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

Oyster Bay
Dar es Salaam

28 April, 2025

Dear Investor,

African Lions Fund endured a volatile but highly successful first quarter. After rising 4.46% in January, we had our best month ever in February, up 13.65%, followed by our worst ever month in March, down by 4.06%, as Israel and the United States launched what looks to be an extremely ill-conceived war on Iran.

That left the fund up by 13.90% for the first quarter of 2026, well ahead of our hurdle index, which gained 6.54%, and well ahead of every major stock market index worldwide.

African Lions Fund outperforms all major indices & asset classes in 1Q2026

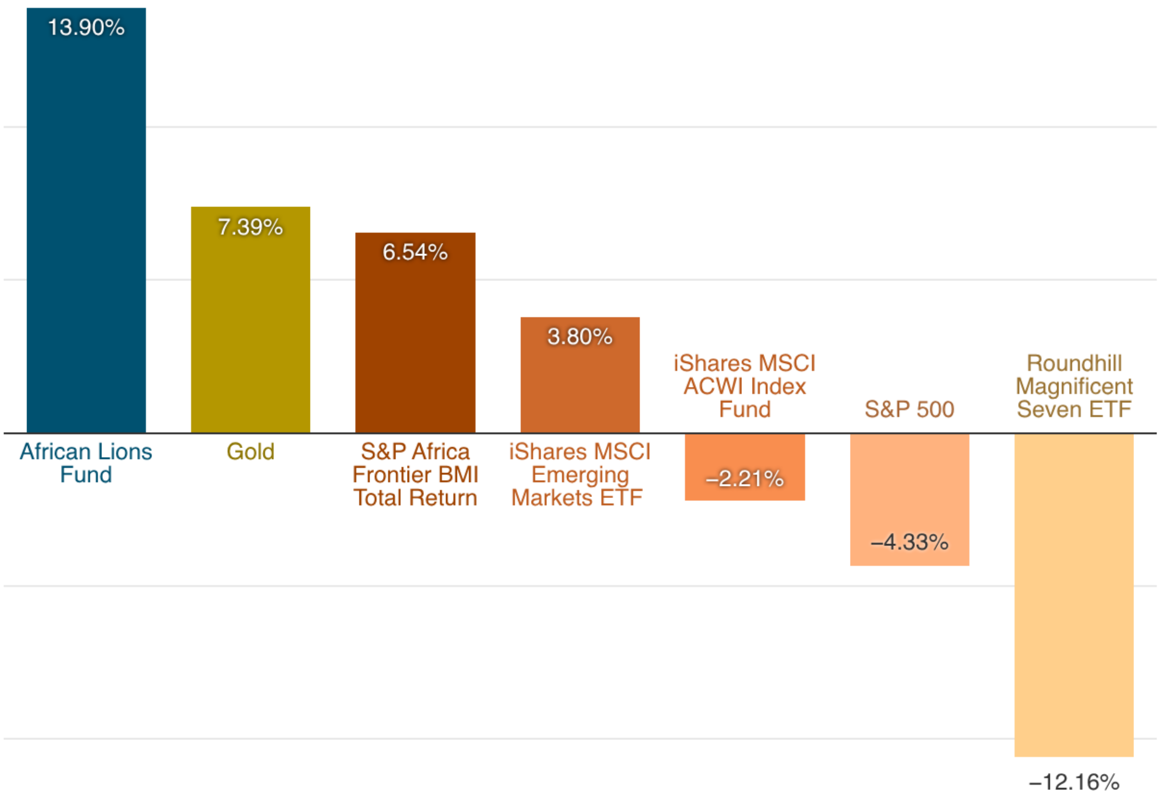

Chart: African Lions Fund • Source: goldprice.org, indices & ETFs gurufocus.com, ft.com • Created with Datawrapper

AFRICAN LIONS FUND

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The fund has proven resilient in the face of on-going market shocks and dislocations, though we remain wary about the immediate future…

For the first time, we had a meaningful number of redemptions toward quarter end, as some of our long-standing investors chose to lock in gains.

As a result, I took the opportunity to liquidate one of our weakest and least liquid positions, Zambian Breweries, on which we still made a modest profit. We also sold a small part of one of our more defensive positions, BAT Kenya, as defensive stocks have been catching a bid. I have since raised further cash by trimming other profitable positions, such as UAC Nigeria, and, just yesterday, MTN Ghana, which had grown to be a >15% position in the fund.

