

Maris Africa Fund

Q1 2012

First Closing	9th June, 2009
Final Closing	8th December, 2010
Commitments	\$26 million
Fund's domicile	Cayman Islands
Structure	One General Partner 55 Limited Partners
Investment focus	Start-up Development capital Buy-out investments Sub Saharan Africa

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We are very pleased to announce two new investments that provide the fund with its first exposure to Africa's strong agricultural potential. The first investment is in an established and well managed agro-processing company located in East Africa that serves both local and export markets. The second is in Equatorial Teak Company (South Sudan), Africa's only FSC certified plantation grown teak. This is a turnaround opportunity to revive mature and important forestry assets, located in a complex environment that we know well.

All portfolio companies have seen encouraging performance this year. Unfortunately the same cannot be said of South Sudan's political environment (please see Country Reports for a detailed analysis). Q1 saw South Sudan halt production at its oil fields due to an ongoing pipeline transit fee dispute with Sudan. This was a critical decision as oil makes up 98% of government revenues, and in April the new country came closer to war with Sudan than at any time since the 2005 CPA.

This has cast a shadow over some excellent results. By the end of Q1, the fund's best performing company, Network Support Services, was set to pay out a \$500,000 dividend to shareholders. The company is valued at c2.5x 2011 PE, which we feel is suitably conservative given the environment. Q1 also saw Acacia Village's best ever quarter with occupancy averaging c98%, while the new MD at Afritise has driven strong growth in sales. OSS Mozambique welcomed the first clients to its warehousing complex in Tete, and in its first quarter under new management MTA (JCB Angola) produced a \$75,000 profit. MTA has now sold more machines since our investment than the combined total for the previous two years. Net income at Untu, the fund's investment in Zimbabwe SME banking, is ahead of forecast for the quarter. This represents a solid result given the precarious nature of Zimbabwe's banking sector. IT and training systems have also improved. In Kenya, numbers for Karebe Gold Mining at first glance look disappointing, but do not factor in a \$475,000 gold sale made in early April. Grades continue to prove better than expected and strong progress has been made towards ensuring sufficient volume from underground ore production.

Bureaucratic delays surrounding the acquisition of riverside land in Tete has slowed our planned investment in Mulitani, a planned apart-hotel on the banks of the Zambezi. Mulitani will mark the fund's second step towards creating a group of comfortable apart-hotels in challenging African locations. We anticipate making a further addition to the chain in Pemba, Northern Mozambique. Pemba will be the regional hub for what Anadarko claims will be the third largest natural gas reserves (offshore) after Qatar and Russia. Another property investment in the pipeline is a serviced apartment and hotel complex in Nairobi's Karen district.

We will call a further 15% of committed capital before the end of June, which will take us to 60% of committed funds drawn. We anticipate a further drawdown of 15% towards the end of Q4 2012.

PORTFOLIO COMPANIES AT 31/03/12 *

EQUITY (US\$m)

Invest Date	Name	Country	Equity	Sector	Cost	Fair Value	Realised Gain	% of Cost
06/09	KGML	Kenya	80%	Gold mining	1.45	5.71	-	395%
09/09	NSS	S Sudan	72%	Telecoms	1.72	1.72	0.15	109%
09/09	Afritise	S Sudan	30%	Advertising	0.17	0.17	-	100%
09/09	OSS	S Sudan	47%	Services	1.02	1.02	0.36	136%
04/11	Untu	Zimbabwe	19%	Microfinance	0.51	0.51	-	100%
05/11	OSS M	Mozambique	50%	Mining support	0.66	0.66	-	100%
06/11	MTA	Angola	33%	Construction	1.39	1.39	-	100%
03/12	tba	tba	11%	Agribusiness	0.65	0.65	-	100%
Total					7.57	11.84	0.51	163%

DEBT (US\$m)

Invest Date	Name	Country	Interest Rate	Sector	Cost	Fair Value	Realised Gain	% of Cost
06/09	KGML	Kenya	10%	Gold mining	0.67	0.79	-	116%
09/09	NSS	S Sudan	10%	Telecoms	0.04	0.05	-	117%
Total					0.73	0.84	-	116%

TOTAL INVESTMENT (US\$m)

