المجموعة المالية هيرميس
EFG HERMES
since 1984

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

Fund Manager's Strategy & Outlook

February witnessed a pause in the risk appetite among investors and a return of volatility in the global capital markets. Inflationary expectations in the US leading to potential tightening in the monetary policy raised investor concerns and aggravated the sell-off. In the energy markets, rising US production along with dollar strength weighed on investor sentiments and wiped out most of the gains from the start of the year, with Brent Oil and WTI down 6% and 4.8% respectively during the month. Most regional market were correlated with the global sell-off, with the Qatari market taking the lead, down 4.8% during the month, followed by Dubai and the Tadawul, which were down 4.3% and 1.3% respectively, while the other investible GCC markets traded in a range of -0.7% to +1.3%. The North African counterparts within the periphery saw Egypt gaining 0.6% during the month and Morocco up 1.3% for the period.

In Egypt, the CBE commenced the monetary easing cycle by cutting its lending, deposit and discount rates all by 100bps, on the back of inflation moderating to 14.4% - the lowest mark since the devaluation. We can expect further cuts over the course of 2018, until the CBE has reached its objective of achieving positive real interest rates, along with a high growth environment with manageable inflation levels. While we are unlikely to see this filter significantly into the real economy as rates are still relatively high, however, a few more rounds of cuts should increase the opportunity cost of capital and trigger some flows out of deposits and into real assets within the economy. The banking sector should see a decline in NIMs, albeit neglible with the current rate cut, however, in the medium term, a monetary easing environment is beneficial as the pick-up in loan volumes from lower rates will more than offset the impact from declining NIMs. The pick-up in credit appetite owing to more affordable financing should stimulate investment spending within the economy, which in turn should facilitate employment and income growth. Additionally as inflation continues to decelerate, consumer spending is likely to rebound as real wage growth catches up with inflation.

Portfolio Performance

During the month, the Portfolio lost 0.14% and was ahead of the benchmark by 2.19%. The portfolio's allocation and selection decisions within Egypt, along with its selection decisions in the UAE and Saudi Arabia were the most significant contributors of relative performance during the period. The portfolio's exposure within Egypt, along with its off-index exposure to the logistics sector in the UAE contributed positively to overall performance. During the month, the Investment Manager increased the portfolio's allocation to the Mena Horizon Fund to 57.14% at the end of the period. The Fund ended the month with a cash position of 15.4%.

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**	-0.1%	-1.3%	1.1%
YTD***	2.7%	6.7%	-4.0%
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 January 29, 2018 and February 26, 2018
***YTD figures reflect performance between December 11, 2017 and February 26, 2018

Fund Characteristics

No. of Holdings	6
Weighted Market Cap	USD 4.8
Average Dividend Yield*	5.8%

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

Fund Metrics*

Alpha	5.8%
Beta	0.9
Volatility	14.2%
Information Ratio	0.88

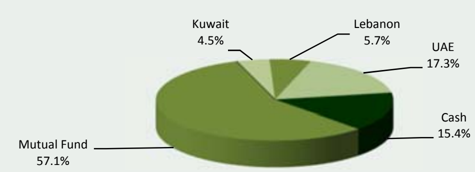
*Calculated vs. S&P Pan Arab Composite Large/Mid Cap Net TR USD since 29th December 2011

Top Five Holdings

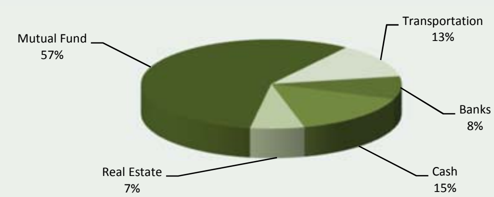
Holding	Country	% of NAV*
Aramex PJSC	UAE	8.4%
Emaar Properties PJSC	UAE	6.2%
BLOM Bank SAL	Lebanon	5.7%
Jazeera Airways Co KSC	Kuwait	4.0%
Dubai Islamic Bank PJSC	UAE	2.7%

*Figures as of February 26, 2018

Allocation By Country



Allocation By Sector



Fund Data

NAV per Share (Class A)	USD 33.40
Launch Date	July 1999
Management Fee	1.4%
Incentive Fee	15% over 10%
Expense Ratio	1.9%
Minimum Subscription	USD 10,000
Subscription / Redemption	Weekly

