



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

Masaki, Dar es Salaam

31 January 2023

Dear Investor,

Happy New Year. Let's hope it's a better one for financial markets than 2022, which saw significant losses across the board. The only exceptions were the energy commodity complex – oil, natural gas, uranium, and coal – and equity markets in places such as the Middle East that are big energy exporters and beneficiaries of high energy prices.

Thankfully, African Lions Fund has continued to perform reasonably well, with a 0.55% gain in December. That took **overall gains in 2022 to 3.68%** (based on the Lead Series).

As I have said already, while that is nothing to brag about, it put us...

8.75% ahead of our hurdle index for the year

It also represented a great result compared to the widespread losses seen on most world equity and bond markets. Indeed, we were one of a very small number of long-only equity funds that made money for the year.

By being invested in African Lions Fund, at least part of your portfolio was left unscathed, and eked out a gain.

For someone like me, with substantially all my money invested either directly in Tanzanian equities, shares of the African Lions Fund, or in hard assets such as gold and fine wines, 2022 proved to be the year that my long-held conviction to NOT invest in overvalued US tech stocks, bonds, and broad-based passive ETF strategies was vindicated.

While I suppose it feels good to be proven correct in some respects, my view that **the high-quality African Frontier market businesses that we own shares in will see an upward re-rating** in their valuations hasn't been vindicated, as yet.

Logically, I continue to expect this, as it becomes apparent not just how cheap they are relative to other asset classes, but also how robust their businesses are, even in the face of the current global macroeconomic challenges. But markets are not always logical or rational. We must recognize it can take more time than we imagine for a valuation re-rating to occur.

While we patiently wait for that outcome –of which, I remain 100% confident – we will have to make do with seeing gains based on earnings growth, and dividend payment growth, for the businesses we own.



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If you recall from our Private Placement Memorandum (PPM), I am seeking to invest in businesses with the potential to grow at rates which see sales and profits double every 5 years. But, we also ideally want to buy them on valuations we think can double in the same timeframe.

We are on track so far with the former. But, not with the latter, which is completely out of our control. We can only buy cheap. We don't know if, or when, the market might re-rate to being less cheap.

Macro challenges remain throughout Africa, and indeed the world

Meanwhile, where we need to be vigilant, as ever, is with the macro risks. Ghana's macroeconomic deterioration has proven a debacle. Kenya's parallel foreign exchange market trajectory is also a real concern. Plus, the high level of borrowing the Tanzanian government has been engaged in for the past 18 months, with little sign of a slowdown, is another risk now on my radar.

In Nigeria, the macro conditions, as I have written extensively about before, are so bad already, it's hard to see them getting much worse. Indeed, I have expressed cautious optimism that things may go from "terrible" to "less terrible" there, following the election in 3 ½ weeks, which may see things re-rate.

Bottom line: the countries in which we have invested, and those we are monitoring for potential future investments, are all at different stages in their macro evolution and economic climate. It makes for an interesting set of risks and opportunities. Life is certainly never dull.

Elsewhere in the world central bank interest rates are shooting higher, inflation is at multi-decade highs not seen in two generations, a war rages in Europe with no sign of a solution, and toxic left versus right extremist politics and absurd, "woke" social agendas are turning the West into a laughingstock. For once, Africa looks relatively good from a risk perspective.

We are closing in on our maximum 50% country weighting in Tanzania

This month I wanted to focus on country allocation, as it is a question that comes up quite frequently.

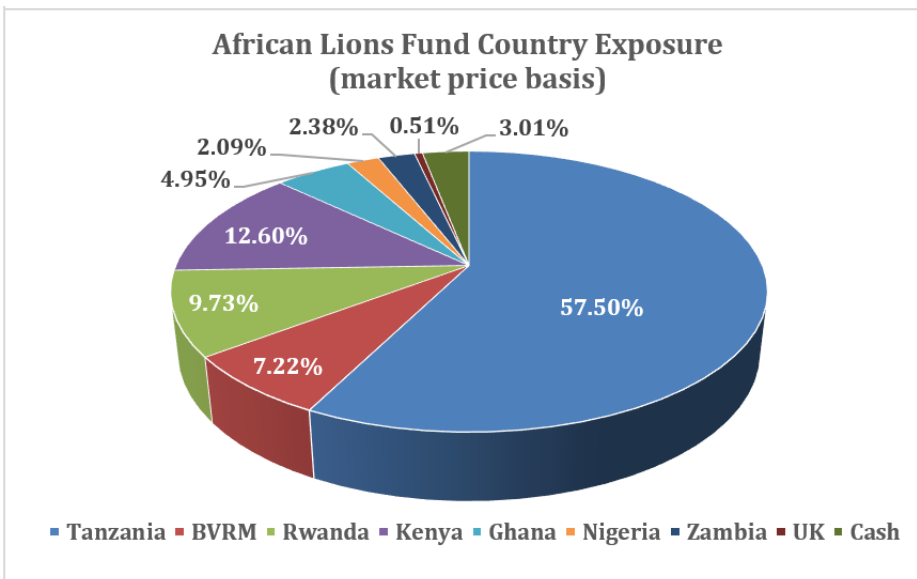
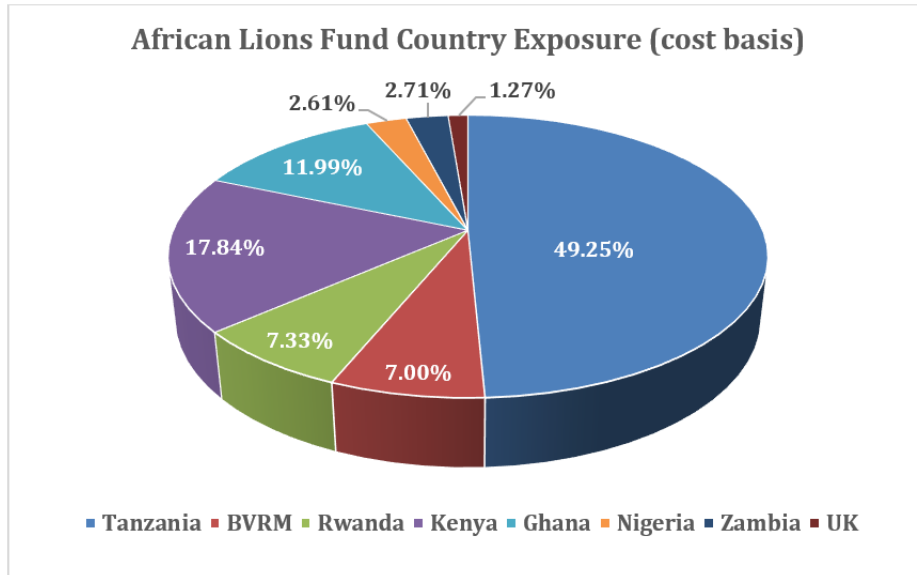
Below are two charts.

