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

Oyster Bay, Dar es Salaam

19 February 2024

Dear Investor,

The Fund gained 5.2% in 2023. Our hurdle index lost 5.9%. The manager has thus been paid a performance fee on the 5.2% of positive net return delivered, in a year where the hurdle index lost significant ground. As previously communicated, we do not charge fees on that part of our outperformance that results from a negative return on our hurdle index.

I have been waiting until I had the final January 2024 valuation back from the Administrator to send you this letter. I am going to return to a monthly letter schedule, as I find it easier and more relevant to comment on recent events, rather than what happened up to 4 months ago.

In January, the Fund was down 2.06%. The hurdle index lost 4.88%. A second large devaluation of the Nigerian Naira was a big factor in this.

Since inception, the Fund is up 40.72%. This is a creditable performance in what has been a very tough market for frontier markets generally, and African markets in particular, over the past two years. In particular, currency weakness against the US dollar has been a feature of these markets across the board. This obviously creates significant headwinds for our USD-based returns.

Our returns by year (in USD after all fees and expenses) break down as follows:

	4Q2020	2021	2022	2023
Fund	+13.4%	+16.1%	+3.7%	+5.2%
Hurdle index*	+15.9%	+15.3%	-8.8%	-5.9%

***The S&P Africa Frontier BMI USD (Total Return) Index**

As you can see, we have never had a down year, and we have outperformed our hurdle index for three years in a row.

When we set out on this journey, I knew African Frontier markets were cheap, and that valuations for many high-quality, dominant businesses that I had identified were depressed. I did not expect their subsequent earnings performance to be quite so strong. EPS growth at our top 6 holdings alone, for example, has been 12.4% per annum compounded over the past 3 years. These stocks account for 66% of the total African Lions Fund portfolio.

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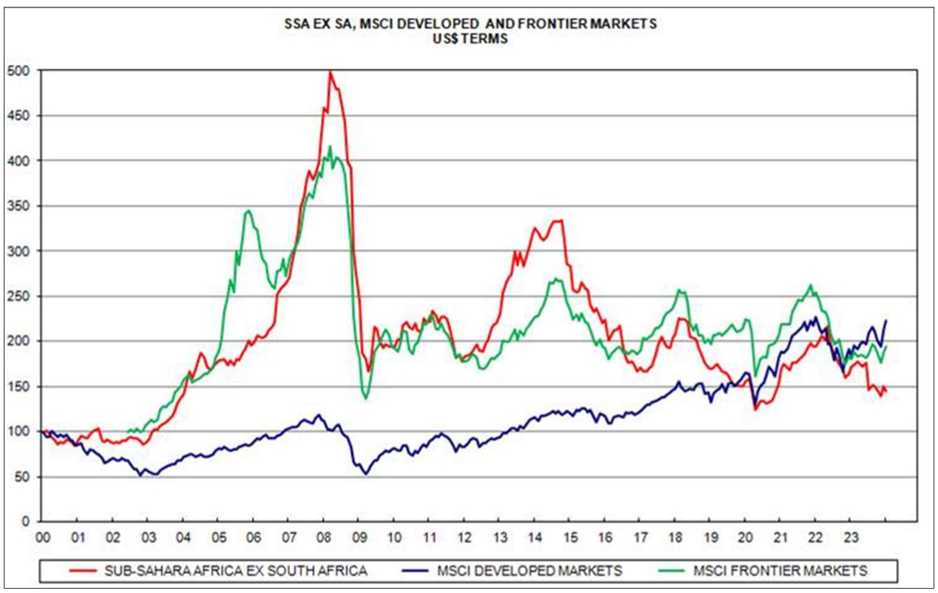
In the face of such impressive fundamentals, nor did I expect the almost complete lack of interest in owning these companies, from both local, but especially foreign investors, to continue as long as it has. Indeed, many foreign investors are still selling them.