Fund Identifiers

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

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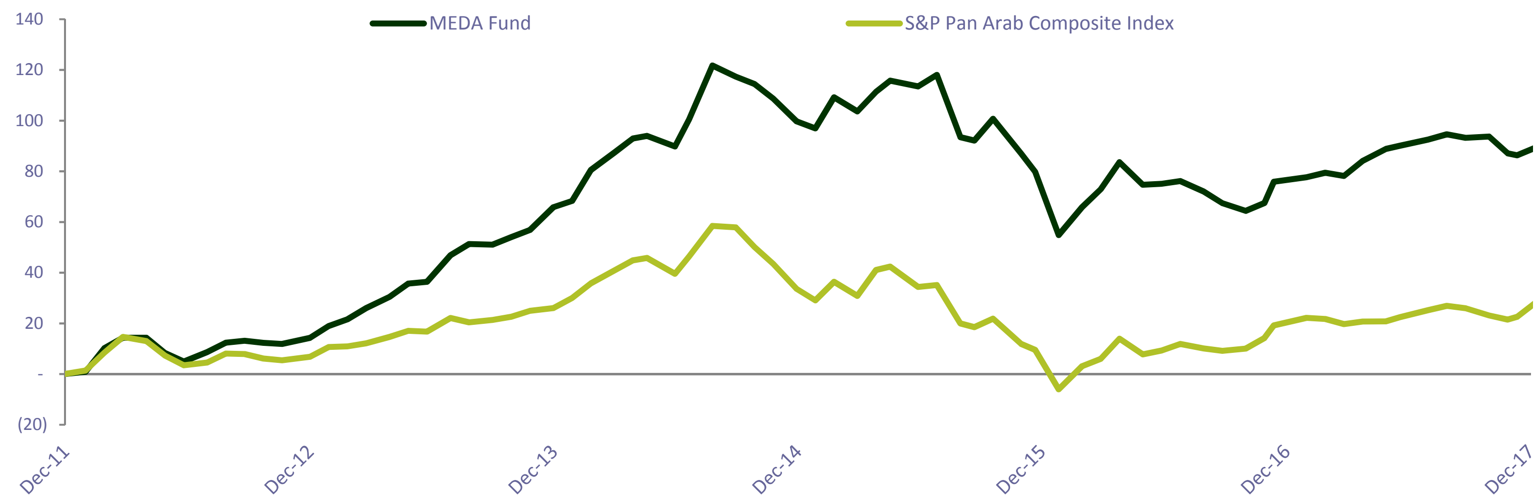
Investment Outlook

At the time of writing this update, two of the large-cap regional banks, Emirates NBD listed in Dubai and Qatar National Bank listed in Doha have announced their intention to raise foreign ownership limits aimed at increasing foreign participation in business ownership. Higher FOL limits are likely to increase the head room for foreign flows and pave way for potential inclusion/increased exposure to these stocks in FTSE and MSCI indices. The portfolio has an off-index allocation to ENBD, which should see improved liquidity, and is likely to re-rate and dispel its historical discount to peers owing to illiquidity.

Additionally, the approval of the amended QFI rules for the Tadawul allowing for more inclusive investor criteria, along with the other market enhancements announced by the CMA, further solidifies the likelihood for MSCI/FTSE inclusion. The FTSE country classifications are due to be announced at the end of the current month, and is estimated to result in passive inflows of at least cUSD5.2bn, with KSA constituting 2.6% of the index. Inclusion within the FTSE index should serve as a strong read through for the MSCI inclusion announcement in June 2018. The latter is estimated to add cUSD8.5bn of flows, with a 2.2% weight (ex Aramco). Although the implementation and flows would likely begin a year later over different phases, empirical data highlights that EM candidate markets perform well in periods up to the actual inclusion date, and it is expected the Saudi market should follow suit. Furthermore, foreign institutions (excluding strategic stakes) are still a small subset of the Tadawul investor base, and given most of the foreign ownership limits for the expected constituents are well below the threshold, this provides further upside to flows as observed with regional counter parts, Qatar and UAE, upon EM inclusion.



As of February 26 2018

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