

**Investment Objective:** To earn capital growth and income through value, arbitrage, and special situation investments in the continent of Africa. Portfolio investments will include equity, debt, and other interests in both listed and unlisted assets.

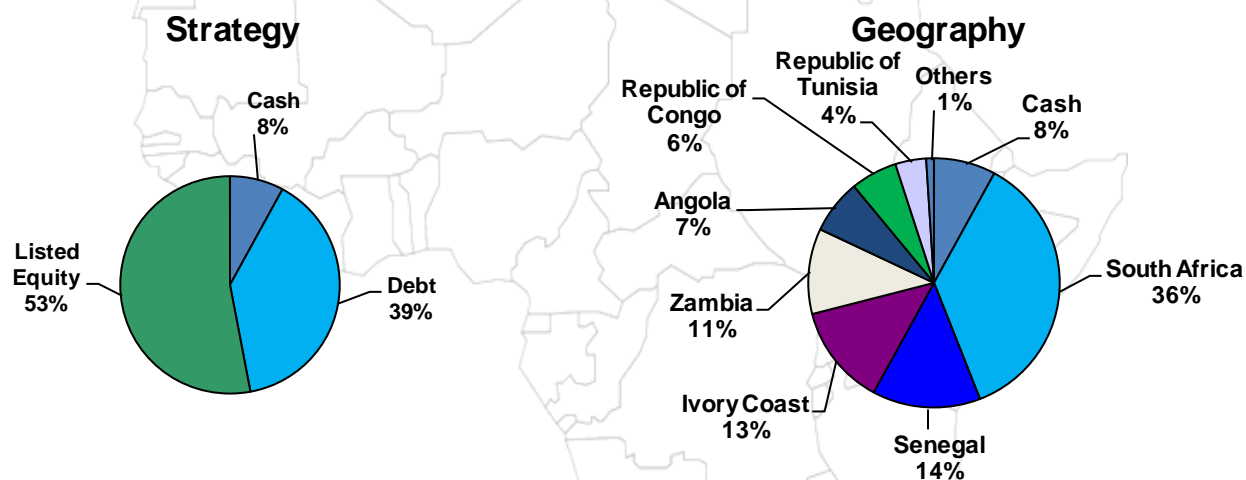
**Listing:** AOF is traded on the AIM market of the London Stock Exchange.

**Dividend policy:** The Fund will pay a quarterly dividend that in sum will equal 1 year Libor on an annual basis.

## Fund Performance (as of 30 September 2010)

NAV per share:	\$0.868	Total Net Assets:	\$37.0 mm
Share price as at 30 Sept 10:	\$0.63	Market Capitalisation:	\$26.9 mm
Premium/Discount to NAV:	-27.4%	Shares outstanding:	42.6 mm
Current Quarterly Dividend:	\$0.0018		

US\$ NAV Return % (Incl Dividends)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY
2010	5.6%	1.2%	3.1%	4.7%	-8.4%	-6.7%	10.9%	0.3%	8.2%				18.5%



Top Ten Holdings	Description	% of NAV
Sonatel	Fast growing mobile phone provider in Senegal and neighboring countries	13.4%
Old Mutual £6.376% and €5% Perpetual Bonds	Largest African life insurance company, with operations across the continent in addition to Europe and the United States	13.0%
African Bank Investments Limited	South African consumer finance and microlending company	10.2%
Shoprite Holdings Ltd.	Largest South African food retailer operating over 1100 stores in 16 countries across Africa, while serving over 14 million shoppers annually	9.9%
Marine Subsea Series I & Series II 9% 12/19/19	Restructured African Offshore bonds paying 9% interest secured by oilfield service and construction vessels operating in Angola	7.0%
Tullow Oil PLC	Oil and gas exploration and production company with focus on West Africa and Uganda	-7.1%
PA Resources 10% 06/20/11	Secured USD bond financing Azurite Republic of Congo field with 2 <sup>nd</sup> lien on Didon field	6.3%
SAPH	Ivory Coast rubber plantation operator and processor	6.0%
Great Basin Gold 8% CB 11/30/14	Gold mining company developing assets in South Africa and Nevada	5.4%
Naspers Ltd	South African leading television and media company	4.6%
<b>TOTAL</b>		<b>68.7%</b>

## Manager's Comment

**Market Conditions:** After an upbeat start to the year, and a difficult second quarter, the third quarter of 2010 excelled. The NAV rose 20.3% from where it finished Q2, including dividends, closing at \$0.868 per share as of 30 September. As a reference in USD terms, during the quarter the S&P 500 rose 10.7%, South Africa rose 23.0%, Egypt rose 9.8%, Kenya rose 8.0%, and Nigeria fell 12.1%.

**Portfolio Highlights:** Shortly after the end of this quarter, AOF concluded a merger arbitrage trade in Afren PLC listed on the London Stock Exchange, and Black Marlin Energy, listed on the Toronto Stock Exchange. The merger was a friendly share-share exchange, but shortly after it was announced the spread between Afren and Black Marlin was near 15%. Typically, such a discount implies a possibility of the target company's shareholders rejecting the bid. But, we felt the likelihood of rejection was remote because the merger solved funding challenges faced by Black Marlin. The acquisition was consummated in early October, generating a 50%+ IRR for AOF.

AOF has been acquiring ordinary shares of Shoprite Holdings on the Lusaka Stock Exchange since the last quarter of 2009. Shoprite is the largest fast moving consumer goods retailer in Africa, with a presence in 16 countries. We have been acquiring the shares in Lusaka instead of the Johannesburg Stock Exchange because they trade there at a 56% discount to JSE share price. The Zambian PE ratio of 9X, dividend yield of 5%, and enterprise value/cash flow from operations of 7X contrasts favorably with the comparable Johannesburg multiples of 24X, 2%, and 18X. Shoprite's operational performance metrics are superb: cash flow operating margins of 4%, return on assets of 13%, and return on equity of 38%, with little debt. As a benchmark, comparable ratios for Walmart are: 6%, 9%, and 21%. Yet, Shoprite's foray into Africa is in its infancy: it has only two outlets in Nigeria. We expect Shoprite to benefit from the migration of urban Africans from open air markets to enclosed and air-conditioned shopping environments.

**Portfolio Appraisal Value:** As of 30<sup>th</sup> September, the Manager's appraisal of the intrinsic economic value of the portfolio was \$1.06 per share. The market price of \$0.63, at quarter end, represents a 41% discount. Note the Appraisal Value is intended to provide a measure of the Manager's long-term view of the attractiveness of AOF's portfolio. It is a subjective estimate, and does not tell when that value will be realized, nor does it guarantee that any particular security will reach its Appraisal Value.

**Strategy:** We remain focused on investing in companies with minimal debt that sell goods and services in short supply in Africa. A considerable part of our search for those companies is directed both in the consumer and financial sectors and in the African markets that failed to participate in the 2009 rally in emerging markets. Broadly, this means that AOF is gradually reducing its portfolio of fixed income and commodity related securities and pursuing investments intended to provide long term growth. We look forward to providing more details in next quarter's report.

## Fund Details

*Bloomberg:* AOF LN  
*Reuters:* AOF.L  
*Website:* [www.africaopportunityfund.com](http://www.africaopportunityfund.com)

*Portfolio Managers:* Francis Daniels  
Robert Knapp

*Listing:* AIM / London Stock Exchange  
*Structure:* Closed-end

*Investment Manager:* Africa Opportunity Partners  
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*Inception:* 26 July 2007

*Domicile:* Cayman Islands

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*Auditor:* Ernst & Young

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