That said, it is instructive to note that for nearly 20 years, Africa ex-South Africa Frontier Market performance, in US dollar terms, remained ahead of the performance of developed stock market indices.



Source: Christopher Hartland-Peel.

The red line, representing SSA ex-SA Frontier Market returns, you will note, was above the blue one, representing MSCI developed markets, nearly the entire time from 2000-2020.

This long-term track record has been well and truly forgotten amid the lousy performance of African frontier markets and stellar performance of US markets, in particular, in recent years.

The questions no one, least of all me, has the answer to, is “Will this trend reverse again someday?” “Will frontier markets again have their time in the sun?” and, “Will the companies we own shares in see their valuations increase once more?”

AFRICAN LIONS FUND

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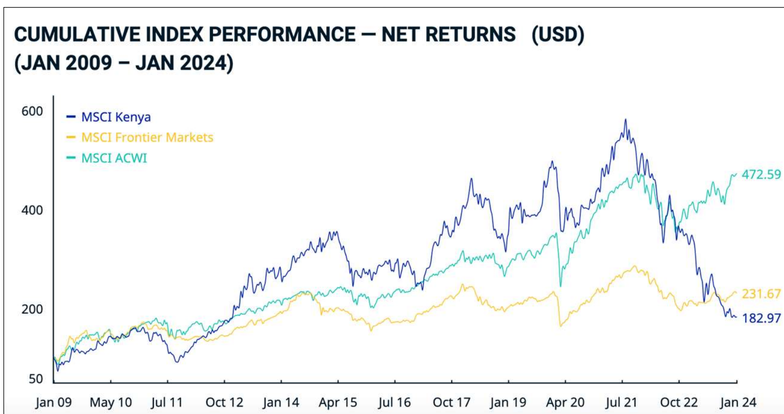
Logic dictates they will. But these things can take a lot longer than one might expect. I am reminded of my own strong historical views on China. After an extensive, boots on the ground research trip myself, in 2011, to see the “ghost towns” and massive overbuilding of infrastructure and real estate, I was a vocal bear on Chinese stocks.

Now, as we see, I was right. China’s markets have cratered amid a burst real estate bubble, huge bad debts, and an inevitable bust in housing starts and fixed capital formation growth, among other things. For those interested, my friend Michael Fritzell has written an excellent piece that summarizes the causes of the bear market in China and Hong Kong.

But it took more than a decade before my view on China was proven correct.

Will it take a decade for high-quality African businesses to trade at valuations that are more appropriate for their status? I hope not. But I cannot discount the possibility.

Here is another illustration of just how well Frontier markets can do, using only the Kenyan market, as represented by the MSCI Kenya Index.



ANNUAL PERFORMANCE (%)

Year	MSCI Kenya	MSCI Frontier Markets	MSCI ACWI
2023	-46.61	11.63	22.20
2022	-30.97	-26.34	-18.36
2021	13.84	19.73	18.54
2020	-9.50	1.43	16.25
2019	48.73	17.99	26.60
2018	-12.51	-16.41	-9.41
2017	35.97	31.86	23.97
2016	1.11	2.66	7.86
2015	-18.34	-14.46	-2.36
2014	23.39	6.84	4.16
2013	47.74	25.89	22.80
2012	61.90	8.85	16.13
2011	-27.22	-18.73	-7.35
2010	30.29	23.75	12.67

Source: MSCI

There are only three stocks in the "index" which is also adjusted for the "float," or number of publicly traded shares available in each company that are not closely held by associated entities, parent companies, insiders, or the government.

Dominated by Safaricom (mobile telecommunications and mobile money), but also influenced by the respective performance of Equity Group (banking), and East Africa Breweries Limited (beer and spirits), **the Kenya MSCI Index rose nearly 10-fold in the 12 years from 2009 to 2021**. And that’s in US dollars.

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You will note it was also well ahead of the general MSCI Frontier Markets index, and the MSCI AWCI index (which represents all global markets that are not frontier markets), for most of that time.

