

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.

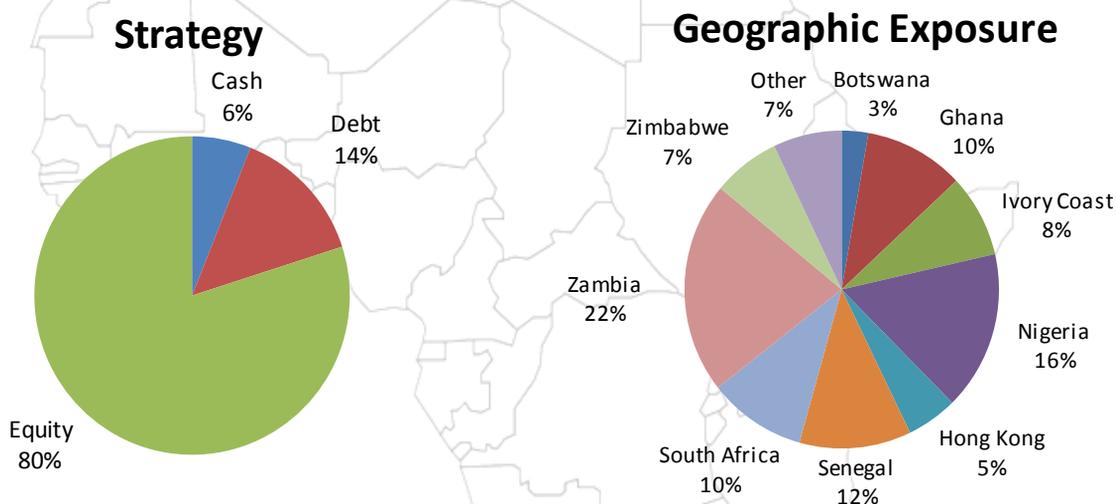
Listing: AOF is traded on the AIM market of the London Stock Exchange.

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 2012)

NAV per share:	\$0.890	Total Net Assets:	\$37.9 mm
Share price as at 30 Sep 12:	\$0.753	Market Capitalisation:	\$32.1 mm
Premium/Discount to NAV:	-15.46%	Shares outstanding:	42.6 mm
Current Quarterly Dividend:	\$0.0026		

US\$ NAV Return % (Incl Dividends)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY
2012	1.8%	0.4%	-0.3%	0.8%	-6.1%	0.8%	-4%	-1.9%	1.1%				-3.9%



Top Ten Holdings	Description	% of NAV
Shoprite Holdings Ltd.	Largest South African food retailer operating over 1700 stores in 16 countries across Africa, while serving over 14 million shoppers annually	14.8%
Okomu Oil Palm PLC	Nigerian palm oil and rubber plantation operator and processor	10.3%
Sonatel	Fast growing mobile phone provider in Senegal and neighboring countries	10.1%
African Bank Investments Limited	South African consumer finance, furniture and electronic appliances retailing company	6.5%
Naspers Ltd	Southern Africa's leading television and media company. Its Chinese listed Tencent holding is hedged with a short position, focusing AOF's investment on the Africa broadcast media franchise. The net exposure is 0.6% of NAV	5.8%
Sea Trucks Group CB 10% 2015	One of largest and fastest growing oil and gas marine contractors in West Africa	5.5%
Tencent Holdings Ltd	Internet, mobile, and telecommunication value-added services provider in China	-5.0%
Enterprise Group Ltd	Insurance company engaged in property and casualty insurance, life assurance, and ownership of commercial and undeveloped property	4.0%
Societe des Caoutchoucs de Grand-Bereby	Ivory Coast rubber and palm oil plantation operator and processor	3.7%
SAPH	Ivory Coast rubber plantation operator and processor	3.6%
TOTAL		59.3%

Manager's Commentary

Market Conditions: AOF's NAV fell during Q3 2012. The NAV, including dividends, declined by 1.2%, closing at \$0.890 on 30 September. As a reference, in US dollar terms in Q3 2012, the S&P rose 6.4%, South Africa rose 6.0%, Egypt rose 24.5%, Kenya rose 8.3%, and Nigeria rose 24.9%.

