



Why is Africa a good investment opportunity?

We believe that now is an excellent time to invest in Africa. Although Africa did not escape the global slowdown completely, growth still remained positive over 2009, weathering the storm thanks to a strong economic and financial performance in the years leading up to the global crisis. Now the continent is poised to return to its previous high growth trajectory, a result of such structural drivers as the reinvestment of commodity gains and demographic trends, focused upon a young population and a growing middle class. In 2010 the eyes of the world will be on Africa, and we believe investors should position themselves accordingly.

How did Africa cushion itself for the global slowdown?

A key factor in the African story has been the improved financial management that has seen commodity gains in Sub-Saharan Africa put to good use: the reduction of national debt, investment in infrastructure under broadly balanced budgets and growth in savings and reserves. All of this created a cushion which enabled African economies to follow the lead of the West and provide a fiscal injection when most needed in 2009.

How is Africa recovering from the crisis?

African governments were quick to respond to the challenges of the financial crisis by implementing fiscal programmes to spend on infrastructure projects. This was particularly the case in the main African economies of South Africa, Egypt and Nigeria, with increased spending on roads, power, water, housing and schools, amongst other areas. Nigeria has attempted to clean up its banking sector following a special audit in 2009, while South Africa is now gearing up to host the World Cup this summer.

A reminder of the Africa story

Expenditure on infrastructure is vital for the development of African economies, as poor quality infrastructure is the most obvious bottleneck holding back growth. Aside from the direct benefits of, for example, better housing, improved communications and transport, and more secure power, infrastructure expenditure sets in motion a virtuous circle that will accelerate development. As jobs are created, it enables individuals to move from the black economy into the world of formal employment, with its associated job security and regular pay. This is in turn attractive to the banking sector, which is able to grow retail deposits, and thereby grow available credit, initially to the commercial sector (promoting further productive investment and entrepreneurial activity) and later to the household sector. A developing retail banking sector is usually the first sign of a developing consumer economy.

Why is 2010 a good time to invest in Africa?

In 2010 the eyes of the world fall upon Africa. The FIFA World Cup in South Africa will be the biggest event ever held on the African continent, and will be watched by an estimated 3 million stadium spectators, with a cumulative global TV audience estimated at 30 billion. Elsewhere in Africa, 17 countries will celebrate 50 years of independence, while more recent democracies such as Sudan and Rwanda will hold elections. Africa is growing in importance as a global player, fostering stronger links with partners like China, Russia, India and the EU, and the African voice on the global stage is getting louder, with the African Union representing common interests in multilateral settings. Finally, African stockmarkets are not only cheap relative to other emerging markets and developed markets, but also display a low level of correlation with other markets.

Magna Africa Fund

Market Update

South Africa

South Africa was the only major country in Africa to suffer a recession in 2009, though economic activity was again growing from the third quarter, and subsequent indicators have been positive; consumer sales in December were notably strong. Although unemployment continues to increase, the rate of this increase has slowed, and the SARB leading indicator index is pointing towards strong growth. Inflation is finally in range, and interest rates are likely to have bottomed out at 7%. Growth forecasts for 2010 range from 1.5% to 3.2%.

Nigeria

Nigeria was amongst the worst performing global stockmarkets over 2009, in part the result of a self-inflicted banking crisis. Nevertheless, the economy continued to grow with the non-oil sector especially strong. Following a long period of uncertainty, the Central Bank of Nigeria conducted an audit of the banking sector which resulted in a capital injection of NGN 620 billion and removal of 10 chief executives. Although some uncertainties persist, notably around the future of the failed banks, this sector is now relatively clean and loan growth is returning. An oil price of around USD 70 to USD 80 a barrel is very positive for the country, with its budget based on USD 57 a barrel, especially if higher levels of output can be sustained following the amnesty in the Niger Delta area.

Egypt

The Egyptian stockmarket performance of 2009 did not reflect its relatively strong economic performance. GDP growth of 4.5% surprised on the upside, as the fiscal stimulus had the desired impact. The stockmarket was hit by external concerns arising out of the situation in Dubai and relations with Algeria, the impact of both of which were overstated. We continue to find good opportunities in Egypt, specifically in real estate, telecoms, infrastructure, and financials.

Kenya

The Nairobi Stock Exchange also lagged behind other emerging markets in 2009, and we would expect it to catch up in 2010.