One shows our asset allocation on a "cost basis" — that is, what percentage of the money we have invested is in each market, based on the original amount we have put into each market.

The other shows the same country allocation — but, based on current market prices. All else equal, a country's allocation rises as the value of the investments we have made there rises, and / or the value of investments we have made elsewhere falls.



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It is the “cost basis” we use to determine the 50% ceiling on our allocation to any one country mandated in our PPM. Tanzania is the only market where this has begun to factor into consideration thus far. But frankly, **it has been a great thing we put so much money in Tanzania**. We have invested approximately US\$8.8 million in the positions we hold. They are marked to market at approximately US\$11.1 million. Along the way we have sold some of our Tanzanian holdings for healthy profits (CRDB Bank and Dar es Salaam Stock Exchange), and also collected significant dividend payments from: NMB Bank, Twiga Cement, Tanzania Breweries, and Tanzania Cigarette Company.



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We have also done well in Rwanda (investments of US\$1.3mn now valued at US\$1.9mn), and made some money in the West African Economic Union (BVRM) with Sonatel.

Kenya and Ghana are our two big disappointments so far

In the case of Kenya that has been on account of both a weaker exchange rate, and significant share price falls. Kenya Reinsurance, which I have already fessed up was a mistake, and which we are looking to sell, is one stock that has fallen badly — from 2.48 to 1.80. Safaricom is the other. Down from 34 to 23.

In Ghana, it is the catastrophic exchange rate depreciation from 5.75 to 12.50 that is largely to blame for the US\$2.1 million we invested now being only worth US\$950K.

Looking forward, I plan to do more of what is working.

As things stand, there is no reason to commit more money to Kenya until the foreign exchange rate spreads narrow. Right now, if we put USD in, our custodian will pay us about 124 Kenyan shillings (KES) per dollar, but to take USD out again we'd have to buy them for KES 131. That's far too wide a spread.

Until the Bank of Kenya stops trying to artificially hold the currency at a lower level than the market-clearing price, this absurd set of circumstances will remain. We want no part of it.

Unlike Nigeria, where we can use the parallel market exchange rate to our advantage by buying Nigerian shares in London and moving them to Lagos, no such avenue appears available for Kenyan shares.

To buy them, you need to buy them in Nairobi, and that means being at the mercy of the spread between the "official" Bank of Kenya rate for the shilling and the actual market rate.

1Q2023 Zoom call, up-coming travel plans, and client meetings

The 1Q2023 Zoom call for investors will be next Monday at 11am East African time, which is 8am in the UK, 9am in continental Europe, 12 noon in Dubai, 3pm in Jakarta, 4pm in Singapore, Hong Kong, Bali, and Perth, 6pm in Brisbane, 7pm in Sydney and Melbourne, and 9pm in Auckland. It is midnight on the US West Coast and 3am in New York. I will send a link later this week.

I am also excited to be going back to Hong Kong for the first time in almost 3 years, from February 23 to 27. There is a lunch booked for African Lions Fund investors based in Hong Kong, 1230pm at the Foreign Correspondents' Club on Monday, February 27. All HK-based investors welcome. For those who have not already confirmed, please send me a note at: tim@africanlionsfund.com



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March 3 to 10, I plan to be at the Atlantis The Palm Resort in Dubai, initially with my family for a holiday, and then for the EFG Hermes Frontier Market conference. If you are based in Dubai, or you want to come and join a small gathering of your fellow investors in the fund, let me know. We will arrange some meetings during that week.

The Telegram channel is as active as ever: https://t.me/joinchat/AAAAAE6il5_GjwTQ0lyNwg and you can also follow me for updates on Twitter (@globalvaluehunt).

Until next time...

Good investing!

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