Portfolio Highlights: From the perspective of omission, AOF's underexposure to industries like Nigerian banking which is recovering from their recent banking woes continues to hurt its relative performance. From the perspective of commission, Great Basin Gold, operator of the Burnstone mine in South Africa and the Hollister Mine, in Nevada, filed for protection from its creditors in Canada and South Africa in September after producing only 35% of its 2012 target production in Q2. Its decline in value accounted for a loss of approximately 2.6 cents per AOF share. Great Basin's disappointment was separate from, and in addition to, the spreading malaise in South Africa as wildcat strikes continue to dog different sectors of its economy.

Turning to the positive, AOFs' portfolio holds several bargains. One example is Letshego Holdings, a \$370 million consumer finance company listed on the Botswana Stock Exchange operating in eleven countries: Botswana, Lesotho, Mozambique, Namibia, Swaziland, Zambia, Kenya, Rwanda, South Sudan, Tanzania, and Uganda. Letshego extends credit to government, quasi-government, and some private sector employees. Its loans are repaid exclusively through payroll deductions. Its most recent H1 2012 results reveal a company with a return on average equity of 26.9%, a return on average assets of 19.7%, a cost to income ratio of 24%, and impairment charges of 2.78% of average advances. Yet, despite a 11% increase in its earnings from 2011 to 2012, Letshego's share price has declined 8.5% in 2012. Consequently, it trades on a trailing P/E of 4.8, and a Price/Book of 1.09. Why such parsimonious valuation metrics for Letshego? It had a large overhang from one of its major shareholders selling its shares for several months. That selling shareholder exited the Letshego register at the beginning of Q4. Predictably, its share price is reflecting already the benefits from the dissolution of that overhang of shares, rising 7% in October.

There are a few corporate developments which will occur in Q4. Sonatel has announced its intention to issue 9 bonus shares for each share in issue. It wishes to make its share more attractive to retail investors in Francophone West Africa. Its current share price hovering around \$210 would be unattractive even to retail investors in major developed markets. For identical reasons, Standard Chartered Bank in Ghana is also undertaking a 5 for 1 bonus share issue. Shoprite's shares in Lusaka continue to suffer from the cloud of litigation with very little trading in its shares during this quarter. The 42% discount between the Lusaka Stock Exchange listed Shoprite share price and the Johannesburg Stock Exchange price of Shoprite widened from 42% at the end of Q2 to 46% at the end of Q3.

AOF has increased steadily its exposure to gold producers like Anglogold Ashanti and lamGold in this quarter. Our exposure stood at 3.16% of AOF's net asset value. In our judgment, despite the operational risks burdening the equity of a gold producer, as opposed to gold itself, the common stock of gold producers, as a class, are deeply undervalued. AOF's net short exposure is \$6.7 million. A noteworthy change of this newsletter is that AOF has switched from reporting its gross cash balances to reporting its net cash, equal to cash freely available after meeting the collateral requirements of its prime broker.

Portfolio Appraisal Value: As of 30 September, the Manager's appraisal of the economic value of the portfolio was \$1.20. The market price of \$0.753 on 30 September represents a 37% 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 security will reach its Appraisal Value.

Outlook: We believe that AOF's portfolio possesses several deeply undervalued companies. Given the challenges facing global markets and in particular heavily indebted economies, the high real interest rate regime prevailing in some of the African countries in which AOF is invested, and the spate of labor strikes bedeviling South Africa, it is difficult to predict when this value will express itself in AOF's NAV. Nevertheless, we remain excited by the investment opportunities.

Fund Details

Bloomberg: AOF LN
Reuters: AOF.L
Website: www.africaopportunityfund.com

Portfolio Managers: Francis Daniels
Robert Knapp

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

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Auditor: Ernst & Young

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