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Oyster Bay
Dar es Salaam

31 October, 2024

Dear Investor,

African Lions Fund ended its fourth year on September 30, 2024 with gains of 59.7% since inception. That's 12.4% compound annual growth (CAGR), in US dollar terms, after all fees and expenses.

As you will already be well aware from my prior communications, that is significantly better than our benchmark, or hurdle index, the S&P Africa Frontier BMI US Dollar (Total Return) Index. It lost 10.7% over the same four years.

But how did we do relative to some other common global measures of stock market performance?

	1/10/2020	30/09/24	CAGR
ALF Lead Series	5000	7985.81	**12.40%**
S&P 500 (SPY)	316	573.76	**16.10%**
MSCI ACWI	74.5	119.55	**12.60%**
MSCI EM	40.44	45.86	**3.30%**
MSCI Frontier	22.91	27.53	**4.70%**

The S&P 500, has had a phenomenal run, driven largely by the expanding valuation multiples on the popular mega-cap tech stock names that have dominated in this bull market. It now trades at an eye-wateringly high price to earnings multiple of 29.7 times. That compares to 20.3 times in mid-2022, and 13.5 times back in 2011. The S&P did better than African Lions Fund by 3.7% points per annum.

That's even after the S&P suffered a nasty -18.2% drawdown in 2022. African Lions Fund on the other hand still made money (+3.7%) in 2022, and has never had a down year, so the ride has been

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somewhat smoother than the S&P. And even after a very solid run, the African Lions Fund portfolio trades on a modest P/E ratio of < 8 times.

The MSCI All Country World Index, which is a broad measure of nearly 3,000 large and mid-cap developed and emerging market companies, did 0.2% p.a. better than African Lions Fund. Note, this index has zero frontier market exposure. Its good performance has also been largely due to the extraordinary run of US large cap tech stocks (20.14% of this index now).

MSCI — MSCI ACWI Index (USD) | msci.com

SEP 30, 2024 — Index Factsheet

INDEX CHARACTERISTICS

	MSCI ACWI
Number of Constituents	2,687
	Mkt Cap (USD Millions)
Index	78,223,601.74
Largest	3,394,199.05
Smallest	144.01
Average	29,111.87
Median	7,636.91

TOP 10 CONSTITUENTS

	Country	Float Adj Mkt Cap (USD Billions)	Index Wt. (%)	Sector
APPLE	US	3,394.20	4.34	Info Tech
MICROSOFT CORP	US	3,038.22	3.88	Info Tech
NVIDIA	US	2,987.42	3.82	Info Tech
AMAZON.COM	US	1,745.16	2.23	Cons Discr
META PLATFORMS A	US	1,254.47	1.60	Comm Srvcs
ALPHABET A	US	974.20	1.25	Comm Srvcs
ALPHABET C	US	845.20	1.08	Comm Srvcs
BROADCOM	US	762.82	0.98	Info Tech
TESLA	US	750.95	0.96	Cons Discr
TAIWAN SEMICONDUCTOR MFG	TW	745.03	0.95	Info Tech
Total		16,497.67	21.09	

The MSCI Emerging Markets index was up just 3.3% compounded per annum over the past four years, while the MSCI Frontier market index gained 4.7% per annum.

Note that I am assuming, as for African Lions Fund, that any dividends paid have been reinvested, and I have used the most popular ETF tracking each of these indices to measure their performance.

On balance, what all this means is, with the benefit of hindsight, you could have done better than we did over the past four years by buying an S&P Index Fund. Or, you could have done about the same as we did, without taking any exposure to Frontier markets whatsoever, by owning the MSCI ACWI Index ETF.

However, having exposure to African Lions Fund has also delivered healthy returns, and importantly, it gives you great diversification benefits. In 2022 the benefits of this were clear, when the African Lions Fund outperformed the S&P 500 by 21.9%.

Obviously, I am happy to have massively outperformed African Frontier Markets in general, as the comparison with our benchmark shows. I am also happy to have trounced the performance of both Emerging Markets and Frontier Markets on the whole.

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But clearly, our markets were not a high-return place to be invested over recent years, as an asset class, and most people investing in Frontier Africa did way worse than we did over the past four years. That we did as well as we did, I suppose, is down to superior country allocation and specific stock selection.

But the fact you could have done just as well buying an ACWI index fund, and nearly 4% points p.a. better in an S&P 500 index fund is eye-opening.

That said, we delivered our performance with less volatility, and I would argue, with less risk of permanent loss of capital, given how lofty the valuations now are on the S&P 500 (approaching a P/E of 30x), which is partly what has taken it to such heights, and driven such strong performance.

Meantime, our portfolio still sports extremely low and attractive valuations.

In short: we picked the right companies to invest in, and they delivered good earnings growth. But we did not get any significant valuation multiple expansion… yet. I think that will change in the years to come.

The pendulum will swing back from historically stretched valuations in developed markets, and downright cheap valuations in emerging and frontier markets, to be more evenly balanced.

How we are doing as a business

The above covers the relative performance of the African Lions Fund as an investment, which was one goal of this letter. Maybe that's all you're concerned with. If so, you can safely stop reading here.

But I also view you as a stakeholder in the *business* that I am running. After all, without you, and your fellow investors, I would not have a business. So, I feel it's appropriate that I give you some visibility and commentary on that side of things as well.

Ultimately, how the business does and how the Fund performs are intertwined. But as I am finding out, they are not always as closely aligned as I was led to believe.

