

Quarterly Report
3Q 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 5 IC's

Fund Details

Type of scheme	Open Ended
Inception date	April 1997
IC price	195.71 EGP
Dividend Since Inception	106.25 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
Q3 2018	-11.6%
YTD	-3.2%
2017	35.6%
5-YTD	125%
Since Inception	835.4%

Allocation



Market Outlook

Market Commentary

- EGX30 plunged to its lowest since the beginning of the year recording a drop of 10.6% during 3Q2018 bringing the YTD performance to a negative 2.7%. The slide in market performance during the quarter was a result of the continuous sell off in emerging markets in addition to local panicking post some government investigations regarding historical market transactions.
- The outperformers during the quarter were Abou Kir Fertilizers (8.09%) post its inclusion in FTSE index with passive flows of USD15.0 million and EK Holding (1.22%) due to additional natural gas discoveries in its concession in North Sinai.
- Cement Sector was underperforming with Arabian Cement (-33.11%) and South Valley Cement (-32.64%) on the back of subsidy cuts and the price war in the cement market
- The underperforming sector also was the Real Estate sector specifically Palm Hills (-46.21%) given its high leverage
- Foreign and Arab investors were net buyers during the quarter by EGP40 million and EGP290 million respectively and local investors were net sellers by EGP330 million

Economic Update

- The CBE Monetary Policy Committee (MPC) held overnight rates at 16.75% (deposit) and 17.75% (lending) given the impact of subsidy cuts on inflation
- The Ministry of Finance announced that foreign holdings in Egyptian Treasuries stood at USD14.2 billion at end of August down 38.5% from USD23.1 billion at the end of March. The drop is a normal reflection of foreign outflows from emerging markets across the past months.
- Tourism revenues boosted in 1H18 to reach USD4.8 billion a growth of 77% from 1H17
- Moody's upgrades outlook on Egypt from stable to positive. The decision was based on the improvements in the economic and business environments as a result of the ongoing economic reform program
- Net International Reserves stood at USD44.4 Billion as of August 2018
- Inflation rate rose to 16.0% in September from 14.2% in August 2018 marking its highest level since January due to the increase in food prices specifically fruits and vegetables

Strategy

- The market lost 20.1% over the past 5 months eroding all gains achieved in the beginning of the year. The decline was mainly on the back of emerging markets sell off that was triggered by the trade war between the US and China, which left investors panicking leading to strong selloff. We highlight that Egypt's treasuries witnessed a more aggressive selling declining by 38.5% from USD23.1 billion at the end of March to USD14.2 billion at the end of August.
- We highlight that what is happening in emerging markets, especially with the free fall in some local currencies like Argentina (-121.8%) and Turkey (-59.4%) is causing negative sentiment across all emerging markets. As a result the CBE had to pause its easing cycle amid concerns that Egypt might face a new devaluation along with significant inflationary pressures that resulted from the constant increase in commodity prices throughout 2018.
- Although, Egypt has been outperforming Emerging markets, whether as a currency or an equity market, we believe that we can't neglect what's happening around us, and the fact that if the problem persists it might have deeper impact. Therefore, we believe that the CBE will keep rates in the current level until the sky is more clear. Moreover, we believe that our current account dynamics along with the kicking of Zohr field and our foreign reserves will be sufficient to hold EGP at current rates.
- Finally, we believe that the recent drop in the market led to some attractive valuations as the market is currently trading at P/E (2019f) of 8.1x compared to MSCI EM average P/E (2019f) of 10.7x. We highlight that historically speaking when EGX30 traded at P/E valuation range of 8.7x, the subsequent 12 months returns were never negative based on a number of observations the minimum yield was 17%, while the maximum yield was 93% and the average yield was 54%.
- Therefore, we still believe in Egypt's long term story as long as we are moving forward with the reform program yet due to current market risks we will concentrate our investments in companies with strong balance sheets and high cash balances.