



I M A R A
A S S E T M A N A G E M E N T

Imara African Opportunities Fund

April 2006

Net NAV: US\$10.57 -2.3% (31.3.06)

- The Fund was slightly down by -2.3%.
- We visited companies in Morocco, Tunisia and Egypt in early March. The trip was routine, but timely because a large correction in the Gulf had the potential to radiate across north Africa. Markets such as Qatar and Dubai have fallen 20% and 35% respectively year to date; Egypt is down 15% from its peak. However, Gulf money hasn't really strayed too far from the Arab Gulf; the Berber dominated Maghreb countries, Morocco and Tunisia, are up 30% and 11% respectively year to date.
- The Maghreb: Morocco, Algeria, Tunisia, Libya (and Mauritania), is potentially a large, low cost, economic bloc on the doorstep of Europe with a GDP of roughly US\$200bn. Tourism (around 6m arrivals each in both Tunisia and Morocco and a rising number in Algeria), textiles and agriculture are important non-oil export industries, but gas intensive industries that are no longer economic in Europe, such as cement and fertilizer, are poised to expand. These are rich countries by emerging market standards and Tunisia leads the pack with a per capita income of US\$3-4,000. On a comparable basis, IMF data suggests that this is higher than countries such as Mexico, Poland, Turkey and Jordan. Only Morocco and Tunisia have active stock markets; Algeria and Libya are still to "emerge". Both Algeria and Libya are rich in oil and gas, and, whilst both countries will no-doubt re-join the mainstream at some point, Algeria is the most likely at this stage. President Bouteflika announced a US\$60bn Growth Consolidation Plan in 2004 to improve public services and infrastructure between 2005 and 2009 – which is a sizeable programme against a US\$100bn economy. A referendum last year on The Charter for Peace and Reconciliation also marked an official end to civil hostilities. The public sector is dominant although there is an on-going privatisation programme. Only a handful of companies (Egyptian, Tunisian and French) have operations in Algeria at present, Moroccan banks are *trying* to set up, but there is no love lost between Algeria and Morocco because of Western Sahara (which is rich in phosphates and may also have offshore oil).
- North Africa is stable in socio-political terms despite the occasional bomb; the authorities are paranoid about religious fundamentalism so keep a very tight grip. All of these countries are also desperate to bring down high rates of unemployment so are freeing up markets with IMF help. The key challenges ahead will be to open economies, float currencies, open capital accounts, privatize, and re-capitalise banks.
- Morocco – the market isn't particularly cheap after its year to date rise of 35% and the average multiple is 19x 2006 earnings. Earnings are growing by roughly 15% although the range is wide. However, exchange controls, diaspora inflows, and a financial system that is liquid but with a dearth of lending outlets could explain why the average multiple over the years has always been high, oscillating around 15x. The free market float also reflects an insular economy. The market capitalization of US\$35bn falls to \$9bn if strategic stakes are excluded. The main banks and Maroc Telecom account for

half the market. Maroc Telecom, which is listed in both Paris and Morocco, has a 2006 PE of 18x whereas earnings are growing by 13%.

- Most companies are in the early stages of an investment programme, and industry is highly concentrated with monopolies or very large market shares being common. Beer, for example, is a monopoly, but on 19x earnings growing by 8% this is not particularly cheap. It does, however, generate cash. Cash is equivalent to 16% of market capitalization. The annual yield is about 4%. Sonasid, the main steel company, has an 84% market share (it trades on 12x), Central Latiere, the main dairy company has a 60% market share (trading on 21x) and Attijariwafa Bank, the main bank with 28% of deposits (trades on 20x). Loan growth is 20% for the banking system. ONA, the Royal conglomerate that owns a swathe of Moroccan industry, trades on 25x, but here profit growth is high (+96%) due to a combination of restructuring and improvement in underlying businesses. Overall, the big Moroccan companies have good business models, are cash flow generative, but are expensive.

- Tunisia – the market capitalization of just under US\$3bn is one-tenth the size of Morocco. The market trades on about 15x 2005 earnings that are growing by around 10%. The biggest companies are banks, followed by the SFBT (the only brewer) which is effectively closed to foreign investment. The banks themselves are on about 2x book and 15x earnings. Loan growth is a modest 10% but this is starting to rise as consumer spending is picking up. A past banking crisis caused non-performing loans to rise sharply and these have now halved to 23% of total loans (though to a much lower 7-10% in the private sector). Perhaps the most interesting company was Karthago, a well-connected, low-cost carrier poised to grab market share from two ossified competitors, Egypt Air and Tunis Air. The business model is interesting; the tourist seasons in Egypt and Tunisia are counter-cyclical.

