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

Masaki
Dar es Salaam
Tanzania

20 January, 2022

Dear Investor,

December was a good month for the Fund. **It gained 3.11%** (based on the Oct 2020 "Lead" Series.) For the year it was **up 16.01%.** Since inception it has **climbed 31.69%**. Those numbers are net of all fees and expenses, and after payment of management and performance fees.

Comparing these returns with the S&P Africa Frontier BMI (Total Return) Index which we use to derive our hurdle rate, we trailed slightly for the month (3.11% vs 3.67%). We outperformed slightly for the calendar year 2021 (16.01% vs. 15.31%). And we trailed since inception in October 2020, (31.69% vs. 34.02%).

As a result, only some of the monthly series of shares that African Lions Fund has issued beat the hurdle rate for performance fee computation purposes. Those fees have now crystalized and been paid.

It was frustrating for me to see that, for most of December, the Fund outpaced the index. But, somehow, on the last trading day of the year, three of the largest capitalization stocks in Nigeria, two of them among the Top 10 stocks in the S&P Africa Frontier BMI (Total Return) Index, saw huge gains of up to 10% on the day.

Here, as one example, is Nestle Nigeria. Which leapt from NGN 1,415 to NGN 1,556.5 (up 10%), on unusually large volume. Tellingly, as you can see, it was back down nearly where it started not long after. I guess that will help us with our comparative performance this month.

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MTN Nigeria, the second largest stock in the S&P Africa Frontier BMI (Total Return) Index after Safaricom, jumped 8.2% the same day, from NGN 182 to NGN 197 per share. It's now back at 190. Unilever Nigeria also rose 8.2%, from NGN 13.4 to NGN 14.5.

As I've written about ad nauseum, we have very little exposure to Nigeria in the Fund, mostly for macro reasons, and I see that continuing for now. I had a closer look at the Nigerian political and economic climate over the past month. I maintain my view that a sub-5% allocation to that market is a good situation for us to be in at this point.

In addition to the perennial problem of the multi-tiered foreign exchange rate (official, grey market and black market), as well as shortages of hard currency allocated for foreign funds to redeem their Nigerian investments after they sell, there is a proposed new 10% capital gains tax on the books for foreign sellers of Nigerian equities, though final details are still awaited.

On the other hand…

<u>We've got a near 50% allocation to Tanzania, which is starting to bear fruit</u>

It's no secret I have been among the very few foreign fund managers bullish on Tanzania for the past three or four years. Before starting African Lions Fund in late 2020, I had been investing in Tanzania personally since late 2018. I accumulated a stake in **Twiga Cement (TPCC)**, and also bought into **National Investment Company (NICO)** as a proxy for **NMB Bank (NMB)**, since NMB shares made up over 90% of NICO's net asset value, and NICO was trading at an absurd 80%+ discount to that net asset value.

Since starting African Lions Fund, we have built significant stakes in Twiga, NMB, and **Tanzania Breweries Limited (TBL)**. We also own 5% of the **Dar es Salaam Stock Exchange (DSE)** itself and have smaller positions in **Tanzania Cigarette Company Ltd (TCC)**, and **Tanga Cement (TCCL)**, which has received an indicative takeover offer from Scancem, a subsidiary of Heidelberg Cement, and the same parent company that controls Twiga Cement.

All told, we have about 49% of the Fund's capital invested in Tanzanian stocks, with the performance of the three largest positions summarized below:

- Twiga trading at TZS 3,400 versus our average entry price of TZS3,093, and a TZS 390 dividend also banked;
- NMB at TZS 2,240 versus our cost basis of TZS 1,677, with a dividend of TZS 137 collected;
- and TBL, which last traded at TZS 5,000 versus our average cost of TZS 4,961

We're doing well.

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All told, we are up 19% on our Tanzanian stocks, before dividends, and up well over 25% after taking dividends into account. I see much bigger gains coming as the economy keeps expanding and companies keep growing earnings and dividends.

