

**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 AIM, a market operated by the London Stock Exchange.

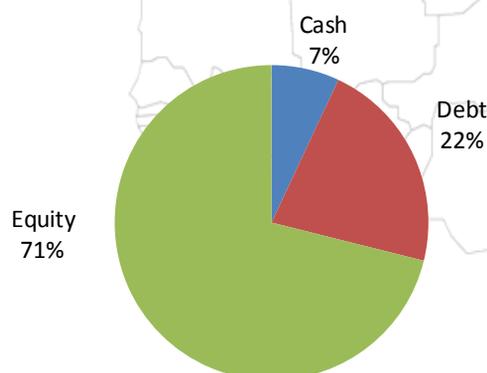
**Dividend policy:** The Fund will pay a quarterly dividend which will equal 1 year Libor on an annual basis.

## Fund Performance (as of 31 December 2013)

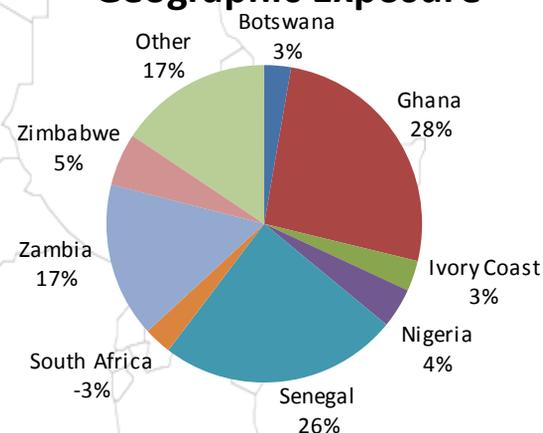
NAV per share:	\$1.222	Total Net Assets:	\$52.1 mm
Share price as at 31 Dec 13:	\$1.148	Market Capitalisation:	\$48.9 mm
Premium/Discount to NAV:	-6.10%	Shares outstanding:	42.6 mm
Current Quarterly Dividend:	\$0.002		

US\$ NAV Return % (Incl Dividends)	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY
2013	4.9%	-0.8%	7.8%	5.6%	-1.6%	0.4%	3.2%	1.7%	2.8%	-0.3%	1.5%	-0.1%	27.7%

### Strategy



### Geographic Exposure



Top Ten Holdings	Description	% of NAV
Enterprise Group Ltd	Ghana insurance company engaged in property & casualty insurance, life assurance, and ownership of commercial and undeveloped property	19.0%
Sonatel	Dominant Senegalese and regional mobile phone provider	13.7%
Tizir Ltd 9% 2017	1 <sup>st</sup> priority bond issued by a joint venture of Eramet of France and Mineral Deposits of Australia to develop the Grande Cote Mineral Sands Project in Senegal with the Tyssedal Titanium smelter in Norway providing collateral	8.8%
Shoprite Holdings Ltd	Largest South African food retailer operating over 1700 stores in 16 countries across Africa, while serving over 14 million shoppers annually	8.7%
African Bank Investments Ltd	South African consumer finance company, also operates a furniture and electronic appliances retailing division	6.1%
IAMGOLD Corporation 6.75% 10/01/20	Gold mining company focused in West Africa, while also holding some South African and Quebec development & exploration projects	4.4%
PA Resources 12.25% 2016	Swedish listed oil and gas company with producing assets in West Africa and North Africa undergoing a recapitalization	4.1%
Standard Chartered Bank Ghana	Leading Ghana commercial bank	3.8%
Letshego	Botswana based consumer finance lender focused on government sector employees	2.8%
Continental Reinsurance PLC	The company offers fire, marine & aviation, bond, auto, engineering, general accident, and life reinsurance services	2.6%
<b>TOTAL</b>		<b>74.0%</b>

## Manager's Commentary

**Market Conditions:** The Africa Opportunity Fund ("AOF") finished 2013 with a respectable Q4. The NAV rose 1.1% from its September position, closing at \$1.222. Overall in 2013 the NAV returned 27.7% including dividends, while the share price rose 52.7%. As a reference, in US dollar terms in 2013 the S&P rose 32%, Brazil fell by 16%, Russia rose 1%, India fell 5%, and China rose 4%. In Africa, South Africa fell 2%, Egypt rose 12%, Kenya rose 48%, and Nigeria rose 48%.

