

Quarterly Report
2Q 2019

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 | 417.4EGP |
| Dividend Since Inception | 274.5 EGP |
| Bloomberg Ticker | EFGCRAI |
| ISIN | 65077564 |

Fund Manager

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|--------------------|------------------------|
| Management Company | Hermes Fund Management |
| Fund Manager | Nabil Moussa |

Contact Details

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|-----------------------|---|
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Portfolio

Performance Figures

| Date | Return |
|-----------------|---------|
| Q2 2019 | -3.8% |
| YTD | 4.1% |
| 2018 | -9.0% |
| 5-YTD | 79.2% |
| Since Inception | 1480.7% |

Allocation



Market Outlook

Market Commentary

- The US and China trading war escalated during 2Q2019 causing turbulences across all emerging markets with EGX30 index losing -4.3%. However, the YTD performance is still positive at +8.2%. EGX30 Capped index also dropped by 7.9% in 2Q2019 recording YTD return of +3.8%.
- We highlight that the market average daily trading dropped by 42.7% from an average daily turnover of EGP978 million in 1Q19 to EGP595 million in 2Q19.
- Foreign and Local institutions were net buyers during the quarter with EGP544 million and EGP285 million respectively, leaving Arab institutions as the only net sellers with EGP102 million.
- The highest outperformers in 2Q19 were Commercial International Bank (CIB) +7.9% on the back of strong foreign interest. Global Telecom also posted gains of 6.0% post the Egyptian Financial Regulatory Authority (FRA) approval of Veon's offer to acquire the company's shares
- On the other hand, Cement sector was the highest underperformer with Arabian cement losing -39.1% and Suez Cement -39.8% due to oversupply in the cement market, weighing down on their profitability

Economic Update

- The Monetary Policy Committee (MPC) decided to keep the overnight deposit, lending rate unchanged to 15.75%, 16.75% respectively during the May meeting.
- Budget Deficit Drops to 5.3% of GDP in 9M18/19
- Egypt records Primary Budget Surplus of 0.7% of GDP in 9M18/19
- Fitch upgraded Egypt's rating to 'B+' from 'B' with a stable outlook, while Moody's upgraded Egypt's rating to "B2" from 'B3' with a positive outlook.
- Egypt's Current Account Deficit Increases by 8.9% to USD3.85 Billion in 1H18/19
- Net International Reserves inched upwards to USD44.35 billion in June 2019
- Inflation dropped by 4.8% in June reaching 9.4% down from 14.2% in March

Strategy

- From our view, the execution of VEON deal to acquire Global Telecom expected in August will partially solve the liquidity concerns in the equity market, which resulted from foreign investors' interest in Egypt's debt market, as it will lead to proceeds of around USD450 million to be reinvested in the equity market. However, the medium term outlook still depends on when the CBE will resume its expansionary policy as expected, in addition to the outcome of the trade talks between the US and China.
- We expect that the CBE will resume its expansionary policy as evident by the latest inflation figures released, and that the market current attractive valuations will not be overlooked for long, thus we will keep outperforming emerging markets, as was the case in the first 5 months of 2019. However, due to the current volatility we will keep the bulk of our investments in companies with strong balance sheet and low leverage rather than highly leveraged companies.