With dividend season upon us and plenty of cash due to flow into the fund over the coming months as a result, **we are well positioned should the chaos in the Middle East be prolonged**.

I am not in the business of predicting macroeconomic or geopolitical events. My job is to worry about what I can control and position our portfolio accordingly.

As I have previously stated, Africa is vulnerable to refined petroleum product price spikes and scarcity, as very few African countries have any refinery capacity of their own to fall back on and are thus completely reliant on fuel imports. Many countries, especially in East Africa, get nearly all their fuel imports from the Middle East. Right now, that's a massive Achilles' Heel.

We have taken exposure to the East African economies of Kenya and Tanzania down a notch. Each accounts for about 26.2% of our portfolio as it now stands. Rwanda, another fuel importer, is just under 6%. Our combined exposure to oil producing countries such as Ghana, Senegal, and Nigeria, meanwhile, has climbed to about 31.5%. Cash levels are at 6.5%.

One positive effect of the Iran war and closure of the Straits of Hormuz has been the realization among African governments and policymakers that the reliance on fuel imports needs to change. The success of Aliko Dangote's massive 650,000 barrels per day refinery in Nigeria has been an inspiration.

During the past week there were headlines that, if he can get the backing of pan African financial institutions such as the African Development Bank and African Export-Import Bank (Afreximbank), Dangote is considering building an identical refinery in East Africa. Talk is it would be situated near the port of Tanga on the north coast of Tanzania. This is where the East African Crude Oil Pipeline (EACOP), currently being built to evacuate Ugandan crude from the discoveries in the Lake Albert Basin, will terminate, providing a ready source of raw material.

Fertilizer is another product that's suddenly much more expensive and in short supply. The knock-on effects for transportation, logistics and food prices for the whole of Africa will be significant, if the shock lasts for many months.

Among the companies we own, few are directly exposed, but nearly all are indirectly exposed, as the share of consumers' wallets available to buy their products and services will shrink. However, telecommunications services providers and defensive consumer stocks—which combined, account for two-thirds of our portfolio—are among the best possible places to be invested in this scenario.

We also have some defensive exposure to gold mining. And we are retaining higher than normal cash levels.

Our **portfolio is likely to continue to be resilient and outperform,** as it did in March, when the war clobbered most indices. We lost 4.04%. Our hurdle index lost 7.01%

That said…

We did a sensitivity analysis to see what happens if sales are hit by the war

Not specifically modelling any direct effect of the war on earnings, our forecasts have our portfolio EPS growing by 29% in 2026.

If we assume a 2-percentage point reduction in forecast sales for non-banks, and a 2% drop in loan growth for banks, that EPS growth assumption moderates to +26.3%.

And, if we assume a 5-percentage point reduction in top line projections for all our portfolio companies other than banks, and a 5% cut in banks' lending growth, our portfolio EPS expansion for the year slows to +20%.

These are realistic assumptions. Think of the average African consumer of the goods and services our portfolio companies produce. She might have a take-home income of $1,000 a month. She used to spend $50 a month on fuel, or transportation fares commuting to work. Now, with fuel prices spiking, she spends $75. That leaves $925 to spend on other things vs. $950 before.

If that remains the case for 9 months of this year, she will spend approximately 2% less on non-transport related goods and services, for the full year, which is a reasonable base-case assumption.

Of course, there are many moving parts, and costs of inputs and raw materials for our portfolio companies will likely also rise, shrinking their margins. So, the short-term outlook is definitely for a deceleration in profits growth versus what we had been expecting.

