Africa Opportunity Fund Ltd – Ordinary Shares

31 March 2016

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.

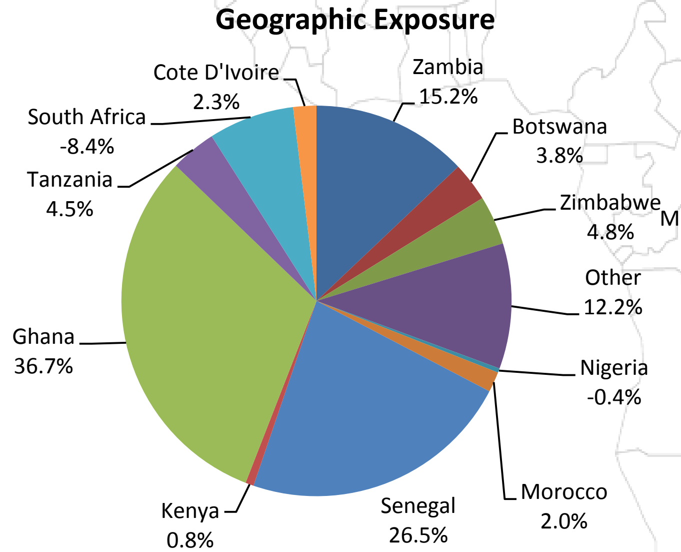
Listing: Specialist Fund Segment of the London Stock Exchange.

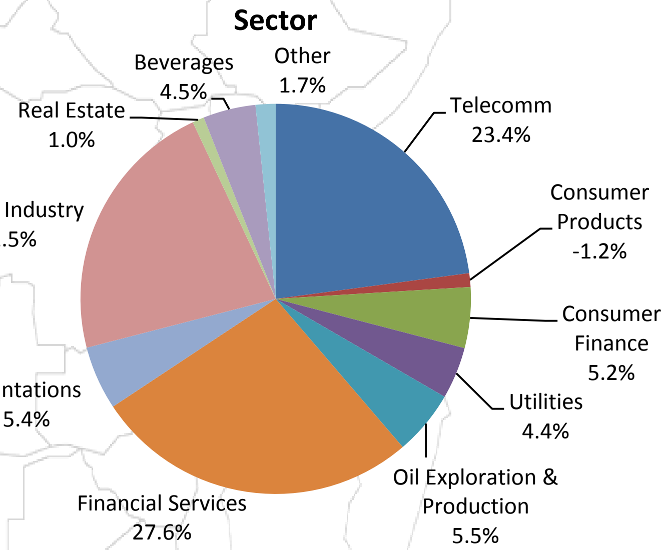
Dividend Policy: An amount equal to the annual comprehensive income of the Company (excluding net capital gains/losses).

Fund Performance (as at 31 March 2016) – Ordinary Shares

NAV per share:	$0.883	Total Net Assets:	$37.7 mm
Share price as at 31 March 16:	$0.637	Market Capitalization:	$27.1 mm
Premium/Discount to NAV:	-28%	Shares outstanding:	42.6 mm

US$ NAV Total Return %	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY
2016	-3.2%	2.5%	1.9%										1.0%
2015	-5.2%	-1.8%	-2.4%	2.3%	1.0%	-2.5%	4.2%	-4.5%	-3.3%	0.5%	2.8%	-2.3%	-11.4%
2014	2.3%	3.1%	-4.0%	-3.2%	-8.0%	0.8%	0.6%	-2.2%	-2.6%	-4.0%	-2.1%	0.9%	-17.3%
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%
2012	1.8%	0.4%	-0.3%	0.8%	-6.1%	0.8%	-0.4%	-1.9%	1.1%	-2.4%	4.6%	6.4%	4.4%
2011	-1.4%	-1.1%	2.9%	5.5%	1.5%	-0.9%	4.2%	-2.5%	-9.0%	3.6%	-2.8%	2.6%	1.6%
2010	5.6%	1.2%	3.1%	4.7%	-8.4%	-6.7%	10.9%	0.3%	8.2%	7.5%	-3.5%	3.6%	27.1%
2009	-2.1%	-10.4%	16.7%	6.2%	3.7%	10.0%	5.0%	2.4%	8.0%	1.5%	1.6%	0.1%	48.2%
2008	-0.7%	1.9%	1.4%	1.0%	0.1%	-0.6%	-3.8%	-8.2%	-9.8%	-23.8%	-10.2%	-4.1%	-42.5%





