Stock Exchange's market capitalization and 13% of the S&P BMI Africa Frontier (Total Return) Index.

The other Top 10 stocks (which collectively account for 58.4% of the index) are dominated by Nigerian Banks, MTN Nigeria, and Dangote Cement. We don't own any of these companies either, as we have made a macro call that Nigeria is at risk of a large currency devaluation.

AFRICAN LIONS FUND

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

There are two stocks in the Top 10 of the S&P BMI Africa Frontier (Total Return) Index that we do own. They are, Equity Group, Kenya's largest bank holding company, and MCB Group, the largest bank in Mauritius.

Safaricom is a fantastic, blue chip Kenyan company.
But we have not bought in. Here's why…

Whenever the mainstream media talks about Frontier Markets in Africa, the name Safaricom is almost guaranteed to come up. And for good reason. It's an established large-capitalization company, "safer" than other stocks people have not heard of. It is the type of company that someone behind a desk, thousands of miles away would be comfortable recommending. It's also in several index funds and ETFs because of its size. And that creates a natural demand for the stock, regardless of its price.

But for us, Safaricom does not meet that part of our investment criteria which states that **we want to only buy stocks that can see their valuation multiples double on a 5- to 10-year view**.

Admittedly, with the benefit of hindsight, we'd have done very well buying Safaricom at around KES 30, when the fund commenced investing last October. Safaricom is now trading in the low KES 40s, or up by approximately 35%.

However, the company's profits in the financial year ended March 31, 2021 actually shrank. And on a multiple of about 23x trailing earnings, or 20x forward earnings, I **stand by my assessment that Safaricom's valuation looks unlikely to double from here**.

Compare Safaricom's valuation to the 8x forward earnings that I estimate its peer MTN Ghana trades at, and the 14x forward earnings that investment bankers are currently undertaking an IPO of MTN Uganda at, and you can begin to see why **I am continuing to buy MTN Ghana for the Fund instead**.

Yet, by not owning Safaricom, we are heavily penalized when its share price does well and contributes strongly to the performance of the S&P BMI Africa Frontier (Total Return) Index. But that's just a natural part of being a long-term, value fund manager focused on absolute returns, and I can live with it.

If I'm right, and Safaricom's valuation either stays the same or stagnates, the best the stock price can do from here is to go up at the rate of earnings growth. There, I also think Safaricom will struggle to double its profits again in five years. I may be wrong, and it is a fantastic company. But much future growth expectation is now pinned on the hope that the company can replicate in Ethiopia what it has done in Kenya. To me, there is much uncertainty about that.

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

We'd consider buying Safaricom if for some reason the stock's valuation corrected closer to 15x earnings. But for now, it just doesn't belong in the African Lions Fund portfolio.

As for the large Nigerian weighting in the S&P BMI Africa Frontier (Total Return) Index, this is more contentious

Nigeria's capital account is partially shut at present due to its currency challenges. If one sells Nigerian stocks, one cannot repatriate the proceeds freely in US dollars. There is a wait of many months to obtain hard currency, in a "redemption queue" at the Central Bank.

I would argue that if the country's capital account is effectively shut, those who oversee the indices at S&P, which are designed for foreign investors, really need to look seriously at ejecting Nigeran companies from the index. From what they have said in the past, that is unlikely to occur.

However, what we may see is a significant devaluation in the official Nigerian Naira / USD exchange rate. Judging by the parallel, or "grey market" rates at present, a 25% devaluation would not be unlikely.

Were that to happen, the S&P BMI Africa Frontier (Total Return) Index, given the 41.1% weighting to Nigeria, would instantly lose approximately 10% in USD terms.

Under these circumstances, we cannot justify putting a significant amount of capital to work in Nigeria. We have thus far allocated under 4% of the Fund's portfolio to Nigeria, via a purchase of shares in Dangote Sugar Refineries.

Our small, sub-4% weighting in Nigeria, all else equal, would see the Fund's NAV lose a mere 1% in a 25% currency devaluation, and we'd significantly outperform a falling index.

Given these issues with respect to the Fund's performance and its hurdle rate or "benchmark," as I see them presently, it may be appropriate to consider alternatives. I'd like to discuss these issues in more depth at the upcoming quarterly Zoom call for investors – scheduled for Wednesday, 27 October at 10am East African time (9am Central Europe, 8am UK, 3pm Singapore/Hong Kong, 6pm Sydney/Melbourne, 8pm Auckland, and midnight the day before in Los Angeles).

Some people have asked why I don't just use a "hard" hurdle rate to calculate performance fees, the way Warren Buffett did for his Buffett partnerships, and many absolute return funds do to this day. My answer is usually that it's awfully hard agreeing on what that "hard" hurdle rate percentage should be.

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

Some African markets offer yields of 15% or more on “risk-free” government bonds. But that’s in local currency on long-duration bonds, not in US dollars on a shorter time horizon. Should that be the hurdle rate? Or, 10%? Maybe 6%, as Buffett used?

It’s not an easy question to settle on an acceptable answer for.

The way I view African Lions Fund, and other Frontier Markets listed equities investments, is that they are an alternative, somewhat uncorrelated asset class compared to the developed and emerging markets stocks represented by the MSCI AWCI Index. That is, the grey, not the blue countries, below.

What I am really trying to do with African Lions Fund is offer you a chance to put a part of your portfolio in a promising asset class that is simply not accessible via low-cost ETFs, the way the area in blue on the investment map above is.