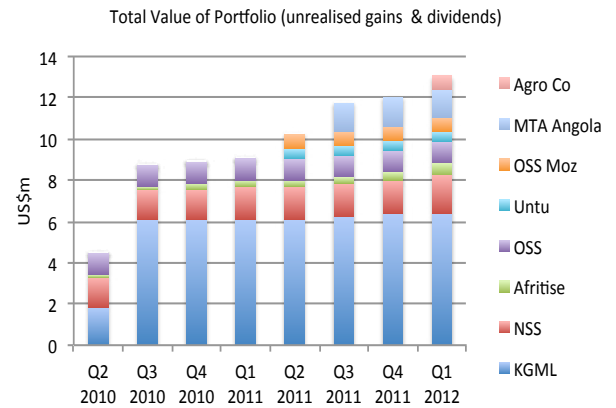
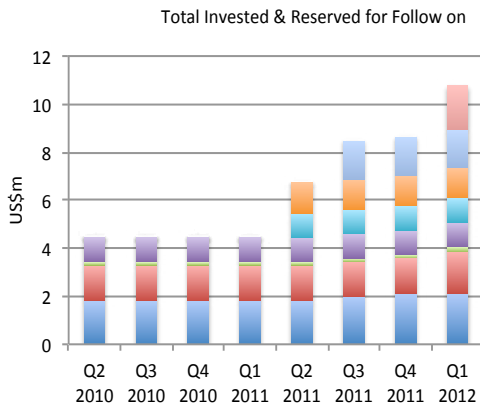
Invest Date	Name	Country	Equity	Sector	Cost	Fair Value	Realised Gain	% of Cost
06/09	KGML	Kenya	80%	Gold mining	2.13	6.51	-	305%
09/09	NSS	S Sudan	72%	Telecoms	1.72	1.72	0.15	109%
09/09	Afritise	S Sudan	30%	Advertising	0.21	0.22	-	103%
09/09	OSS	S Sudan	47%	Services	1.02	1.02	0.36	136%
04/11	Untu	Zimbabwe	19%	Microfinance	0.51	0.51	-	100%
05/11	OSS M	Mozambique	50%	Mining support	0.66	0.66	-	100%
06/11	MTA	Angola	33%	Construction	1.39	1.39	-	100%
03/12	tba	tba	11%	Agribusiness	0.65	0.65	-	100%
Total					8.30	12.68	0.51	159%

FUND SUMMARY (US\$m)*

Capital committed	26.09
Capital called	10.51
Advisory fee since first close	(1.83)
Establishment and operating costs	(0.32)
Late entry interest payments	0.10
Gain on revaluation	4.27
Dividends accrued	0.51
Value of fund	13.24
Fair Value/Capital called	1.26x
Capital distributed	-
Reserved for follow on	3.50
Available for drawdown	15.59

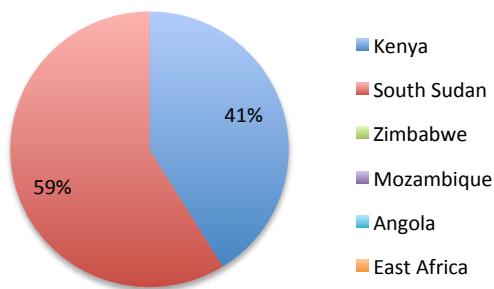
*Excludes Equatoria Teak Company

PORTFOLIO DEVELOPMENT

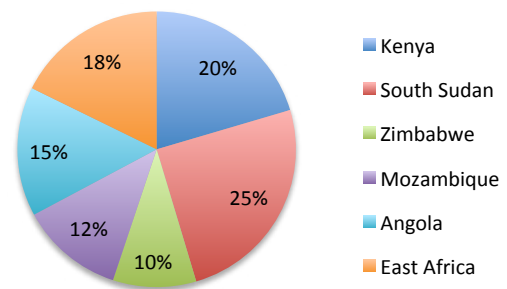


GEOGRAPHICAL DEVELOPMENT

Investment Geographical Spread Q1 2011



Investment Geographical Spread Q1 2012



INVESTMENT PIPELINE

The bulk of our investment pipeline focuses on sectors or geographies where the fund already holds investments and includes mining and mining services, retail and agriculture.

INVESTOR TRIP

Please see the itinerary of our visit to fund investments from OCTOBER 1 - 5TH, 2012. Please email coco.ferguson@mariscapital.com by 15TH JUNE if you would like to join us.

NEW INVESTMENT 1

EQUATORIA & CENTRAL EQUATORIA TEAK COMPANY

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The fund has signed a sales purchase agreement with Skov Investments to acquire 85% of three companies: Equatoria Teak Company, "ETC", Central Equatoria Teak Company, "CETC", and Green-Environ Teak Company, "GETC", which own extensive mature teak plantations and associated processing facilities in South Sudan. Pre completion reorganisation is underway and we anticipate closing in Q2.

Transaction Date	Q2 2012
Development Stage	Refinancing / Development
Fund Ownership	85%
Equity Cost	c\$1,360,000
Shareholder Loan	c\$1,000,000
Fund Board Membership	C Ferguson, C Tryon

The long-term aim is to build the dominant sustainable forestry company in South Sudan, offering a range of timber products for the local and export market. In the short-term, the company will look to generate strong cashflow from sales of processed teak through Mombasa and also plans to serve local demand in the capital Juba. The cashflow generated will allow the company to replant teak in a more concentrated area, and supplement it with faster growing eucalyptus and pine. The total forest reserve area is 75,000 ha, of which 3,600 ha is planted teak. These plantations have reached maturity with little further growth possible. Under FSC guidelines this allows for an accelerated harvesting regime (approx. 7 years).