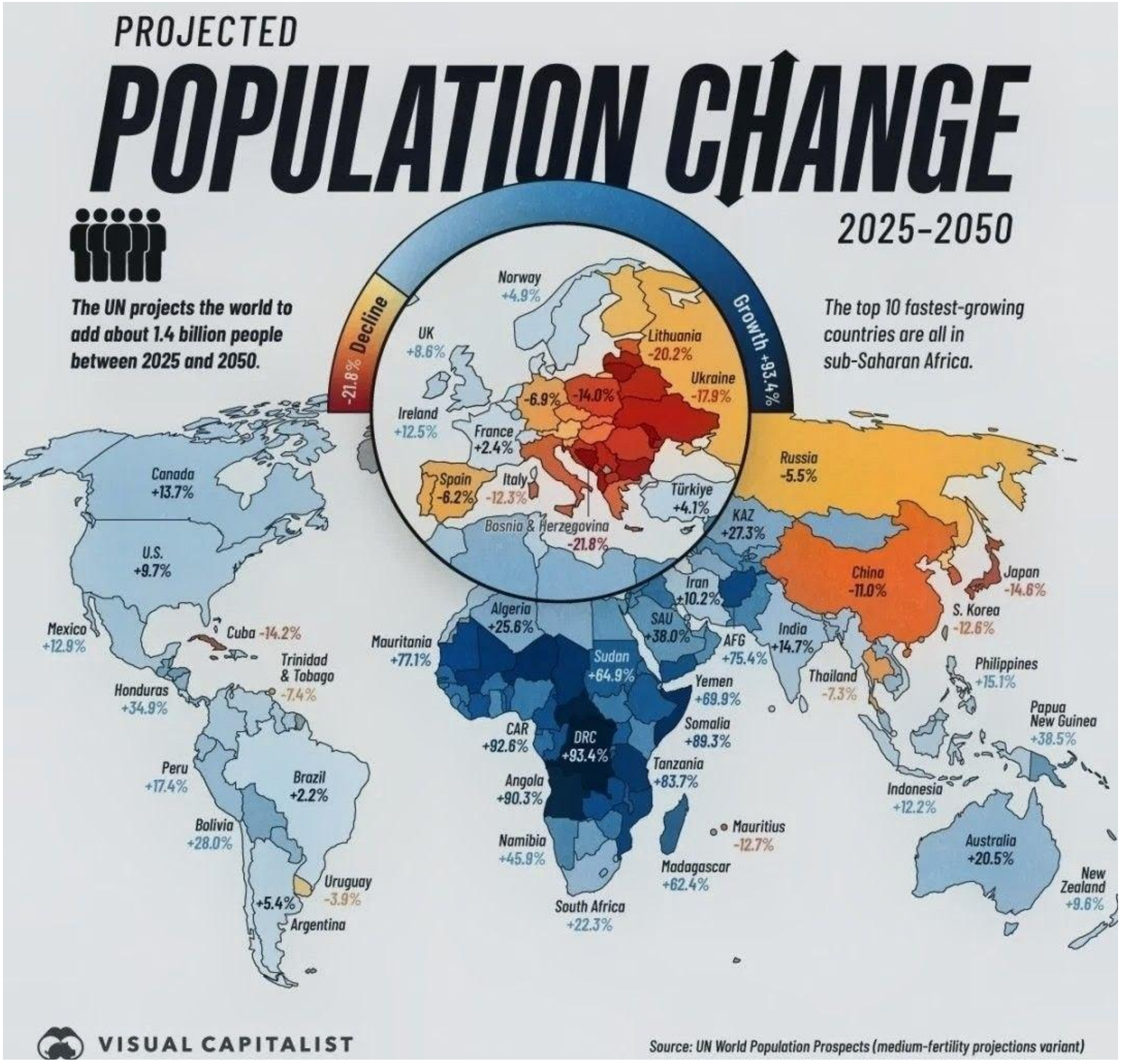
Our analysts, Muammar and David, are in the process of considering earnings impacts on each portfolio company. We'll have a better read when the Summary Sheet for April goes out in mid-May and we'll relay our more granular findings to you then.

Long-term outlook intact. Don't lose sight of that

If you believe, on the balance of probabilities, as I do, and the projections indicate, that sub-Saharan Africa will be home to:

1. the fastest population growth,
2. the biggest work force growth,
3. the largest increases in employment, and
4. the strongest economic growth

over coming decades, and you are a long-term investor, then the short-term economic consequences of the Iran war – —while serious, and likely to cause temporary problems for many of our portfolio companies – should not be a determining factor in your investment thesis.



As the chart shows, the top ten fastest growing countries demographically between now and 2050 are ALL in sub-Saharan Africa. That will create massive opportunity. At the same time many other countries are seeing their populations shrink – many quite rapidly, especially in Eastern Europe and East Asia. This is the lens via which I view things, and the basis on which I continue to make long-term portfolio allocation decisions.

Right now is a great time to have cash available to deploy in African frontier markets, hopefully at even more attractive valuations, for the long term.

So, I'm pleased to say **we do hold our highest levels of cash since the beginning of the Fund**. Many thanks if you are one of the 30 odd investors who has added to their original investment in the fund over the course of the past few years. Further capital inflows would help even more now, as they can be used to offset the handful of redemptions we have received. But, all in all, I am very comfortable with how we are positioned.