Holdings: 75% Equity, 17% Debt, 8% Unencumbered Cash

Top Ten Holdings - Ordinary Shares	Description	% of Nav
Enterprise	Ghanaian property & casualty insurance and life assurance company	21.1%
Sonatel	Dominant Senegalese and regional integrated telecommunication operator	18.9%
IAM Gold - 6.75% 10/01/20	Gold mining company focused in West Africa	6.1%
Tizir - 9% 09/28/17	1st priority bond backed by Grande Cote mineral sands project in Senegal	4.9%
Shoprite	Largest South African food retailer operating over 2100 stores in 15 countries	4.0%
Tanzania Breweries	Brewer and distributor of malt beer, other beverages, and spirits	4.0%
Anglogold Ashanti	Gold mining company operating in 11 countries	3.7%
SCB Ghana	Leading Ghana commercial bank	3.5%
Letshego	Botswana based consumer finance lender focused on government employees	3.4%
Copperbelt	Leading electricity distributor in the Zambian Copperbelt	3.2%
TOTAL		**72.8%**

Africa Opportunity Fund Ltd – C-Shares

31 March 2016

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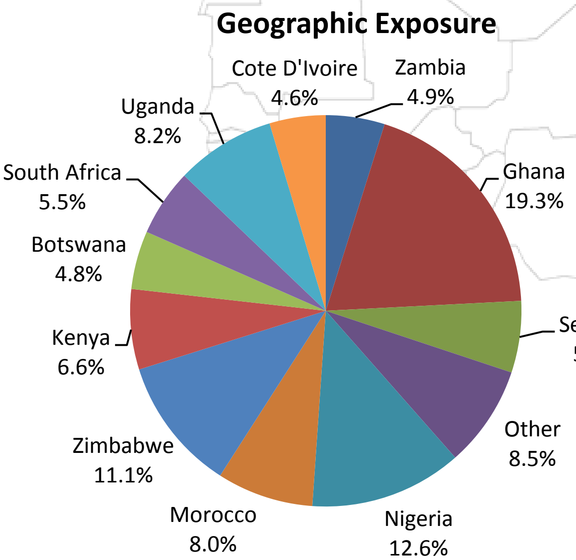
Listing: Specialist Fund Segment of the London Stock Exchange.

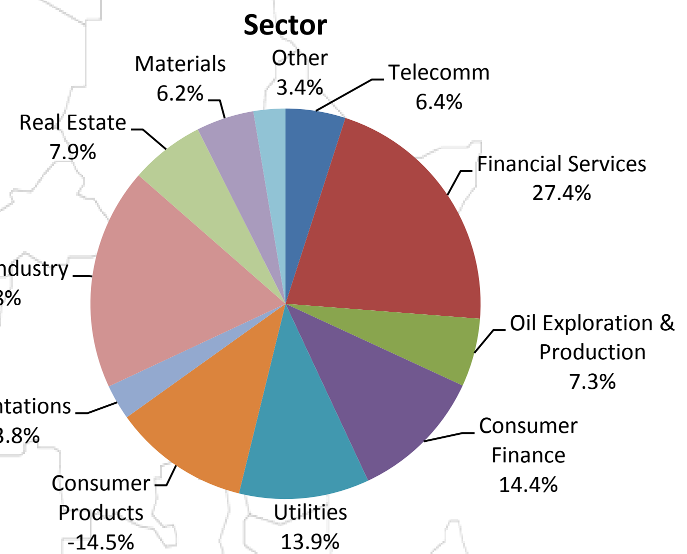
Dividend Policy: An amount equal to the annual comprehensive income of the Company (excluding net capital gains/losses).