The plantations at ETC/CETC were largely established in the 1970s and have a mean age of 30-40 years. The plantations were granted on concession to ETC and CETC for 32 years, commencing 2006 and 2007 respectively, with the option by either party to extend for a second rotation of 32 years. ETC and CETC were previously owned by a large emerging markets private equity fund who developed the forest infrastructure and established South Sudan's most significant sawmilling facility. This was the fund's only investment in South Sudan and they were operating during a very tense pre-independence period. In 2010 they chose to halt operations.

Whilst working toward completion the fund acquired 25% of the companies in exchange for settling an outstanding labour dispute, and has since been funding security costs since August 2011. The company now has 50 employees under the management of Manager Darryl Shaw, maintaining security, clearing roads, refitting the sawmill and re-establishing strong community relations. We anticipate that at full production the companies will employ 400 people.



Mborizanga Plantation, ETC



Teak awaiting drying kilns, Nzara

NEW INVESTMENT 2

AGRICULTURAL PROCESSING

5

The Maris Africa Fund has bought an 11% stake in an agricultural processing company in East Africa. We are currently in final negotiations with a few significant shareholders to increase our stake to around 20% over the next couple of months. Given the sensitivity of negotiations we would prefer not to share the name of the company at this time, but once these transactions have been concluded we will send out an announcement. We have also provisionally agreed with the other major shareholders to look at injecting further capital into the company next year through a rights issue, which would increase our holding further.

Transaction Date	March 2012
Development Stage	Buy Out / Development
Fund Ownership	11%
Equity Cost	\$650,000
Valuation	\$650,000
Follow on Commitments	\$1,200,000
Fund Board Membership	J Gunnell

The company has been in existence for over 10 years in the growing, processing and distribution of its main agricultural product. It works extensively with the local community and outgrowers to export produce and has strong links with local and international distributors. It has also started production at a new processing facility to serve the fast-growing local market and thus marking Maris Africa Fund's first investment in the consumer staples sector.

After several years of trials, the company is also leveraging off its existing outgrower network and expanding into the export of a second agricultural product. The major processing facility has already been built and their main customers in the UK will be Sainsbury's and Marks & Spencer. This new business is set to become a substantial part of group earnings.

Finally, as part of efforts to reduce costs at their processing facilities and deal with intermittent electricity supplies, the company has been investigating alternative solutions to grid and generator back up. Extensive feasibility studies have already been conducted and it is for this generation solution that future rights issue proceeds might be used.

PORTFOLIO COMPANY



KAREBE GOLD MINING LIMITED

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Karebe Gold Mining Limited, Kenya (KGML) is one of two gold mining companies in Kenya. Underground mining commenced in September 2010. Gold production stands at 79kgs/2,535 oz with total gold sales of \$3.5m. KGML is headquartered in Kisumu, Kenya.

MARIS AFRICA FUND COMMITMENT

Transaction Date	January 2009
Development Stage	Start-Up
Fund Ownership	80%
Equity Cost	\$1,447,576
Shareholder Loan	\$686,163
Valuation	\$6,508,644
Fund Board Membership	C Tryon

Financials (US\$000s)	Q1 2011A	Q1 2012A		Q1 2012E	Q1 2021A	
Revenues	319	0	n/a	469	0	n/a
EBITDA	107	(327)	n/a	(8)	(327)	n/a
Net Income	107	(374)	n/a	(8)	(374)	n/a

A = Actual / E = Estimate

On 2nd April the company made its 12th gold sale, an 8.8kg bullion bar for a value of \$475k. This sale fell just outside Q1, but left the company with a profit of \$100k for the early part of the year. The focus remains on developing stoping areas underground, improving ore handling facilities underground and sinking a new main and inclined shaft which will soon be operational. Ore handling is improving, which should allow the company to double the volume of ore produced from the old Equatorial mine in H2.

While extending the 3rd and 4th levels the mining team encountered significant new ore bodies. Average grades through the mill have also been increasing. From January to March a combination of tailings and ore were being processed through the mill, but from April to June we anticipate milling only underground ore. The average grade is over 15g/ton. We anticipate a 13th gold sale in June.