Then, after a 12-year bull run, the wheels came off. We've had a brutal 2 ½ year bear market since mid-2021, taking the index down by over 75% again!

So, I ask myself, what would I rather buy; the S&P 500 at near all-time highs, dominated by a handful of tech stocks on bubble-like valuations, or Kenya at a 12-year low, at just one quarter the price of the prior peak? As a dyed-in-the-wool value investor, the answer is obvious.

As these long-term performance charts show, good things can, and DO happen in frontier markets. But it is crucial that we have patience.

Happily, the large and growing dividend stream that our part ownership in some of Africa's best businesses gives us is something we can look forward to banking each year, regardless of what the share prices of our portfolio companies do.

A couple of our companies have already declared dividends for 2023, including BAT Kenya, which is paying KES 45 on top of the KES 5 interim dividend we already got. With KES 50 in total dividends for 2023 and a current share price of KES 419.75, it is trading on a dividend yield of 11.9%.

In total, we are projecting our portfolio companies to pay approximately US$1.64 million in dividends this year, after deduction of withholding taxes, putting the portfolio on a 7.2% net dividend yield.

Kenyan Shilling surges,
Vindicating our decision to accumulate more investments in Kenya

At present most of our new capital is being deployed in Kenya. We have made further investments in all the following blue chip Kenyan companies so far this year: **Safaricom, KCB Group, and East African Breweries**.

Valuations have slumped, and while business is tough, these companies all remain highly profitable, and will all continue paying good dividends.

Unlike some in the market, having made several visits to Kenya to assess the situation for myself in recent years, my working assumption was that the base case would not involve any kind of debt default in Kenya.

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I also felt there was a "political backstop" for Kenya from the USA and other western powers. Many US multinational companies have their sub-Saharan African operations headquartered in Nairobi. There is also big UN and World Bank presence in the country.

My view was vindicated last week when the Kenyan Treasury auctioned a US$1.5 billion Eurobond. The proceeds were used to tender for US$1.5 billion of the existing Eurobond due to be paid back in June this year. The remaining $500 million needed to retire the June 2024 Eurobond is already available to the Treasury, through financing from the IMF, and other multi-lateral lenders.

For now, it gives Kenya breathing room, though they are paying very high interest rates on both their domestic debt and foreign debt. The most recent USD Eurobond has a coupon of 9.75% and was priced at a discount, to offer a yield to maturity of over 10%.

Positively however, after it depreciated all the way to beyond 162 to the US dollar, **the Kenyan shilling has surged by over 10%** to now be trading around 145.

There is a lot of volatility in the FX market, and it may not stay at these levels. But for now, **we are enjoying some FX gains for the first time in a long while**, on our Kenyan investments.

Housekeeping, and upcoming travel schedule

The most important announcement I have this month is that we have hired a new Senior Analyst to join me on the research team at African Lions Fund. **Muammar Ismaily** is based in Nairobi, Kenya, and has over 10 years relevant experience.

Muammar was formerly a ranked sell-side analyst with our broker, EFG Hermes, before spending nearly two years on the buy-side working for another prominent African investment fund based in New York.

I am sure you will all join me in welcoming Muammar, and you will get a chance to do so in person on our next quarterly Zoom call.

Over the coming weeks, I will be doing company visits in Kenya on February 20-21, before joining Safaricom's investor event in Addis Ababa, Ethiopia on Feb 22-23. From March 4-7 I am attending the EFG Hermes One on One investment conference in Dubai.

If you are in any of these locations and want to try and meet up, do please get in touch.

I will report back on my findings in the next letter, which you can expect about a month from now. As mentioned, I have decided to return on a monthly letter schedule.

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Quarterly investor call

I plan to host the quarterly Zoom call for investors in the week starting February 26, after I return from Nairobi and Addis Ababa. Dial-in instructions to follow.

As always, questions and feedback are welcome at tim@africanlionsfund.com

Until next time…

Good investing!

Tim Staermose
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