

MANGO CAPITAL

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Haarlem, 7 September 2009

Dear investor,

It has been a while since we last reported to you at any length and we believe that now is as good a time as any to review where we stand.

In the beginning, in 2006, it was still early days for investing in Africa. Many people were skeptical and it was quite hard to scrape together the € 8 Million with which we started the fund. The year itself produced an average return, but as 2007 came around Africa got more and more en vogue, culminating into something of a hype, which lasted well into 2008 with outsize returns to match.

Then, in 2008, the credit crisis began to bite, and our region initially held up well, as we expected, for it still is very much isolated from economic and financial activity in the rest of the world. Then, the panic really hit and investors in our part of the world, too, started selling everything, dragging down our markets just as precipitously as anywhere else.

Since then, most of the African markets have not participated in the recovery which has been robust right across the emerging markets in 2008. Interestingly, the frontier markets have not nearly done as well as emerging markets although they are up slightly for the year, and our territory, which could be described as pre-frontier, has clearly underperformed the frontier again. As a result, the companies we invest in are now cheap by any standard and more importantly, are still growing their earnings very rapidly indeed.

The question then, must be: why didn't our region participate in the global uptick? Apart from more general reasons such as the general perception of high risk that our region carries, we believe that part of the answer also lies in specific events that have been taking place in sub Sahara Africa.

First of all the sudden drop in commodity prices in the second half of 2008 did expose some balance of payments weakness in a number of commodity dependant African economies, such as Zambia and Nigeria, with considerable devaluations of their currencies as a result. Also the preceding strong rise in commodity prices in the first half of the year drove up inflation across the continent landing the CPI number on the wrong side of 10% in many countries.

Also some country specific problems were noted such as the mess the Nigerian banking system ended up in after banks had engaged in massive lending against securities, which caused huge exposure when the market turned down. And what happens in Nigeria matters, because it is the leading Sub Saharan economy and home to one out of every five Africans. Elsewhere, in Kenya, another important Sub Saharan country, the leadership doesn't inspire much confidence. Their "cohabitation" style leadership is echoed by Zimbabwe where a similar uneasy arrangement between political foes exists.

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The Middle East clearly has been negatively impacted by the steep drop in the oil price in the second half of 2008 and the piercing of the speculative property bubble in its most western oriented part, The Emirates.

These are some of the more important reasons, we believe, why investors have been avoiding our region.

So where does this leave us? In the typically African cadence of one step backwards, two steps forward, we believe that we have now completed the latest step backwards, and may be poised for some moving forward, because

- Commodities have been on the rise again, providing relief for some of the embattled currencies such as the Kwacha and the Naira.
- Inflation is drifting back down across the continent.
- The Nigerian Central Bank Governor, Mr. Sanusi, has taken extraordinarily forceful action to reestablish confidence in the Nigerian banking system. He has fired the ceo's of the five main offending banks in the margin lending crisis and recapitalized those banks. He has also made clear that any obligations of these banks will be met by the government of Nigeria if necessary.
- Zimbabwe has actually made huge progress in the past year with dollarization of the economy and the stock markets and things seem to be moving in the right direction in that country albeit slowly.
- In Kenya we do note that there is a ferociously free press and a growing middle class that will be increasingly intolerant of corrupt politicians.
- The Middle East and Nigeria are enjoying the benefits of a recovering oil price.
- Continued investment in Africa from China and the Middle East is lending support.

These developments, together with the modest valuation of stocks in our portfolio and the continued growth our companies experience, give us ground for some optimism looking forward. We also believe that with the stellar performances achieved by the emerging markets this year, investors will be looking to book some of their profits to invest the proceeds into markets that have been left behind, such as ours.

N. B.

We will be organizing a conference on the 14th of October with a focus on investing in Africa, specifically post credit crisis. There will be an amazing line up of speakers at the conference with firsthand experience of running businesses in Africa including an overview provided by Richard Dowden, author of the recently published book: "Africa, Altered States and Ordinary Miracles". Unfortunately, due to limited space available, this conference is for invitees only. If you have been

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invited, we urge you to attend what should be a very interesting debate on the current African business climate.

Kind regards,
Mango Team

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