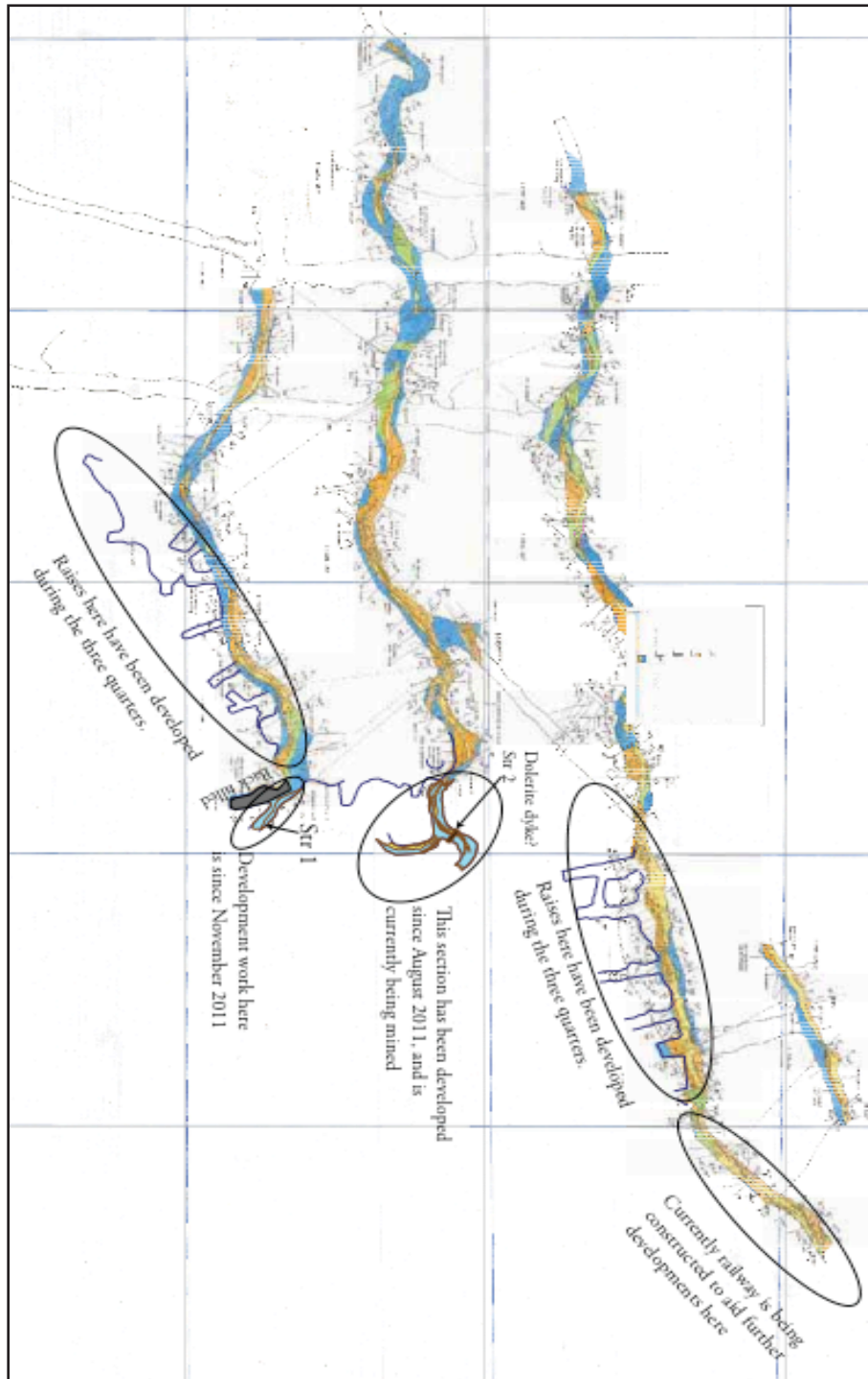
Rock Corry mine, Karebe's second disused mine remains off limits despite the management's efforts to secure access. Should the company re-open the second mine production will double in the longer term. The focus in Q2 will remain on developing the Equatorial Mine in line with the company's mine plan. We have replaced the underground manager with Charles Rainsford, a Zimbabwean who worked for the company in 2011. We are recruiting a Deputy Mine Manager with geological experience, allowing Manager David May to spend more time on business development. The company employs 150 miners at present, which will increase to 250 when we reopen Rock Corry mine.

PORTFOLIO COMPANY



KAREBE GOLD MINING LIMITED (CONT)

KGML mine plan for Equatorial Mine to Q1 2012 - The ringed sections indicate development areas under preparation for stoping in Q3 and 4.



PORTFOLIO COMPANY



NETWORK SUPPORT SERVICES

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Network Support Services Limited, South Sudan, (NSS) is the dominant GSM infrastructure construction and maintenance business in South Sudan. The company is managed by Gary Ensor and headquartered in Juba. It also has regional offices in Wau, Rumbek and Tambura, as well as a support office in Nairobi, Kenya. NSS is Huawei's preferred partner in South Sudan.

MARIS AFRICA FUND COMMITMENT

Transaction Date	September 2009
Development Stage	Development Capital
Fund Ownership	71.25%
Equity Cost	\$1,717,891
Valuation	\$1,717,891
Dividends	\$148,500
Fund Board Membership	C Tryon

Financials (US\$000s)	Q1 2011A	Q1 2012A		Q1 2012E	Q1 2021A	
Revenues	1,003	2,115	111%	2,180	2,115	-3%
EBITDA	284	192	-32%	353	192	-46%
Net Income	284	192	-32%	353	192	-46%

A = Actual / E = Estimate

NSS remains the strongest performing company in the fund. The company has agreed to pay out a \$500k dividend to shareholders in May, which will take total dividends accrued to the fund since purchasing shares to \$500k. In Q1 the fund acquired a further 11.25% of the company, bringing its shareholding to 71.25%.

