

## Quarterly Report 2Q 2018

### Investment Objective

The principal investment objective of the fund is long term capital appreciation through achieving the highest possible risk-adjusted returns.

### Investment Universe

- The fund invests mainly in securities of companies listed on the Egyptian Stock Exchange
- The fund can also invest in treasury bills, treasury bonds, corporate bonds, securitization bonds and time deposits.

### Subscription/Redemption

- The fund offers weekly liquidity to investors
- The valuation day for the fund is the last business day of every week
- Minimum initial investment is 10 IC's
- Maximum investment is 50,000 IC's

### Fund Details

Type of scheme	Open Ended
Inception date	October 1994
IC price	483.4 EGP
Dividend Since Inception	274.5 EGP
Bloomberg Ticker	EFGCRAI
ISIN	65077564

### Fund Manager

Management Company	Hermes Fund Management
Fund Manager	Nabil Moussa

### Contact Details

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## Portfolio

### Performance Figures

Date	Return
Q2 2018	-4.1%
YTD	9.7%
2017	36.8%
5-YTD	210.8%
Since Inception	1730.6%

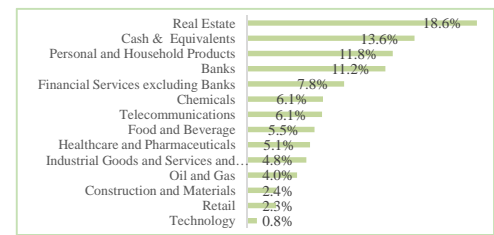
### Top Holdings

Stock Name	Sector
Eastern Tobacco	Personal and Household Products
Commercial International Bank Egypt SAE	Banks
Talaat Moustafa Group	Real Estate
Six of October Development & Investment	Real Estate
Global Telecom Holding SAE	Telecommunications

### Top Performance Contributors (Quarterly)

Stock Name	Sector
IBNSINA PHARMA SAE	Healthcare and Pharmaceuticals
ALEXANDRIA MINERAL OILS CO	Oil and Gas
CI CAPITAL HOLDING CO SAE	Financial Services excluding Banks

### Sector Allocation



## Market Outlook

### Market Commentary

- EGX30 post a drop of 6.3% in 2Q2018 bringing the YTD performance to 8.9%. The market loss was due to strong outflows from emerging markets on the back of stronger USD and high oil prices causing concerns about future growth
- During the quarter, foreign and Arab investors were net buyers by EGP1.2 billion and EGP41.1 million respectively thus keeping Local as the only net sellers by EGP1.6 billion.
- The oil and gas related stocks were the market best performer due to the rally in oil prices evident with Citadel Capital increasing by 36.5%, Alexandria Mineral Oils (AMOC) 15.0% and EK Holding 15.0%
- Ibn Sina was also top performer during the Quarter with 21.6% increase in anticipation of an increase in drug prices
- The underperformers were Oriental weaver (22.3%) due to higher polypropylene prices thus squeezing margins and Global telecom (28.3%) post Veon's tender offer withdrawal as a result of the FRA delay in their reply. Arabian Cement also fell dramatically by 23.9% due to the drop in cement prices.
- Real Estate sector underperformed the market with Heliopolis Housing declining by 20.3% SODIC 12.53%, Palm Hills 12.33%, and Medinet Nasr 11.0%, given the high beta nature of such sector and the market correction witnessed during the quarter

### Economic Update

- The IMF approved disbursing the fourth tranche (USD2.0 billion) of the USD12 billion loan.
- The CBE maintained overnight deposit and lending rates stable at 16.75% and 17.75% respectively in its last two meetings in May and June. We note that the CBE had cut rates by 2.0% in 1Q2018; however, the increase in oil prices over the past two months is leading to higher inflation risk so the MPC opted to pause its easing cycle
- Egypt's Current Account Deficit Drops Significantly by 57.5% to USD5.3 Billion in 9M17/18 down from USD12.5 billion in 9M16/17. This significant drop is on the back of 2 main reasons: 1) Net Tourism proceeds spiked by 8.5x to reach USD5.5 billion compared to proceeds of USD0.7 billion in 9M16/17; and 2) Increase of 23.2% in remittances from Egyptians working abroad from USD15.8 billion to USD19.5 billion.
- Net International Reserves Stable at USD44.3 Billion as of June 2018
- Inflation rate increased to 14.4% in June up from 11.4% in May 2018. The increase was expected post the hikes in fuel prices.

### Strategy

- The market dropped by 11.0% from its peak of 18,363 point reached in April to end June at 16,349 point on the back of emerging market outflows in addition to the CBE pausing its easing policy in light of higher oil prices leading to some inflationary pressures. We believe that the market correction phase will end in the third quarter of 2018 with the market bottoming a bit below June level, and things will reverse upwards in the fourth quarter.
- We still believe that Egypt's medium term outlook is positive due to the following:
  - o Egypt is on track applying strong economic reform program that is supported by the IMF leading to strong growth potentials.
  - o We believe that inflationary pressures will be absorbed and that the CBE will return to its easing cycle by the end of 2018.
  - o Strong pipeline of IPOs (Governmental and Private) expected to be offered in the market leading to strong inflows in the stock market.
- As a result, and in order to pass this period of volatility we are concentrating our investments in companies with strong balance sheet that allows them to utilize available opportunities in a growing economy with specific focus on the banking sector in addition to oil and petrochemicals