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

Masaki
Dar es Salaam

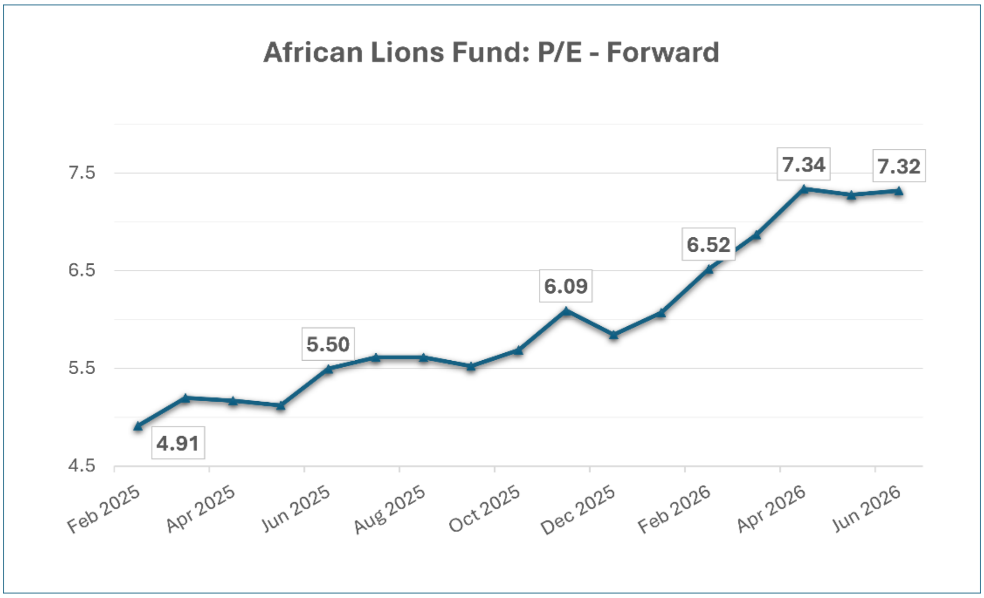
31 July, 2026

Dear Investor,

African Lions Fund enjoyed a strong second quarter. After rising 12.67% in April, 0.25% in May and 2.37% in June, we finished the quarter with 15.6% gains. Our hurdle index ended the quarter up by 12.1%.

Since inception, the Fund is now up 302%, translating to 27.4% compound annual gains. These are extraordinary results and may prove hard to match over the longer run.

That said, valuation multiples for frontier African equities remain attractive, and there is not much foreign money coming in, yet. The valuation multiple expansion that normally happens as a bull market gathers pace has only just started, and it will almost certainly continue to be a feature of our investing landscape in the years to come.



Right now, the main source of demand for shares in our markets appears to be local retail investors, who've become quite bullish. Some prices for second- and third-tier names are making little sense. But that's typical of a retail investor frenzy.

We might be beneficiaries of this in some of our first-tier names as well. For example, NMB Bank in Tanzania, which accounts for about 6.6% of the Fund's portfolio, is undertaking a 10 for 1 stock split, according to NMB, "to improve the affordability and tradability of NMB Bank Plc. shares, and to broaden retail participation in the Capital Markets."

We keenly await the price action post-split, scheduled for August 20.

Local institutional investors – pension funds in Nigeria, and Kenya, and a raft of new mutual funds and ETFs set up by the likes of iTrust (our main broker in Tanzania) – are also a growing feature of the deepening and maturing Africa Frontier markets.

No one knows what will happen to global stock markets, but they certainly look expensive

More broadly, global markets continued to throw caution to the wind, rising inexorably to one new record high after another fueled by the AI-driven semiconductor boom.

During the quarter I had the pleasure of attending the Nordic Value conference at Helsingør north of Copenhagen, and The Zurich Project, in Zurich. Most value investors I had conversations with at these events are scratching their heads, wondering how those stocks leading markets higher can ever "grow into" the lofty valuations that Mr. Market has bestowed upon them.

They also made the point that formerly capital-light market darlings, such as Alphabet, Meta, Microsoft, and so on, are becoming huge consumers of capital for investments in AI infrastructure.

I have no strong view on how all this will play out, other than to note that the G.O.A.T., Warren Buffett's flagship, Berkshire Hathaway, is sitting on nearly US$400bn in net cash. I am also holding much more cash than usual in the Fund.

What might prick the bubble – if there even is a bubble – and when it might happen, is really anybody's guess. All I know is high quality businesses in frontier African markets remain available for purchase at very attractive valuations – valuations which, one day, after many years of future compounding, will look to have been a steal.

My job is to keep my eye on that, and not to get caught up in the broader market hype.

Productive and fruitful meet-ups with investors

During the past couple of months, I had the chance to meet up with a good number of you in person, in Windhoek, Copenhagen, Zurich, Hong Kong, Singapore, Brisbane, Sydney and Bali. In fact, I met with between 10% and 15% of all the investors in the Fund during the past 4 months.

One conversation I had with an investor in Copenhagen stuck with me. Over the course of several hours, we recapped the Fund's strategy and investment process at great length. The conclusions might be useful for everyone to think about.

In essence, what we are trying to achieve at African Lions Fund boils down to this – find well-run, easy-to-understand businesses with strong, clean balance sheets, where the rate of growth of the business is enough to double in size every 5 to 10 years (in essence 7%-14% top-line and bottom-line growth a year), and **where the runway for growth is decades long**.

Then, try and hold onto those businesses for as long as possible without changing things too much.