NSS has signed a rolling one year renewable contract with Huawei, the Chinese telecoms company. Huawei recently took over responsibility for all Zain's network management infrastructure. A further 20 sites have been subcontracted to NSS for maintenance, taking the total sites serviced to 140. Due to the conflict in the border areas we have stopped all site construction work and have delayed the planned opening of a Bentiu office.

NSS has shown some weakness in profitability versus the same period last year. This is partly attributed to the significant weakening of the South Sudanese Pound but also the change in invoicing procedures with Huawei and Zain. A number of costs have also been captured in Q1 for work that can only be invoiced in Q2. The greatest threats to the business are Zain's ability to service its liabilities with its contractors, the weakening currency and the political environment. This said, the company looks likely to win increasing business and have a record year, though the macro economic and political backdrop is daunting.

The MD, Gary Ensor, heads a strong team, but the transition to working with Huawei has been complex and challenging. However, payment terms are far better compared to previously under Zain and at present we are being paid in USD. Given the recent weakening of the currency from 3.7 to 4.5 Sudanese pounds to the USD, this has been a welcome shift. We anticipate further weakening of the currency as the shutdown of oil exports puts pressure on forex reserves. Despite the shift to USD payments, this situation may still impact NSS' performance in the second half of the year. We foresee no further investment requirement for the business and we are entering a holding pattern while the environment remains unstable.

PORTFOLIO COMPANY



OPERATIONAL SUPPORT SERVICES

Operational Support Services Limited, South Sudan (OSS), is a camp services and logistics provider. OSS owns 100% of Acacia Village, a 36-room apart-hotel.

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MARIS AFRICA FUND COMMITMENT

Transaction Date	September 2009
Development Stage	Development Capital
Fund Ownership	47%
Equity Cost	\$1,021,186
Valuation	\$1,021,186
Dividends	\$363,450
Fund Board Membership	C Tryon

Financials (US\$000s)	Q1 2011A	Q1 2012A		Q1 2012E	Q1 2021A	
Revenues	282	412	46%	347	412	-19%
EBITDA	155	152	-3%	110	152	37%
Net Income	155	152	-3%	110	152	37%

A = Actual / E = Estimate

1. ACACIA VILLAGE



Acacia Village had a strong quarter generating over \$412k in revenues and \$150k in net income. The company paid a \$100k dividend to the fund during the quarter. Net income was fractionally down on the same period last year, depressed by the advance purchase of a sizeable inventory of diesel fuel (\$47k) for our vehicles and generator. We believe this a wise move in light of continued fuel shortages in Juba. Acacia is now home to the Ambassadors of Germany, France and the Netherlands and reviews (on Tripadvisor) have been very positive. We had anticipated that permanent residents would start to move out and construct their own premises but this transition has been slower than expected and occupancy is running at an average of 98%.

We have been considering reinvesting to increase the number of rooms, but have put expansion plans on hold given very high construction costs. This has been a result of a sharp increase in the price of cement. The political climate also does not engender confidence. We will review this decision in Q4 of this year. We anticipate a further dividend from Acacia Village in Q3.

2. OSS TRUCKS AND WORKSHOP

The fund has received \$20,000 to date from OSS Trucking and is looking to conclude a sale of trucks to Equatorial Teak Company in Q2.

PORTFOLIO COMPANY



AFRITISE

Afritise Limited (Afritis) is the dominant outdoor advertising company in South Sudan with coverage in 11 cities and towns. Afritis is headquartered in Juba and has the exclusive license to advertise at the airport. The company has 9 full-time employees.

MARIS AFRICA FUND COMMITMENT

Transaction Date	September 2009
Development Stage	Start-Up
Fund Ownership	30%
Equity Cost	\$171,171
Shareholder Loan	\$39,000
Valuation	\$216,873
Fund Board Membership	C Tryon

Financials (US\$000s)	Q1 2011A	Q1 2012A		Q1 2012E	Q1 2021A	
Revenues	140	113	-19%	117	113	-3%
EBITDA	76	18	-76%	23	18	-22%
Net Income	76	18	-76%	23	18	-22%

A = Actual / E = Estimate

The company has under performed versus 2011 due to unexpected legacy legal costs from 2011 which rolled over into Q1 2012 and the weakening of South Sudanese Pound. We remain convinced the company has turned a corner and our forecast for the year looks encouraging. Afritis is advancing and new airport sites have been selling well. The company remains the most comprehensive outdoor advertising provider across South Sudan. However, similar to NSS, the local currency exposure is cause for concern and offers the largest commercial threat to the business. The new MD, Phil Taylor, has been an excellent hire.

The recent economic slowdown in South Sudan and weakness of the currency has negatively impacted a number of sectors, particularly Telecoms and FMCG which are key client areas for Afritis. Consequently, Afritis has had challenges receiving prompt payment from clients, a situation exacerbated by the sharp depreciation of the currency.

The main focus of the past quarter has been building new 8 x 4m signs at Juba airport and looking to expand the company’s customer mix. We have been in talks with 2 pan African advertising groups who are looking to enter the market as a strategic partner. The negative headlines from South Sudan have slowed negotiations, though we are working towards a conclusion in Q2.