Fund Performance (as at 31 March 2016) – C-Shares

NAV per share:	$0.768	Total Net Assets:	$22.4 mm
Share price as at 31 March 16:	$0.640	Market Capitalization:	$18.7 mm
Premium/Discount to NAV:	-16.7%	Shares outstanding:	29.2 mm

US$ NAV Total Return %	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	FY
2016	-5.4%	1.8%	-2.9%										-6.5%
2015	-2.5%	-0.7%	-0.7%	1.6%	1.5%	-4.4%	-1.5%	-3.1%	-1.8%	0.4%	0.1%	0.9%	-10.0%
2014	N/A	N/A	N/A	-2.6%	-0.2%	0.0%	0.0%	-0.8%	-0.5%	-2.0%	-2.4%	-0.5%	-8.8%





Holdings: 62% Equity, 30% Debt, 8% Unencumbered Cash

Top Ten Holdings - Ordinary Shares	Description	% of Nav
Continental	Leading Pan-African reinsurer offering non-life and life reinsurance products	8.6%
Enterprise	Ghanaian property & casualty insurance and life assurance company	7.8%
African Bank - 5% 18/28/18	South African consumer finance bank undergoing restructuring	7.6%
Stanbic Uganda	Leading commercial bank in Uganda	7.4%
Anglogold Ashanti	Gold mining company operating in 11 countries	6.1%
Kenya Power & Light	Distributor and retailer of electricity in Kenya	6.0%
Mashonaland	Zimbabwean real estate company	5.8%
Dangote Cement	Largest producer of cement in the African continent	5.5%
Tizir - 9% 09/28/17	1st priority bond backed by Grande Cote mineral sands project in Senegal	5.3%
Copperbelt Energy	Leading electricity distributor in the Zambian Copperbelt	4.4%
TOTAL		**64.5%**

Manager's Commentary

Market Conditions

The Africa Opportunity Fund ("AOF") ordinary share NAV rose 1% in Q1. In the same period, the share price fell 1.5% from $0.648 to $0.637. As a reference, in US dollar terms, in Q1 the S&P rose 1%, Brazil rose 28%, Russia rose 16%, India fell 2%, and China fell 14%. In Africa, South Africa rose 10%, Egypt fell 4%, Kenya rose 4%, and Nigeria fell 7%. Three Africa-focused exchange traded funds – the Lyxor ETF Pan Africa (PAF FP) listed on the Euronext Paris, the DBX MSCI Africa Top 50 (XMAF LN) listed on the LSE, and Market Vectors Africa Index (AFK US) listed on the NYSE – rose, respectively, 22%, 7%, and 6%.

Ordinary Share Portfolio Highlights

The Fund underperformed several Africa indices this quarter. It avoided the worst of the downdraft of January and February. But its short book acted as a weight during the March rally. During the quarter, the Fund acquired equity and debt securities of Anglogold Ashanti, Goldfields, Kosmos Energy, and Tullow Oil. The Fund's Anglogold holdings added 1 cent per share of gains in this quarter. We have little conviction about the future path of gold and oil prices. But, these companies operate mine and oil fields with low operating costs. The Jubilee field in Ghana, for example, has an operating cost per barrel between $10 and $15, ensuring its ability to generate operating cash flow even if crude oil prices dropped towards $20. In the case of Anglogold and Goldfields, there has been a trend of declining costs per ounce over the last few years. Anglogold Ashanti has reduced its average all-in sustaining costs per ounce from $1,210 to $911 over the last two years, improving its capacity to weather a low gold price environment. In each case, the implied price we paid per reserve ounce was significantly lower than current spot prices and our estimates of their appraisal value. Taking the risk of future commodity price declines into account, our security selection favoured debt over equity. We bought oil and gas debt with yields of 12%-14% in companies we believe to be well capitalized. Fortunately, both debt and equity prices enjoyed the benefits of the rally in those sectors late in this quarter. The ordinary shares had 5% of its net asset value in gold mining equities, 7% in gold mining debt, 1% in oil and gas equities, and 4% in oil and gas debt.