- Egypt – this trip followed close on the heels of our November visit. There is little new to report apart from sharply lower equity prices. The underlying economy continues to look good, and the continued privatization of the banking system continues apace. One important change, yet to be enacted, is a new mortgage law that formalizes a property register which will allow banks to lend against property for the first time. We bought an initial position in the Soc-Gen owned NSGB in anticipation of this during the month. NSGB recently bought Misr International Bank, a state owned bank with a similar sized asset base to NSGB that was only just breaking even. Restructuring is well underway to bring MI Bank's ROE up to NSGB's 60%. NSGB's lending growth is running at roughly double the rate of GDP, but retail lending, which is in its infancy, is growing by about 30%.

- During the month we bought Sefalana, the main foods company in Botswana which is restructuring. Dafin Sales, a high volume, low margin, capital intensive business that wasn't making much money, was sold in 2005. The residential property portfolio is also being sold to leave a pure commercial portfolio. One or two pieces still need to fall into place, but Sefalana's new management now have their focus firmly on shareholder return. Sefalana trades at a 37% discount to intrinsic value.

Investment Philosophy:

We seek growth companies with a view to achieving absolute returns. The fund is long-only with no limit on the cash position.

Our primary objective is to invest in companies with good business models, with predictable and growing free cash flows, high returns on capital employed but minimal debt and minimal need to spend large amounts on capex to sustain a local or regional competitive advantage. We believe that the best way for a long-only fund to achieve absolute returns in the long-run is to buy growth companies with a good business model at a discount to intrinsic value, in countries where economic management is improving.

We also look for top-down country and sector change, and opportunistic situations as they arise.

Contact Details:

Zimbabwe - John Legat (Imara Asset Management)
johnl@imaracapital.com
Tel: +2634 700 000
Mob (Zim only): +263 91 202 435
Mob (Intl): +27 723 125 194
(Regulated by the Reserve Bank of Zimbabwe)

UK - Jon Chew (Imara Asset Management (UK) Ltd)
jon@imara.plus.com
Tel: +44-1491 577238
(Authorised and Regulated by the FSA)

Fund Details:

Fund Manager: Imara Asset Management Ltd (BVI)
Custodian: Barclays Bank (Mauritius)
Administrator: Nerine Fund Administrators Limited
Fees: 2% per annum plus incentive fee
Valuation Dates: Monthly
Dealing Dates: Month End

	Change Since Launch (%)	Std Deviation	Correlation	
MSCI WI	16.2	0.54	WI	EM
MSCI EM	39.4	1.47	EM	0.99
IAOF	6.7	0.69	Fund	0.74 0.76

Website: www.imaraholdings.com

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		(% net assets)
Zambeef	Food	6.8
UAC-Props	Property	4.7
Flourmills	Food	4.3
E.A Breweries	Brewery	4.2
BP Zambia	Oil	4.1
FNBB	Bank	4.0
Natbrew	Brewery	3.8
PGI	Bld Materials	3.8

Old Mutual Implied Rate (OMIR):

We value stocks and currency in Zimbabwe at the Old Mutual Implied Rate.

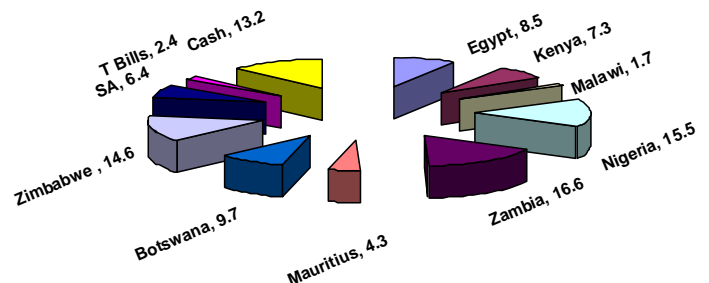
Old Mutual has a listing in both the UK and South Africa as well as in Zimbabwe. Foreigners can buy Old Mutual shares in either London or South Africa, sell them in Zimbabwe, and then buy local shares. The reverse happens on the sale of local shares.

By dividing the price of Old Mutual, in rand, for example, into the price in Zimbabwe dollars, we can calculate the market determined Zim\$/rand exchange rate. Multiplying this by the rand/US\$ exchange rate then gives a market determined Zim\$/US\$ exchange rate.

Since this is a market-determined rate at which foreign assets can enter and leave the country, it is the rate used to value Zimbabwean assets in the fund.

However, since this rate of exchange is determined using equities, the derived exchange rate will tend to be more volatile than normal exchange rates.

Country Breakdown - as a percent of Net Assets



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