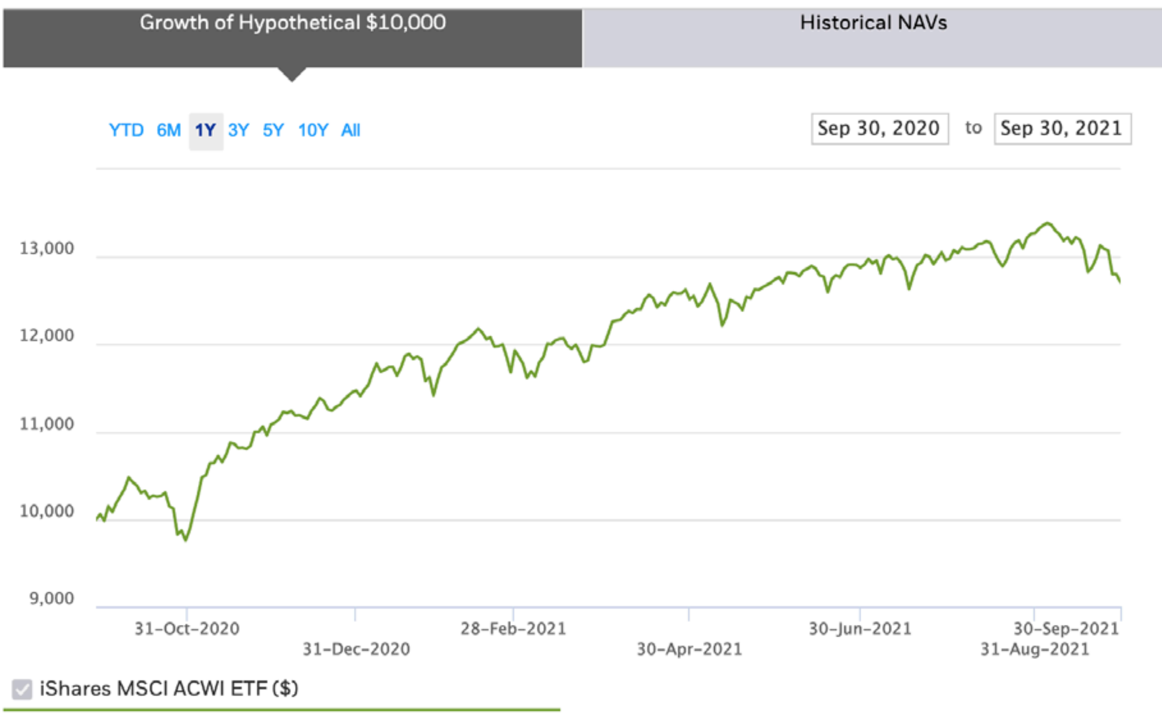
Also, thanks to the superior long-term growth and development prospects for African Frontier Markets, over the long term, this investment will hopefully also outperform the returns you can get from the rest of the world’s listed equity markets, which you can capture easily via a low-cost ETF investment such as the iShares, MSCI ACWI ETF.

So how did we do on that measure?

Well, after all fees, dividend withholding taxes, and expenses were deducted from the NAV of African Lions Fund shares, since we commenced investing on October 1, 2020, with our 26.7% gain, we are just an inch behind the MSCI AWCI Index. It gained 27.1% in the same period, assuming all dividends and capital gains were reinvested (as is the case with African Lions Fund, though it is not clear how the MSCI AWCI ETF cumulative return calculation below treats dividend withholding taxes.)

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

Growth of Hypothetical $10,000



The Hypothetical Growth of $10,000 chart reflects a hypothetical $10,000 investment and assumes reinvestment of dividends and capital gains. Fund expenses, including management fees and other expenses were deducted.

I would not expect the returns of this index and the returns of African Lions Fund to match each other this closely in many individual annual periods over the medium and long run, but it is interesting that they did so in the inaugural 12-month period.

Of course, our gross returns were considerably higher as we have a much higher expense ratio.

This is a function of:

a) our current small size,
b) the much higher transactions and custody costs we pay in the Frontier Markets where we operate, and;
c) our higher management fee, without which, frankly, there would be no incentive for me to run the fund, as I'd lose money out of pocket paying running costs of nearly US$80,000 a year for our licensed investment management firm.

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

Regarding these cost factors, our future costs will not rise commensurately with the growth in the size of the Fund. Many costs are fixed in nature. So, the expense ratio of the Fund will decline.

Moreover, we are doing our best to negotiate cost savings as we grow. For example, we have successfully negotiated lower custody fees in Tanzania recently. (About a 29% reduction).

All in all, while the fund did not beat its hurdle rate overall for the first year of operation, for some of the Series of shares it did (each month had a new Series of shares issued to new investors, and each hurdle rate is different). So, depending on when you invested, you may notice a (small) performance fee on your particular Series of shares.

During September our biggest gainer was MCBG in Mauritius

MCB Group, in Mauritius, reported results for the year ended June 30, in late September. They were well received by the market, and the stock ended the month over 7.2% higher. In all, we are up over 33% on the position.

The biggest decline we saw in our portfolio for the month was in Equity Group, in Kenya, with a 4.7% drop.

Once again, we ended the month with 17 open positions. Of these, just Tanzania Breweries is down on our entry price.

I would like to take this opportunity to thank you for joining me on this journey in the past year. It's been a good ride thus far. Please watch out for my next email with the Zoom call details. It would be great to have as many investors as possible join us.

We are closing in on US$12.5mn under management and nearly 100 investors in The African Lions Fund. I'd like to be able to double that by the end of 2022. Some larger, family office and institutional investors have begun to show interest, which is encouraging. As ever, if you wish to add to your investment, you can do so at the beginning of any calendar month.

Until next time…

Kind regards,

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