After having a decent year in 2023, growing African Lions Fund's assets under management (AUM) to beyond US$21 million, and earning some performance fees, I resolved to re-invest in the business in 2024 and help make it more robust by:

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1. Hiring an experienced analyst, which I did in March. So far, that is working out very well. Muammar is dedicated and hardworking and helps us know our companies and potential companies to invest in, inside out. I can now act much faster to market moving news and results announcements, by having an extra set of hands on deck.

2. Travelling even more for company visits, fundamental research, and conferences – the expenses for which also come out of my own pocket. This year, I have made trips to Kenya, Ethiopia, Dubai, Nigeria (twice), Cote d'Ivoire, Ghana, and the UK.

   Among other things, these trips gave me the conviction to increase our investments in two of our largest holdings, KCB Group and Safaricom, and to invest in UAC of Nigeria, which has proven a strong performer in the portfolio since June.

   It is worth noting, UACN's sales from Jan 1 to Sep 30 have grown +63.4% vs the same period in 2023 (+30.7% in in real terms, after adjusting for high Nigerian inflation), and net profits have grown +104%, mainly due to a phenomenal performance in the food and beverage segment, and the benefit of a foreign exchange gain on the company's USD bond investments.

3. Spending more time on the road in North America and Europe meeting potential investors and raising the profile of the Fund, with the ultimate goal of attracting more large investors. To this end, I made trips to New York City and Zurich in May, and I have just returned from London, where I was in early October.

As we enter the last months of 2024, when I reflect on these initiatives and evaluate the returns on each of my efforts, I must be honest and say that, despite my best efforts and intentions to raise the Fund's profile and attract new investors, none of that really moved the dial much… at least not yet.

While the Fund's performance so far in a challenging market has been relatively pleasing, the reality is that our part of the world is extremely OUT OF FAVOUR. And that's exactly where the continuing opportunity for us lies.

We did well the past four years swimming against the tide. But…

At present there is little interest from larger money managers or institutions in investing in publicly listed equities in Frontier African markets

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At the AFSIC conference I recently attended in London, said to be the biggest of its kind globally, promoting investment in Africa, there was **just one panel devoted to public markets investing in Africa**, and one panel that examined the trend in "exits" for Private Equity investors via public markets. That was it.

Moreover, from what I could tell, there were only three or four exhibitors, out of more than 100 attending the event, that were publicly listed companies with an African focus, or listed in Africa.

In some ways, **that actually makes me very bullish**. As one of the few new funds actively putting money to work in African Frontier markets, it gives us the pick of the litter. We can buy great companies for low prices without much competition. So, it's a great time for you to be investing.

On the above-mentioned panel which discussed public markets investing in Africa, one of the presenters even lamented that when he goes to pitch his fund in the USA, typically seeking to get cheques of $10mn, $20mn or $30mn from institutional investors, he nearly always walks away empty handed. But on several occasions, he has had the people working for the institutional investors that he presented to contact him privately, wanting to invest $100,000 or $200,000 of their OWN MONEY!

How can this be?

Clearly, they see the opportunities and value on offer, and are willing to invest. But they ***won't take the career risk*** of making a sizeable allocation to Africa for their employers or investors. You won't get fired buying Nvidia if it goes down a lot, but you might get fired if you buy frontier Africa and it doesn't work out.

It is quite a bizarre state of affairs. In fact, it makes me question whether pension fund and endowment managers, allocators, and their advisors, are meeting their fiduciary obligations.

Providing further anecdotal evidence of the sheer lack of interest in African stocks, earlier in my travels these past two months, I attended the West African Regional Exchanges Conference in Abidjan, Cote d'Ivoire, sponsored by local broker Hudson Cie.

I had been once before, in May 2023. Last time I went, there were representatives of less than 10 foreign fund managers in attendance. This year, there were just four foreign funds. This included us, and one fund with an analyst in attendance, from South Africa. **Just two attendees came from Europe or North America**.

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In Africa, quite clearly, public equities are out, Private Equity, VC, Impact Funding and Debt financing are in. Our space is very out of fashion.

As such, almost all of our growth in assets under management (AUM) for 2024 so far, which has taken us to be managing approximately US$27 million, has come from capital gains on our stocks, the reinvestment of dividends, and some smaller in-flows from our loyal, existing investors. We are currently up 11.2% year to date. And on my preliminary numbers, October looks like ending up as another strong (>3% gains) month.

If you have put new money to work, I truly appreciate it. You will recall that as a "thank you" to you and all existing investors, for being loyal, early backers of the Fund, I am lowering the management fees for African Lions Fund beginning 1 January 2025, from 1.5% per annum to 1.35% per annum, for any money you have invested in the fund by 31 December 2024.

Upcoming events, and Travel Schedule

Zoom call for investors: Thursday November 7 at 11.30am East African time (8:30am London, 9:30am Central European time, 10:30am Cape Town / Johannesburg, 12:30pm Dubai, 3:30pm Bangkok / Jakarta, 4:30pm Singapore / Hong Kong / Perth, 5:30pm Seoul / Tokyo, 6:30pm Brisbane, 7:30pm Sydney / Melbourne, 9:30pm Auckland / Wellington. Link to be circulated next week.

Travel: I will be in Perth, Western Australia 27-29 November, and in Sydney 30 November and 1 December. I will also have the day in Johannesburg on November 25, and the morning in London on December 13. Reach out if you are in any of these locations and interested in meeting up.

Until our next communication, or in-person meeting…

Good investing!

Tim