One of Afritis’s 18 new large panels at Juba Airport

PORTFOLIO COMPANY



UNTU HOLDINGS

11

Afrifrise Untu Holdings Limited, Zimbabwe (Untu), is a microfinance institution that was founded in 2009 by CEO Clive Msipha to meet the growing demand for credit from small businesses and entrepreneurs. Untu offers loans, savings and insurance products from its branches in Harare and in towns across southern Zimbabwe.

MARIS AFRICA FUND COMMITMENT

Transaction Date	April 2011
Development Stage	Start-Up / Development
Fund Ownership	19%
Equity Cost	\$512,000
Valuation	\$512,000
Follow On Commitments	\$500,000
Fund Board Membership	C Ferguson

Financials (US\$000s)	Q1 2011A	Q1 2012A		Q1 2012E	Q1 2021A	
Operating Income	244	314	29%	327	314	-4%
Operating Expenses	158	220	39%	237	220	-7%
Impairment Provisions	50	53	6%	56	53	-5%
Net Income	27	41	52%	24	41	71%

A = Actual / E = Estimate

After a disappointing 2011, Untu has started 2012 on a more positive note. Q1 net income was ahead of budget, at \$41k. Following a strategic decision to shrink the book going into the Christmas holidays (given typical poor credit performance during this period) the loan book has grown every month since December. By then end of Q1 it had reached c\$1.7m. Total assets at the close of the quarter stood at c\$2.7m with shareholders equity of c\$2.1m. Management is forecasting a 2012 profit of \$285k with the loan book increasing to \$3.6m by the end of the year. The wider banking sector and lending environment will be key to whether this is achievable, as primary focus continues to be put on credit quality and prudent provisioning & collateralisation procedures

Though it has taken two years to build three branches, Untu now has the IT, credit and training systems in place for a swifter roll out. In Q1 the board worked closely with CEO Clive Msipha on a senior management restructuring. This will see the current CFO, Margaret Chipunza, take over as COO. Maris Capital introduced Untu to Proparco and FMO, who have both agreed to support a technical assistance facility. This will fund an East African MFI consultant to work with Untu for 6 months to strengthen its systems and training programs. This is particularly welcome in a market with very limited microfinance skills.

Should Zimbabwe further open up to the region we anticipate that regional MFI's with operations in neighbouring countries will seek to enter the market. Untu's trained staff and expanding branch network would clearly make an attractive acquisition target.

PORTFOLIO COMPANY



OSS MOCAMBIQUE

OSS Moçambique, S.A, is a start-up mining support services venture. Phase 1 includes an industrial park and serviced offices in Tete. Phase 2 will expand into serviced accommodation. Tete is undergoing rapid growth due to investments in the mining sector by companies such as VALE and Rio Tinto. These investments are anticipated to transform Mozambique into the world’s second-biggest coking coal export region after Queensland, Australia.

MARIS AFRICA FUND COMMITMENT

Transaction Date	May 2011
Development Stage	Start-Up
Fund Ownership	50%
Equity Cost	\$661,109
Valuation	\$661,109
Follow On Commitments	\$600,000
Fund Board Membership	A Fimister

Financials (US\$000s)	Q1 2011A	Q1 2012A		Q1 2012E	Q1 2021A	
Revenues	-	0	n/a	-	0	n/a
EBITDA	-	(49)	n/a	-	(49)	n/a
Net Income	-	(49)	n/a	-	(49)	n/a

A = Actual / E = Estimate

Construction continues with one industrial unit fully completed and partially rented. A second unit should be completed in mid May and the third and fourth units available for rent by the end of May. Encouragingly, OSS is in discussions with a large mining services company that is ready to take on 2 units whilst OSS develops a part of its land for their permanent offices and workshops. Importantly we have 3.5 ha of prime industrial land in Moatize.

Mozambique itself has been attracting significant foreign investment into the mining and energy sector. Vale and Rio Tinto both plan to spend billions of dollars developing the north of the country’s coal resources, and the northern province of Cabo Delgado is home to ever increasing proven gas deposits.



First Completed Warehouse

PORTFOLIO COMPANY



MTA - MAQUINAS E TRACTORES DE ANGOLA

13

Máquinas e Tractores de Angola (MTA) has a dealership license to sell JCB machines, spare parts and after-sales service within Angola. The company is a joint venture between Maris Capital, Muscat Overseas Group (owner of multiple machinery dealerships across the region) and Portuguese construction company Soares da Costa.