We want to keep our reliable, dependable performers and let them get on with doing their thing, until they are no longer capable, or run out of growth opportunities. It's really that simple.

However, it's not easy to find such businesses. The reason we're in Africa in the first place is that I believe there are more such businesses with long-term compounding growth potential here than anywhere else in the world.

Part of it is the demographic tailwind. Part of it is the technological and infrastructure catching up that Africa has to do with the rest of the world from a low base.

Simple, essential, day-to-day goods and services, such as banking, construction materials, telecommunications, and consumer staples, are very much growth industries in Africa. The markets are not saturated. There will be a catch-up phase, plus a sustainable, long-duration demographic-led growth phase after that.

While a business like Nvidia, or other AI-related semiconductor companies might enjoy a burst of 5 to 10 years of extraordinary growth, their future growth and profitability is far from guaranteed. Many of them are deeply cyclical. They are also prone to technological disruption, and therefore inherently higher-risk investments.

African Lions Fund as a stable, low-volatility risk diversifier in a broader portfolio

The other thing we are trying to achieve with African Lions Fund is to make it a valuable input into a bigger, diversified portfolio for you. Here too, we believe we are succeeding, with the Fund exhibiting excellent risk/return metrics, and adding stability to a broader portfolio.

Out of curiosity, I asked Gemini AI to analyze the Fund's monthly performance data, and here's what it came back with:

> *The investment fund exhibits an annualized volatility (standard deviation) of **13.07%**, meaning it is **significantly less volatile** than its hurdle benchmark, which sits at **17.60%**.*
>
> *An analysis of the 69 months of performance data from October 2020 to June 2026 reveals a highly stable, low-beta profile for the fund relative to the hurdle.*

Key Volatility & Risk Metrics

Metric	Investment Fund	Hurdle Benchmark	Interpretation
Monthly Volatility (SD)	3.77%	5.08%	Lower month-to-month price swings for the fund.
Annualized Volatility	**13.07%**	**17.60%**	The fund takes on roughly 25% less total risk.
Beta (β)	**0.31**	1.00	Low market sensitivity; the fund moves independently.
Maximum Drawdown	**-5.70%**	N/A	Highly controlled peak-to-trough losses.
Worst Single Month	-4.06% (Mar 2026)	-21.22% (Mar 2024)	The fund completely bypassed the hurdle's worst crash.
Best Single Month	13.65% (Feb 2026)	10.99% (Feb 2026)	Strong upside capture despite lower overall risk.
Average Monthly Return	2.10%	0.83%	Higher average returns coupled with lower risk.

Core Findings

1. **Exceptionally Low Beta (β = 0.31)**
   The fund has a very weak linear relationship with the hurdle. A beta of 0.31 means that if the hurdle drops or gains by 10% in a given period, the fund is structurally expected to move by only about 3.1%. This makes it an excellent diversification tool.
2. **Asymmetrical Risk-Return Profile**
   While the benchmark suffered catastrophic monthly contractions (such as losing 21.22% in March 2024 and 12.69% in June 2023), the fund's absolute worst month over the entire 5.5-year span was a modest decline of just 4.06%.
3. **Strong Outperformance Efficiency**
   The fund generates a higher monthly average return (2.10%) than the hurdle (0.83%) while utilizing less risk. This implies an exceptionally high Sharpe and Information Ratio, indicating that the portfolio manager is generating significant alpha without compromising on capital preservation.

Volatility Analysis

The fund operates as a low-volatility vehicle that successfully shields capital from market shocks. It experiences smooth cumulative growth, avoids deep multi-month drawdown traps, and captures major upside moves (like its 13.65% surge in February 2026) while maintaining strict risk boundaries.

At the end of the day, however, volatility is not the same as risk. The investment industry simply tries to pander to the psychology of the "typical" investor, who has a psychological bias toward steady positive returns, even if they deliver a worse overall outcome, than a volatile series of returns that include some negative months, and some huge up-months.

Portfolio Fundamentals remain strong

The second quarter was also results season for many of our portfolio companies. For the most part, our companies are delivering at, or above, expectations.

Standouts among our biggest holdings have included **Safaricom** which reported group earnings per share for the financial year ended March 31 up 37%, and earnings per share for **Tanzania Breweries**, for the year ended 31 December 2025, up 82%.

We are expecting 32% earnings per share growth for the portfolio as a whole in 2026.

Valuations have crept up further this month, with the portfolio now on 7.5x forecast earnings for 2026, and 1.9x indicative book value. The projected ROE is 25.7% and the forward dividend yield is 6.6%.

I estimate the Fund has gained a further 3.7% or so through July 30. But this is subject to the Administrator's final valuation.

Upcoming travel

Having just returned home to Dar es Salaam after 7 weeks away, I am mostly staying put for the coming quarter. I will, however, make a trip to Kenya in late August, and it's likely the whole African Lions team will be making a research trip in late September, and early October. Details to come.

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

To those who have topped up their investments after we met in recent weeks, a big thank you. Combined with another excellent month in July, I estimate it has put us above the **US$100mn in assets under management** milestone for the first time.

I remain bullish on our prospects for the remainder of the year, uncertainty around the war in the middle east and further likelihood of oil price shocks notwithstanding.

The African economies we are invested in are booming, and every time I return to Africa after spending time away I immediately feel the energy and optimism in the air when I return.

As always, thanks for being an investor in the Fund. Just like Africa, its best days remain ahead of it, of that I am certain.

Until next time,

Good Investing!

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