We'll have the NMB results for 4Q2021 and full year 2021 out by the end of the month. The same goes for DSE. Other companies will take longer, but I'm expecting good numbers.

I have a meeting scheduled with the CEO of Twiga Cement on Friday, and I look forward to hearing how the company has been doing.

TBL paid a dividend of TZS 255 per share in December, which we turned around and reinvested in more TBL shares at TZS 4,700.

There's been some positive recent developments for TBL, including a modest reduction in the cost of the electronic tax stamps it must attach to its products. And, judging by the number of tourists around in the Serengeti and on Zanzibar during my own holidays, over late December and early January, it would appear that tourism numbers are rebounding very strongly. Lack of tourists, if you recall, had been a reason why TBL's premium business, particularly in the northern part of the country, was struggling.

In all, we currently have 18 positions. The number of companies held, and weightings by country are:

Tanzania	6 companies	49%
Ghana	2 companies	10%
Rwanda	2 companies	9%
BVRM (West African Economic Union)	2 companies	8%
Kenya	3 companies	7%
Mauritius	1 company	4%
Uganda	1 company	3%
Nigeria	1 company	3%
Cash		7%

What we're watching for in 2022

People have been asking, as they often do at the turn of the calendar year, what I expect in 2022. I don't really do forecasts, **but I'd be surprised if 2022 wasn't an even better year than 2021** for African Frontier markets.

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Commodity prices are on the rise, especially energy prices, but also prices for industrial metals and minerals. I think this will translate into better net trade balances for many African economies. That should generally percolate through the economies and help liquidity in financial markets.

Government measures to try and curtail Covid are also being eased in most markets. Curfews are being relaxed. In Uganda, where schools, incredibly, have been shut for nearly two years, kids are finally back in the classroom.

There are some minor clouds on the horizon, too, such as the proposed 1.75% levy on electronic money transactions in Ghana — which is still being vigorously debated in parliament. Lawmakers even came to blows over the issue prior to the holiday recess.

MTN Ghana sold off from a brief high in the mid-1.30s all the way down to 1.01 as a result. We've been adding to our position on the dip, sub-1.10. The stock only trades on a high single-digit P/E multiple, whereas Safaricom is trading on about 20 times earnings, and recently-listed MTN Uganda has dipped slightly in price to be trading on a multiple of about 13 times historical earnings.

I am watching MTN Uganda keenly and may begin to build a position if it were to correct further in price. It's the country's dominant mobile phone, internet, and mobile money provider. The Ugandan population is young and increasingly well educated, despite President Museveni's school shut-downs during Covid, and there's a very bright future ahead for the company in my view. But we want to buy at a cheap valuation, not a fair one.

All in all, we ended the year with ownership stakes in 18 companies from all around Africa. I'm looking to add one or two more new investments and continue adding selectively to our existing investments.

The fund had US$13.64 million under management as of December 31 but saw inflows of more than US$900,000 at the start of January.

You have received your statements for the month of December from Bolder Group (formerly Circle Partners), our Administrator, already. They are also in the process of preparing the annual accounts (actually 15 months of accounts, since inception of the Fund), which will then be audited.

We don't expect the audited accounts to be ready until June, unfortunately. Most auditors prioritize listed companies first, and then larger companies, over smaller entities such as our Fund.

There's also tax reporting and other things for the Administrator to file. If you have any housekeeping questions, you can perhaps send them to me prior to our upcoming quarterly investor call (tim@africanlionsfund.com). Then, I can ask the Administrator in advance. Or you can email the Administrator directly (AfricanLionsFund@boldergroup.com).

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We will schedule the investor call for late next week or early the following week. I'll circulate an invitation as soon as I nail down an appropriate time. So, please keep an eye out for that.

Until next time…

Kind regards,

Tim Staermose
Founder, African Lions Fund Ltd
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