MARIS AFRICA FUND COMMITMENT

Transaction Date	July 2011
Development Stage	Distressed Refinancing
Fund Ownership	33%
Equity Cost (incl \$1m bank guarantee)	\$1,388,244
Valuation	\$1,388,244
Follow On Commitments	\$200,000
Fund Board Membership	A Fimister

Financials (US\$000s)	Q1 2011A	Q1 2012A		Q1 2012E	Q1 2021A	
Revenues	-	872	n/a	-	872	n/a
EBITDA	-	104	n/a	-	104	n/a
Net Income	-	76	n/a	-	76	n/a

A = Actual / E = Estimate

MTA has performed well in Q1 and has made the first quarterly profit in its entire existence. Since December 2011 MTA has sold 13 JCB machines, more than the entire previous 2 years of operations. A further 6 sales are imminent, and 25 further machines for stock are en route to the country. The prospects for the business in 2012 remain encouraging as oil prices remain buoyant and Angola's economy continues to grow. Growth in the construction sector, the principle sector traditionally served by JCB products, is currently running at about 14% p.a. The management of MTA have worked hard to effect an impressive turnaround for a previously loss making company.

Despite this good news, there do remain some significant bureaucratic obstacles which need to be overcome. Most notably, the tortuous procedure of becoming a legal shareholder as a foreign company in Angola has meant significant delays in the transfer of shares. The new partners are currently in discussions with the Angolan national agency for private investment to get this issue resolved.

Political risk remains relatively high from an outsider's perspective as Angolan President Jose Eduardo dos Santos is Africa's longest serving leader along with the President of Equatorial Guinea. There are elections due this year and an announcement for a planned succession is expected. In reality, MPLA has a firm grip on the country and is relatively popular. For MTA, 2012 promises to be a good year and the company looks as though it should exceed its sales budgets.

MARKET OVERVIEWS

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SOUTH SUDAN

South Sudan achieved independence in July 2011 without resolving a list of sticking points with Sudan: a disputed border, security (which included a withdrawal of both armed forces to at least 10km from the disputed border), Abyei and oil revenue sharing. This list of concerns came to a dramatic head in Q1, which saw both sides closer to war than at any time since 2005, following a fractious few months.

In February South Sudan halted oil production, which makes up 98% of government revenues. This followed the expulsion of the head of the Chinese and Malaysian owned Petrodar - the South announced that after his departure they had discovered twice as many wells in production as officially registered. March saw negotiations in Addis Ababa over oil transit fees through Sudan's pipeline grow increasingly irate against the backdrop of border conflict, proxy battles and a bombing campaign. Currently, Sudan demands \$36 a barrel to transport the oil to Port Sudan, South Sudan is offering less than \$10.

In April, citing provocation by attacks from Sudan, South Sudan took Heglig, the location of the oldest of Sudan's oil fields and temporarily halted oil production. The sharp international outcry persuaded the South to withdraw shortly afterwards. However, the strongest and most coherent response to the escalating tensions came from an unexpected sector. The African Union demanded that both sides agreed to a three month timetable of negotiations commencing on 17th May. This was then reaffirmed by the UN Security Council, giving the roadmap further international legitimacy. The Council will review the parties' compliance with the joint AU-UN demands every two weeks for the next three months. Should they fail to finalise all outstanding issues, the UN and AU, together with IGAD, the regional organization which brokered the CPA, have announced they will impose a solution – it is not clear how.

We may not see a swift conclusion to these new negotiations. At the height of tensions Chief Negotiator Pagan announced⁴ that South Sudan will never again send oil through Sudan's pipeline - though any replacement pipeline to Lamu would take at least 18 months and billions of dollars to complete. Matters are further complicated by the fact that the position in Khartoum of President Bashir, who has been indicted by the International Criminal Court, seems increasingly unstable. China remains the largest investor in both countries, and South Sudan announced an \$8bn infrastructure loan following the President's April visit to Beijing. However, China has been silent on the agreement and the picture is further confused by the fact that South Sudan is being bombed by aircraft supplied to Sudan by China.

All the while this situation unfolds, South Sudan's oil taps remains off. Credit lines from Angola, Qatar and beyond may be forthcoming, but many observers estimate that the country will be close to bankruptcy within three months. In the last month the South Sudanese pound has weakened sharply against the dollar, and it takes up to five hours of queueing to fill a car with fuel in the capital. Some of South Sudan's leaders remain confident that after 20 years of bush warfare their people are robust enough to weather the economic and political risks of their actions. It is true the majority of South Sudan's inhabitants who live without recourse to money or manufactured materials are unlikely to feel much change. Nevertheless, in Juba, the expanding civil service and army will suffer, and many of those who have benefitted from the last five years are less sanguine about the current policy.

This stoppage does have an impact on our portfolio - not least in view of any local currency earn-

MARKET OVERVIEWS

ings. Though we do not anticipate that people will cease using mobile phones, NSS has been affected by security concerns and has halted a planned office in Bentiu. All companies will suffer from rising fuel costs and if NSS is forced to revert to local currency payments by Huawei, returns will be affected. The fund's newest investment is in one of South Sudan's only non oil exports, teak. If South Sudan suffers a prolonged cashflow crisis, looting and banditry may affect plantation security and export logistics.