Sonatel has been in the AOF portfolio for more than 8 years. Throughout that period, it has generated high returns on equity, high returns on assets, and traded on a high dividend yield. In the last two years, Sonatel has been rerated from an 'ex-growth' company. It indicated to investors in a conference call in Q1 that it had reached an understanding with France Telecom to acquire an existing operator in a neighbouring market. The details are yet to be disclosed. However, we infer that Sonatel will be incurring fresh debt to support entry into a new market, changing the status of its balance sheet from net cash to net debt. Sonatel has been a laggard in the value-added services area when compared to Safaricom, for example. A minuscule 1.7% of its 2015 revenues came from its M-Pesa equivalent mobile money product known as Orange Money. Launched in 2010 in partnership with the Senegalese subsidiary of BNP, Sonatel viewed it as a customer retention magnet instead of a source of high profitable revenues. Now, Sonatel has gone one step better than Safaricom, and obtained an electronic money issuer licence in Senegal, Mali, and Guinea. Those licenses enable Sonatel to earn interest on the "float" earned from its Orange Money product by investing in treasury bills and bonds. Sonatel's target is to generate 10% of its 2020 revenues from Orange Money products. Thus, a telecommunications company enters the world of financial services to become more valuable to its shareholders and customers. Sonatel's 3.7% return in Q1 earned $0.05 per ordinary share.

AOF also increased the size of its short book. In so doing, we incurred losses in Q1. Quarterly losses will occur from time to time. However, AOF has generated profits in its short book in 5 of the short book's 7 year life. We remain comfortable with our selection criteria for short candidates: companies commanding high P/E ratios and high P/cash flow multiples in industries facing declining growth prospects over the next two to three years. The African consumer, especially the heavily indebted South African consumer, suffering declining real disposable income tends to be the direct or indirect customer of those industries. The two largest source of losses were the Shoprite and Massmart short positions. The ordinary shares lost 1.2 cents per share from its Shoprite short and 0.6 cents per share from its Massmart short. South African retailers tend to attract foreign inflows during emerging market rallies, hence those losses in Q1.

Shoprite's arbitration, originally scheduled for April, was postponed to August 2016.

C Share Portfolio Highlights

The NAV of AOF's C share fell 6.5% in Q1. The C share's portfolio has exposure to 36 issuers, of which 15 are new issuers to AOF. Its largest losses came from Continental Reinsurance, Mashonaland Holdings, and its short book. Continental and Mashonaland Holdings constituted 8.3% and 5.6% of the NAV of the C shares. The C shares had 7% of its net asset value in gold mining equities, 5.3% in gold mining debt, 2.5% in oil and gas equities, and 3.9% in oil and gas debt. Although gold companies like Anglogold and Iamgold contributed positively to the C share portfolio, those gains were more than compensated by the losses incurred in some of the large holdings of the C shares.

