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EFG HERMES
since 1984

The EFG-Hermes Middle East & Developing Africa (MEDA) Fund
January 2018

Fund Manager's Strategy & Outlook

Global risk assets started the year on a positive note with robust global economic momentum and an improved outlook for corporate earnings having lifted markets higher. Emerging markets continued their outperformance, benefitting from strong commodity prices and a weaker USD. Sustained production cuts by OPEC, further supported by USD weakness sparked a rally in the energy markets, with WTI and Brent gaining 13.1% and 8.8% respectively during the period. Most GCC markets exhibited strong gains tracking global equities and energy markets and following expansionary budget announcements, except Oman which was down 0.8% during the period. The Qatari market took the lead gaining 19.3%, followed by the Kuwaiti market which was up 8.4% during the period. The Tadawul, Abu Dhabi and Bahrain gained north of 6% during the period, while Dubai was up 1.2% during the same period. Within the periphery, Morocco was up 5.3%, while Egypt gained 6.5%.

A critical development during the month was a decree by the Ministry of Labor in Saudi Arabia to raise Saudization level to 100% in 12 retail sectors. The move will not only lead to higher cost of labor for local businesses but might also lead to an interim decline in labor productivity and higher spending on training and development of the citizen workforce. We might see consolidation in the medium term within the retail sector as smaller businesses will be unable to absorb the higher overheads. The above regulation is expected to be implemented starting October 2018 and completed by January 2019.

During the month, the Fund gained 2.89% and was behind the benchmark by 5.22%. The Fund's allocation decisions towards Qatar, UAE and the Mena Horizon Fund, along with its selection decisions within Kuwait, KSA, Egypt and the UAE contributed negatively to the relative underperformance. The high cash allocation within the Fund was also a significant detractor of relative performance during the period. The Fund's positions within the real estate and logistics sectors in the UAE, along with its exposure towards the Mena Horizon Fund contributed negatively to overall performance.

During the period, the Investment Manager invested into the Mena Horizon Fund, which accounted for 55.14% of the fund at the end of the period. The Investment Manager sold out of the Fund's direct exposure to Qatar, Egypt and Saudi Arabia and also reduced the Fund's Kuwaiti exposure by selling out of names that it has indirect exposure to through the Mena Horizon Fund. The Fund ended the period with a cash position of 17.73%, most of which will gradually be deployed into the latter.

At the time of writing this update, MENA equity markets have been relatively resilient to the ongoing volatility in global equity and commodity markets. The energy commodities have retraced most of their gains from the start of the year as rising US production and a stronger USD weigh on investor sentiment.
Nevertheless, current oil prices are still within the budgeted oil price assumptions for key MENA sovereigns, thus limiting the downside risks on the forecasted budget deficits and allowing for some relief to the economies from recent pressures.

Objective

Long-term capital appreciation through investing in Middle East and North African equities and equity related securities.

Fund Performance

	MEDA Fund Class A	S&P Pan Arab*	Difference
MTD**	2.9%	8.1%	-5.2%
YTD***	2.9%	8.1%	-5.2%
2017	5.9%	2.8%	3.1%
2016	-2.2%	8.8%	-11.0%
2015	-10.0%	-18.0%	8.0%
2014	20.4%	6.0%	14.4%
2013	45.1%	26.3%	18.8%
2012	14.3%	6.8%	7.5%

*Figures reflect performance since inception of S&P Pan Arab Composite Large/Mid Cap Net TR Index in Dec 2004 as of the relevant Valuation Days of the MEDA Fund
**MTD figures reflect performance between December 11, 2017 and January 29, 2018
***YTD figures reflect performance between December 11, 2017 and January 29, 2018

Fund Characteristics

No. of Holdings	6
Weighted Market Cap	USD 5.2
Average Dividend Yield*	5.7%

*Figure reflects the weighted average yield of a dividend-bearing security in the portfolio

Fund Metrics*

Alpha	5.7%
Beta	0.87
Volatility	14.3%
Information Ratio	0.85

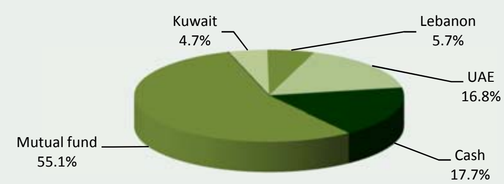
*Calculated vs. S&P Pan Arab Composite Large/Mid Cap Net TR USD since 29th December 2011

Top Five Holdings

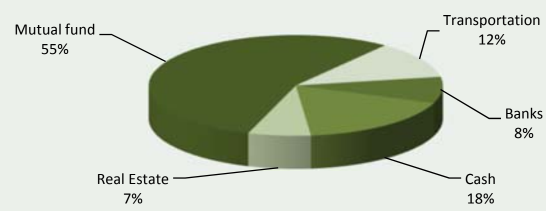
Holding	Country	% of NAV*
Aramex	UAE	7.6%
Emaar Properties PJSC	UAE	6.4%
BLOM Bank SAL	Lebanon	5.7%
Jazeera Airways Co KSC	Kuwait	4.3%
Dubai Islamic Bank PJSC	UAE	2.7%