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KENYA

On 26 March Tullow Oil announced a new oil discovery onshore in Kenya. International companies have been looking for oil intensively in Turkana County and Tullow Oil operates block 10BB in partnership with Canadian-listed, Africa Oil. If the discovery proves commercially viable this would mean big changes for the Kenyan economy, largely dependent on agriculture and tourism. The ambitious LAPS-SET project (Lamu Port and Inland Infrastructure Plan) might even become reality. The plan sets out a modern port at Lamu, an oil refinery, a railway line to Juba with a branch line to Ethiopia, an oil pipeline linking Lamu with the oil fields of South Sudan, a super highway connecting to Ethiopia and Sudan, an international airport and several resort cities and towns within Kenya. While much of this may be optimistic, the growing demand for fuel and consumer goods from the East African Community does call for large infrastructure expansion. Other developments include KenGen's geothermal power project, Chinese Foton's new vehicle assembly plant, and General Electric's plans to invest in an East African base.

Not all news has been positive and government officials have revised growth forecasts for 2012 down from 6% to 5%, although actual growth may turn out lower. An overheated credit bubble is proving resistant to government intervention. Consumer borrowing rose over 30% in 2011 and last year also saw unprecedented property price inflation. The government increased interest rates in December 2011 to 18%, and have held them there throughout Q1, up from 5.75% in January 2011. This has begun to lead to a slow down in land and house prices and with such mortgage rates there is a danger of sharp falls.

On the political side, elections are looming and are likely to be very competitive: there is a plethora of candidates and no clear front runner. Post elections violence similar to 2008 is a risk, as is the spectre of an increasingly cumbersome legislature that struggles to achieve reforms.

ZIMBABWE

While addressing the 88th Ordinary Session of the Central Committee of his Zanu-PF party, President Robert Mugabe said Zimbabwe should hold a referendum to decide a new constitution in May and hold elections before the end of 2012. Mugabe said that the four-year power sharing agreement with Morgan Tsvangirai Movement for Democratic Change (MDC) should come to an end. Mugabe also warned about possible food shortages, and confirmed that the indigenisation and empowerment drive was continuing. Under the GPA elections must be held by 2013.

International companies operating in Zimbabwe are coming to terms with the new indigenisation effort. In March the government approved a proposal by Zimplats for 51% indigenisation, though no details were announced. It is, however, controversial: Rio Tinto Group (RIO) and BHP Billiton Ltd (BHP) are looking to exit the diamond industry even as prices head for a fourth year of gains. RIO holds a 78% interest in the Zimbabwean Murowa mine, and although officials from RIO point to macro-strategic reasons for the exit, it is likely that the indigenisation bill and the resulting uncertainties had an influence in the decision.

The liquidity crisis continues – and the Government struggled to process its December and January \$400m civil servant salary bill. In January 6 out of 26 banks failed to meet minimum capital requirements, and concerns increased over debt levels and non-performing loans in CBZ's portfolio, one of the country's largest banks (14% owned by the Libyan state). Indigenisation plans for the banking industry, scheduled for Q1 2012, add to an uncomfortable picture, and for the time being, many potential depositors are steering clear of conventional institutions.

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MOZAMBIQUE

Mozambique's foreign 'mega' investments keep driving the country's economy and headlines. Rio Tinto, the world's 3rd largest miner, expects to export its first shipment of coal from its Benga project this month. Benga is in the Moatize district of Tete province, and the coal will be transported by rail along the Sena line to the port of Beira and then shipped to India. Tete will see tens of thousands of workers arrive when mining operations reopen after a short break. Contractors and investors are already moving into the Tete region, planning to capitalise on the influx of people and capital.

Similarly, Pemba, location of Anadarko and ENI's giant offshore gas discoveries, is the centre of an intensive rush for land by investors wishing to work with the oil majors and their contractors. Anadarko's levels of investments alone will constitute the country largest single investment to date.

Mozambique remains a difficult country in which to do business, not least as the Meticaís strengthens. A severely underskilled workforce – largely the fault of a failing education system – coupled with legislation limiting the ratio of expatriate to local workers creates challenges, although ultimately this may help Mozambique to reap more sustainable benefits from the resources boom.

However, the potential returns of investing in Mozambique are such that the country is consistently maintaining its record of attracting one of the highest rated of FDI in the region. It is still to be seen whether FDI focusing mainly on the resource sector will lead the country into a resources trap similar to Angola.

ANGOLA

The Angolan Government has recently passed a law that is set to revolutionise how International Oil Companies (IOCs) handle their revenues and payments in the country. Before the new legislation, companies were allowed to transfer oil revenue through overseas banks.

The first phase of the law, which came into effect on the 14th of May, will force oil firms to pay taxes in foreign currency, most likely U.S. dollars, through accounts in Angolan banks. Later, IOCs will also have to pay service providers through those banks.

Angolan banks will have to handle more than \$12.8 billion just in tax payments – a huge boon for the local banking industry, and part of a concerted attempt to stimulate the non-oil sectors.

But Angola's energy sector remains the sustaining pillar of the country. The 5.2 million tonnes p.a. Angola LNG project is set to start production in June. Chevron owns 36.4%, Total 13.6% and Angolan state oil company Sonangol has 22.8%. Italy's ENI and BP are further minority investors.