Continental Reinsurance's market capitalization fell by 20% to $47.5 million at the end of Q1 2016. It was valued on a Price/Book ratio of 0.65x, a P/E ratio of 4.7x, and a dividend yield of 13.3%. That loss went some way to bringing the stock market performance of Continental Reinsurance into line with that of the Nigerian market. Continental was down 10% since September 30, 2015, and up 12% since March 31, 2015 versus the 17% decline over both periods. Ironically, Continental reported strong 2015 results: net premium revenue rose 7%, its combined ratio fell slightly from 90.4% to 88.7%; investment losses were reversed into gains, net income doubled to $10 million, and free cash climbed to $13.5 million. A.M. Best reaffirmed its rating and withdrew its negative watch warning in February when Saham Finances sold 49% of its controlling stake in Continental to a Nigerian private equity group. Founded in 1985 and listed on the Nigerian Stock Exchange in 2007, Continental is a composite reinsurance company, with a concentration in the property and casualty fields. Its Pan-African network belies completely its tiny market capitalization. It has offices in Nigeria, Cameroon, Cote d Ívoire, Tunisia, Kenya, and Botswana, writes business in 50 African countries, and services more than 200 insurance companies. Its 2015 revenue growth in a weak Nigerian economy emanated from double digit growth (albeit off a low base) in its Non-Nigerian offices other than the Douala office. Nigeria's revenues declined from 60% of group revenues in 2014 to 54% in 2015. For contrast, the Tunisia, Botswana, and Kenya offices grew revenues by 72%, 70% and 34%, respectively, to constitute 5%, 9% and 16% of group revenues. Profits accruing to non-controlling interests outside Nigeria rose 250% in 2015 versus a 100% rise in profits attributable to Continental's shareholders. Continental is a minnow when compared to the state-owned reinsurance companies like Kenya Re and the supranational reinsurance companies like Africa Re. On a continent which tends both to suffer less than its proportionate share of catastrophes and be underreinsured, over the next 5 years, Continental should be able to increase its book of business and profits, despite Nigeria's macro-economic crisis. There will be down quarters, from time to time, as is illustrated by the Q1 2016 results; however, the secular trends point to a much larger reinsurance business emerging in Africa. Continental's Q1 losses accounted for 2 cents of the C shares' losses.

Mashonaland Holdings accounted for 1 cent of loss per C share. Zimbabwe remains firmly in the grip of deflation, deepened by a shortage of US Dollars. Bad debts of tenants and collection problems have escalated, hurting Mashonaland's results. Actual details are sobering testimony of the resilience and potential additional profitability of Mashonaland in a more benign environment. Mashonaland earned operating profit in its 2015 year of $1.9 million while writing down its property and share portfolio by $7.2 million for an overall net loss of $ 6 million. It had a 48% vacancy rate in an office and retail portfolio earning $10.8 per square meter. Its overall vacancy rate was 24% for a property portfolio with an average monthly rental per square meter of $5.7. Bankruptcy is the typical condition of a property company with high vacancy levels. Mashonaland has avoided that fate because it has no debt. The Reserve Bank of Zimbabwe has tried to address the shortage of US Dollars by introducing a new instrument called a "bond note" after the end of Q1. This new instrument appears eerily similar to the defunct Zimbabwe Dollar, minus a name. Time will tell whether this instrument will retain its value vis-à-vis the US Dollar. We have our doubts. It would be disingenuous not to admit that Zimbabwe's travails have lasted longer than we expected. Still, a strategy of buying buildings at cents on the Dollar should yield a decent risk-adjusted profit at some point in the future.

Q1 was a quarter for losses in the short book of the C shares, constituting 20% of the C share NAV. Those losses accounted for 2 cents per C share, as, at 20% of the C share NAV, that short book accounts for a larger proportion of the C share portfolio than the ordinary shares' short book (17% of NAV).

Portfolio Appraisal Value

As of March 31, the Manager's appraisal of the intrinsic economic value of the Ordinary Share portfolio was $0.98 per share. The market price of $0.648 at quarter end represents a 34% discount. The Manager's appraisal of the intrinsic economic value of the C Share portfolio was $1.03 per share. The market price of $0.703 at quarter end represents a 32% discount. Note the Appraisal Values are 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.

Attribution Analysis

We have set forth an attribution analysis for Q1 2016 at the end of this quarterly newsletter to give readers more data about the underlying sources of the performance of the ordinary share portfolio and the C share portfolio.

Merger of Ordinary and C shares

Further to the intention to merge the Ordinary and C shares originally announced in AOF's interim financial statements to June 2015, the board of AOF decided to delay the merger of the two classes of shares until the conclusion of the Shoprite arbitration, hopefully later in 2016.