*Figures as of January 29, 2018

Allocation By Country



Allocation By Sector



Fund Data

NAV per Share (Class A)	USD 33.45
Launch Date	July 1999
Management Fee	1.4%
Incentive Fee	15% over 10%
Expense Ratio	2.2%
Minimum Subscription	USD 10,000
Subscription / Redemption	Weekly

Fund Identifiers

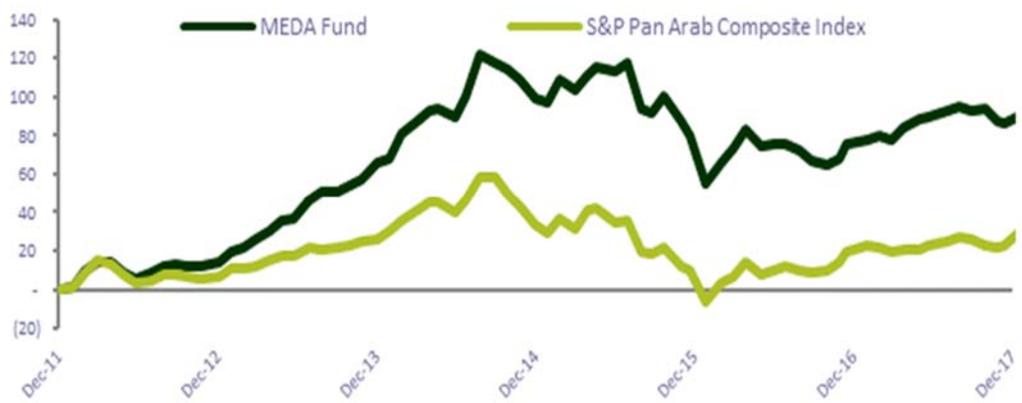
ISIN (Class A shares)	BMG294041030
Bloomberg Ticker	EFGMEAF BH
Merrill Lynch Code	EFGAT

The following are some of the themes the Investment Manager envisions within key sectors during FY 2018 that should help guide fund positioning throughout the year:

- Chemicals: Extended timelines for feedstock price hikes should maintain Saudi petchem producers as the lowest cost producers. The continued strong global growth prospects should keep demand high, and in conjunction with higher selling prices, should bode well for revenue growth. Delays in capacity additions make the sector outlook compelling for the near term, but perhaps more challenging in the 2H of the year
- Banking: Higher capital spending by the public sector in KSA, along with EXPO driven project awards in the UAE should stimulate credit demand in both economies, with a more positive tilt towards the former. NIM expansion from higher rates will be more evident in Saudi banks as competitive pressures in the UAE will minimize the upside risks to spreads. The Saudi banks provide a stronger case for sizeable earnings growth with better prospects on key banking KPIs, along with a stable cost of risk amidst high provisioning buffers. While the IFRS 9 provisioning should be manageable for most UAE banks, capital raising and potential M&A will be a greater determinant of market action in the same
- Healthcare: As seen with recent financial results, improved funding for the Ministry of Health should reduce the receivables overhang for the private healthcare operators in KSA and provide better visibility on working capital cycles
- Consumer/Retail: The disbursement of the Citizen Account programme, along with the monthly allowances to certain sects of the population is estimated to place an additional cSAR 20bn in consumers' hands which should bode well for consumer discretionary and staples segments in KSA
- Insurance: Within the motor insurance segment in KSA, pricing should continue to be soft in the 1H of the year as discounts stipulated by SAMA will continue to be implemented. Growth in GWPs from a pick-up in volume should materialize in the 2H of the year as women become part of the driving population, nonetheless, limited by the bottleneck from driving school's capacity. Additionally, a gradual reduction in agent commission fees passed on to consumers should help drive further volume growth. The medical insurance sector should see challenges as corporates continue to down trade policies, along with the impact from a lower population as expats exit the country. Additionally, there are regulatory pressures to enhance service provision with limited price increases

The Investment Manager remains UW on Oman given the delayed fiscal consolidation and Neutral on Qatar as while the macro indicators seem robust despite a lack of resolution on the diplomatic standoff, the market has recovered and valuations seem reasonable. The Investment Manager remains constructive on Egypt as inflation pressures continue to decline, providing room for the policymakers to lower rates and stimulate growth within the economy.

Globally, the investment Manager is cognizant of the potential deflationary impact on asset prices due to the quantitative tightening cycle that would commence soon as unemployment levels in the US seem to have bottomed out and with upside risks to inflation. The transition from a period of quantitative easing which was highly inflationary for asset prices to a period of quantitative tightening stands as a challenge for investors of all stripes and will necessitate a stronger emphasis on stock selection. Your Fund is invested in some of the highest quality growth businesses in the region, and we expect that in the next 5-8 years, these companies are very well positioned to grow into their valuations.



As of January 29 2018

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