The valuation table below demonstrates that Africa is cheap on a PE basis relative to other emerging markets.

Price earnings ratios	2009	2010	2011
South Africa	15.5	12.3	9.6
Egypt	12.7	9.8	7.4
Nigeria	13.8	7.4	n/a
Kenya	11.0	10.1	n/a
Emerging Markets	17.0	12.9	11.0
Developed World	19.0	14.6	12.1

Source: Barnard Jacobs Mellet, UBS, Jan 2010

Innovative Africa . . .

African businesses have come up with innovations that the rest of the world are following

Mobile Phones

Africa is pioneering the transformational use of mobile phones and prepay infrastructure, with the mobile phone functioning as a mobile wallet, allowing individuals who may not hold a bank account to make financial transactions, such as transferring money to family or paying utility bills. Safaricom in Kenya was the first to launch such a product, M-PESA, in a country where only 20% of the population have bank accounts, whereas 80% have access to mobile phones. South Africa is due to follow, with Blue Label's infrastructure additionally enabling South African mobile users to prepay for location-based services including location tracking, security alerts, and traffic alerts.

Banking and Insurance Products

African banks have pioneered the use of payroll-backed lending to penetrate the retail banking market and extend credit to individuals that would otherwise not have access. Egyptian and Nigerian banks target the employees of their corporate clients, with security provided by the fact that the monthly payroll goes through the bank's channels facilitating recovery in the event of default. In the insurance sector, Discovery Insurance in South Africa launched the Vitality Programme which provides benefits to health insurance customers that demonstrate they are leading a healthy lifestyle, for example discounted gym membership, cheaper fruit and vegetables, and even discounted cinema tickets, as an additional perk. The idea has since been copied in Europe.

Magna Africa Fund

Fund Update

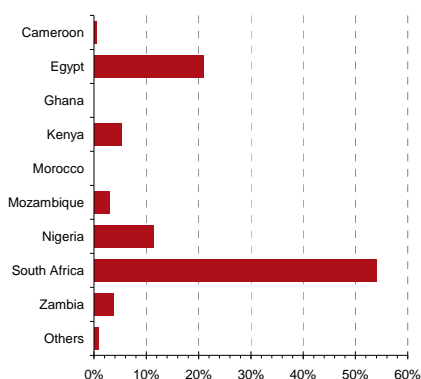
Investment Approach

Our approach within the Magna Africa Fund remains a bottom-up, all-cap, active stockpicking one. We seek investments in those companies where we believe that underlying value has been misunderstood, and our process includes face to face meetings with senior management, appraising the market in which the business operates, and building financial models to assess the company's specific growth prospects.

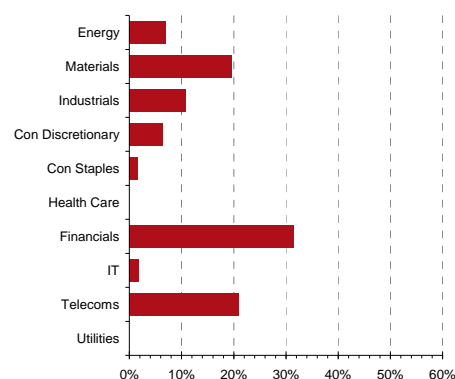
The South African component of the Magna Africa Fund is currently at 54.0%, consisting of a number of pan-African companies (which are listed in South Africa but with pan-African businesses). Excluding these, the South African exposure falls below 40%. Within this, we have a large exposure to the construction, telecommunications and media sectors, which we favour.

Portfolio Exposure

Country



Sector



Top 10 Holdings

Stock name	Country	Sector	Weight
MTN	South Africa	Telecommunication Services	9.6%
Naspers	South Africa	Consumer Discretionary	6.3%
Talaat Moustafa Group	Egypt	Financials	5.7%
Absa	South Africa	Financials	5.0%
Sasol	South Africa	Energy	4.6%
CIB	Egypt	Financials	4.6%
Impala Platinum	South Africa	Materials	4.6%
Telecom Egypt	Egypt	Telecommunication Services	4.5%
GT Bank	Nigeria	Financials	4.0%
Kenmare	Mozambique	Materials	3.0%

Source: Charlemagne Capital, as at 29 Jan 2010

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