Strategy

The long-term investment appeal of Africa remains intact. We remain focused on investing in companies that sell goods and services in short supply. 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. AOF's ordinary share portfolio possesses undervalued companies. Its top 8 equity holdings offer a weighted average dividend yield of 4%, a rolling P/E ratio of 21x, a return on assets of 10%, and a return on equity of 18%. Excluding Copperbelt, which recorded a 2015 loss exceeding its market capitalization, AOF's ordinary share portfolio's top 7 equity holdings had a weighted average dividend yield was 3.5%, a P/E ratio was 11x, a return on assets of 12%, and a return on equity of 23%. The corresponding statistics for the top 8 equity holdings in AOF's C share portfolio are a dividend yield of 6%, a P/E ratio of 109x, a return on assets of 7%, and a return on equity of 3%. If Copperbelt were excluded, then the top 7 equity holdings of the C shares had a weighted average dividend yield of 3%, a P/E ratio of 11x, a return on assets of 12%, and a return on equity of 23%. As African markets adjust to the down draft of weak commodity prices and volatility, we are finding excellent long and short opportunities. As always, caution is necessary. It is a privilege to have investible funds. We intend to exercise that privilege with prudent confidence.

Analysis of Portfolio return by Sector and by Geography

Africa Opportunity Fund
Return by Sector
For Q1 2016

Return by Sector, % of N.A.V	Ordinary Shares	C Shares
Telecommunications	0.8%	0.3%
Financial Services	-0.3%	-2.6%
Consumer Finance	-0.4%	-0.3%
Utilities	0.2%	-0.4%
Oil Exploration & Production	0.4%	0.6%
Consumer Products & Services	-2.4%	-2.9%
Plantations	0.3%	0.6%
Mining Industry	3.1%	3.9%
Real Estate	-0.7%	-1.9%
Materials	0.0%	-0.1%
Beverages	-0.3%	0.0%
Other	-0.5%	0.0%
	0.2%	**-2.8%**
Net Working Capital	0.8%	-3.7%
Return on N.A.V	**1.0%**	**-6.5%**

Africa Opportunity Fund
Return by Geography
For Q1 2016

Returns by Geography, % of N.A.V	Ordinary Shares	C Shares
Zambia	0.4%	0.4%
Ghana	0.7%	0.7%
Senegal	0.5%	-0.1%
Other	0.9%	0.5%
Nigeria	-0.8%	-2.3%
Cote D'Ivoire	0.3%	0.6%
Morocco	0.2%	0.6%
Zimbabwe	-0.7%	-1.7%
Kenya	-0.1%	-1.1%
Botswana	-0.4%	-0.5%
Tanzania	-0.3%	0.0%
South Africa	-0.5%	0.8%
Uganda	0.0%	-0.7%
	0.2%	**-2.8%**
Net Working Capital	0.8%	-3.7%
Return on N.A.V	**1.0%**	**-6.5%**

Africa Opportunity Fund Ltd

31 March 2016

Fund Details (Ordinary Shares)

Bloomberg:	AOF LN
Reuters:	AOF.L
Website:	www.africaopportunityfund.com
Listing:	SFM / London Stock Exchange
Structure:	Closed-end
ISIN:	KYG012921048 Euroclear/Clearstream
Inception:	26 July 2007
Domicile:	Cayman Islands

Fund Details (C-Shares)

Bloomberg:	AOFC LN
Reuters:	AOFc.L
Website:	www.africaopportunityfund.com
Listing:	SFM / London Stock Exchange
Structure:	Closed-end
ISIN:	KYG012921121 Euroclear/Clearstream
Inception:	17 April 2014
Domicile:	Cayman Islands

Portfolio Managers:	Francis Daniels Robert Knapp
Investment Manager:	Africa Opportunity Partners Ltd.
Auditor:	Ernst & Young

Important Information

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