Yes, a further stock market correction seems highly probable, if the stalemate over the Straits of Hormuz, and the US navy blockade continues. As I've said, a sharp economic contraction in most African countries, akin to that in 2020 when Covid struck, cannot be ruled out, but I'd view that as a buying opportunity.

What about other big global trends impacting Africa?

To turn to another hot topic and its impact on the global economy, and Africa in particular, I've lately also been thinking a lot about AI. It was a key topic at the investor event I attended in St. Moritz back in January.

Is AI going to destroy jobs and be a negative force? Is it going to be a net positive? I don't know with any degree of certainty. There are convincing arguments either way. But I prefer to be optimistic and believe that, as with every other technological innovation, humans will use it to create more abundant, better lives.

That doesn't mean certain sectors of the economy or groups of people won't be hard hit. But as a whole, society should benefit and continue to progress.

That said, Africa is at a much earlier stage of economic development, and I can't see how AI is going to have any big negative impact in the foreseeable future. It seems to me that if AI is going to destroy jobs, it's going to be in things such as professional services. These are higher end jobs done by university-educated middle class and upper middle-class people. Africa has far fewer such jobs currently to destroy.

AI can't plough a field. It cannot empty a bedpan or wash an elderly patient. It can't rivet a sheet of metal, give you a massage, or cook a meal. It can't go down a mine shaft either.

Most jobs that require physical presence, and involve manual labour are not about to become extinct. And these form the vast majority of jobs in Africa now, as well as those likely to be created over coming decades.

Meanwhile, the electricity infrastructure build-out, and energy required to power the AI revolution is likely to be a **net benefit to Africa**, where many of the natural resources needed to make it happen are found in abundance.

In short, I can't see the impact of AI on Africa being negative. But it does mean that, while African economies and living standards are improving bit by bit, day by day, year by year, there is an argument that *in relative terms*, Africa will still fall further and further behind, as the technological revolution led by AI causes exponential growth elsewhere in the world.

I'm in the camp that believes that. But that's not what drives our returns. As long as Africa continues to grow and improve, our investment thesis will play out. It's really not relevant to our investment case what is going on in the AI space in technologically advanced economies such as the USA, Japan, or South Korea.

We project our portfolio will achieve at least 20% EPS growth in 2026, even factoring in a 5% cut in sales projections due to the war, underpinning further share price appreciation

Let me stress again that the main factor that will drive the long-term performance of our portfolio is earnings growth at the businesses we own. If earnings grow and valuations remain the same, share prices go up by the rate of earnings growth. If, as had been happening recently, prior to war breaking out in the middle east, valuation multiples also begin to expand as investors are willing to pay more for a fast-growing earnings stream, then share prices have a doubly strong tailwind and accelerate higher.

While the Iran war and its second, third and fourth order effects may hit earnings to some degree, as we run through above, the impact will not be catastrophic – especially in the kinds of industries where we have most of our exposure.

As such, we remain optimistic that the portfolio will be resilient and expect that as the market situation normalizes, further share price appreciation is still very much on the cards.

Indeed, my preliminary, internal estimates show the portfolio has already easily erased March's losses, and powered ahead, up by more than 8% in April to date.

Upcoming travel and quarterly investor Zoom call

I'll be in Copenhagen May 16, and at the Nordic Value Investor event north of Copenhagen May 17-19. From June 1-5 I'll be in Zurich, and June 15-20 in Hong Kong. June 21-25 I'll drop into Singapore, and thereafter I'll be in Australia through the end of July.

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I will aim to host a gathering in Zurich June 1. If there's enough interest, I'll do the same in Hong Kong, and Singapore. In Australia, I will be in Sydney either during the final week of June or the final week of July. I will likely also stop in Brisbane for a night or two at some point. If you want to get together in any of these places, please let us know by quickly filling out this form. I know we have investors in all these places, and it would be good to meet some of you.

- 📍 Copenhagen (May 16)
- 📍 Zurich (June 1)
- 📍 Hong Kong (June 15–20)
- 📍 Singapore (June 21-25
- 📍 Sydney (July 21-23)

As always, I will also host a quarterly call for investors on the Zoom platform. That will take place next week. Details to follow.

Until next time,

Good Investing!

Tim Staermose
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