

Fund Manager's Strategy & Outlook

The Egypt Fund remained flat during the month of October, gaining 0.1% and bringing its year-to-date returns to 25.9%. The market started the month on a strong note and held on to its gains for most of October until it lost them all during the last week of the month to end October with a return of 1.4%.

With a rally that has been going on unabated for the past three months, the market was expected to slow down momentarily as investors take some profits. Foreign investors remained net buyers of the market throughout October with decent volumes. Although strong US GDP figures were a positive surprise, less than flattering consumer confidence figures put a dampen on global markets, coupled with a decline in oil prices which has historically affected markets in the region.

On the market front, companies' news flow had a relatively slow month. Telecom Egypt (TE) announced the introduction of a new fiber-optics-based service to gated communities and assured that the new triple-play licenses would not be authorized to supply voice services, which means that TE would be the main supplier. While on the voice front it aggressively lowered its long-distance rate in an attempt to counter aggressive offers made by mobile operators. Mid-cap Sewedy Cables started its operations in Ethiopia as part of its aggressive African expansion and won another infrastructure contract back home, crystallizing its position as a beneficiary of fiscal expansion.

Inflation reversed its trend in September and moved back into the double digit area, recording 10.8% year-on-year, compared with 9.0% a month earlier. That was mainly attributed to an increase in food prices (mainly vegetables, fruits, and sugar) during the month of Ramadan, while inflation of other constituents of the Consumer Price Index remained more or less flat. The Central Bank of Egypt (CBE) announced a new Core Inflation index that excludes food items as well as regulated prices which stood at 6.3% y-o-y in September. The announced index has been used by the CBE's Monetary Policy Committee (MPC) in its decisions for some time and the announcement comes as a step toward greater transparency promised by the MPC, which is set to publish more detailed inflation expectations as well as Committee meeting minutes starting next year. And while the second leg of the fiscal stimulus package is on its way, the Ministry of Finance set its expectations for Fiscal Year 2009/2010 budget deficit at 8 to 8.5%, up from last FY's 6.9% figure, to be financed through issuance of government paper.

The government has reiterated its commitment to attracting FDIs and noted that they would aim at \$10bn of green field FDIs during 2010. On that front, the government reversed its decision last year to deny oil refineries of their tax free status. This means that a sector that attracted two-thirds of FDIs last year would no longer have to pay 20% in taxes to the government, promising increased flow of investments to the sector.

The market's slowdown presented an opportunity to reshuffle the Fund's positions at lower prices. The fundamentals are expected to play an increasing role compared to market sentiment in the coming period. While the Manager will maintain a core of resilient picks, the Fund is expected to benefit more from high beta stocks and recovery stories that will respond to stronger fundamentals.

Hashem Montasser – Managing Director

Dalia Shafik – Fund Manager

Mai Mounir – Vice President

Tel: +20 2 33318 228 / Fax: +20 2 33362 298

Objective

The principal objective of the fund is long term capital appreciation through investing in Egyptian equity and equity-related securities.

Fund Performance

Returns	Egypt Fund
Month to Date	0.1%
Year to Date	25.9%
2008	-46.2%
2007	61.9%
2006	8.6%
2005	130.7%
2004	113.1%

Fund Information

NAV per share	USD 43.54
Launch Date	August, 1996
Listing	Irish Stock Exchange
Structure	Open Ended
Management fee	1.75%
Minimum Subscription	USD 10,000
Subscription/Redemption	Monthly

Fund Identifiers

ISIN	BMG2948Y1093
Sedol	0-306-504
Reuters Code	LCFR13, RSJA55, CLSA51, WDRIFMEA1, ABNFUNDS15
Bloomberg Ticker	EFEGHY BH

Fund Characteristics

No. of Holdings	28
Beta	0.98
Sharpe Ratio	0.68

Top Holdings

Holding	Sector	% Holding
OCI	Contracting	10.4%
CIB	Financial Services	9.5%
Telecom Egypt	TMT	7.0%

Allocation By Economic Sector