**Portfolio Highlights:** AOF's top performers in 2013 were the equities of Enterprise Group, Tanzania Breweries, Okomu Oil, and Old Mutual in Zimbabwe with total USD returns of 205%, 175%, 126%, and 84%, respectively. Excluding Old Mutual, each of them is either listed on a notoriously illiquid stock exchange or is a member of a tiny industry group, with the consequence that building or exiting positions in them is time consuming and difficult. For example, even though it took five weeks to sell 79% of AOF's Okomu holdings, it took four and a half months to dispose of the balance by the end of 2013. Yet, blessed with both high US Dollar returns on assets and high real returns on equity, each of those companies is the largest private operator in its respective African industry. Many investors and analysts ignored them because of the illiquidity of their shares and their modest market capitalizations. As an illustration, Enterprise Group had a market capitalization of \$20 million when AOF made its first purchase in 2010, and its market capitalization is now a still modest \$104 million. Indeed, the market's disinterest in strong African companies with micro market capitalizations has been a source of fertile investment opportunities for AOF.

AOF's principal laggards of 2013 were concentrated in the gold and consumer finance industries of South Africa. Its South African gold holdings lost 66%, and its African Bank holding declined 37%. The gold holdings mostly fell in line with the gold price, and African Bank fell as a result of losses on its loan book and consequent rights offering which was concluded in December. Despite its travails, African Bank's net cash generated from operations remains high, and is the source of our optimism towards the eventual outcome.

We believe that AOF's portfolio possesses undervalued companies. Its top 10 holdings combined offer a weighted average yield of 5.1%, a rolling P/E ratio of 11.5X, a return on assets of 10.8%, and a return on equity of 18.1%.

**Portfolio Appraisal Value:** As of 31 December, the Manager's appraisal of the intrinsic economic value of the portfolio was \$1.32 per share. The market price of \$1.148 as of year-end represents a 13% 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. Nothing in this paragraph or elsewhere in this document should be deemed to constitute a profit forecast.

**Strategy:** We remain focused on investing in companies with minimal debt that sell goods and services that are in short supply in Africa. We also invest in commodity related companies, on a selective basis, when we can implicitly purchase the underlying resources at a material discount to spot market values. In our opinion, 2014 offers an exciting investment vista for the value investor in Africa. We will provide a more detailed review of 2013 and portfolio activities in our upcoming Annual Report.

The Investment Manager will make a presentation during the February 2014 Edmond de Rothschild conference in London.

**Words of Gratitude & Remembrance:** We note the passing of the late South African President Nelson Mandela at the end of 2013. On behalf of AOF, we would like to join the millions of mourners who have expressed their condolences to the Mandela family and the South African people. Mr. Mandela's example of a principled and courageous struggle to create a non-racial constitutional democracy in South Africa will always be a standard of true statesmanship. Our gratitude to him, as African investors, is grounded in the actions he took to place South Africa in the family of democracies governed by the Rule of Law. By ensuring that Africa's most developed state lived by democratic mores, Mr. Mandela made Africa more secure for Africans and Africa investors, alike. Thank you!

## Fund Details

*Bloomberg:* AOF LN

*Reuters:* AOF.L

*Website:* [www.africaopportunityfund.com](http://www.africaopportunityfund.com)

*Listing:* AIM / London Stock Exchange

*Structure:* Closed-end

*ISIN:* KYG012921048

Euroclear/Clearstream

*Inception:* 26 July 2007

*Domicile:* Cayman Islands

*Portfolio Managers:* Francis Daniels

Robert Knapp

*Investment*

*Manager:* Africa Opportunity Partners

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