المجموعة المالية هيرميس
EFG HERMES
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The EFG-Hermes Middle East & Developing Africa (MEDA) Fund
July 2016

Fund Manager's Strategy & Outlook

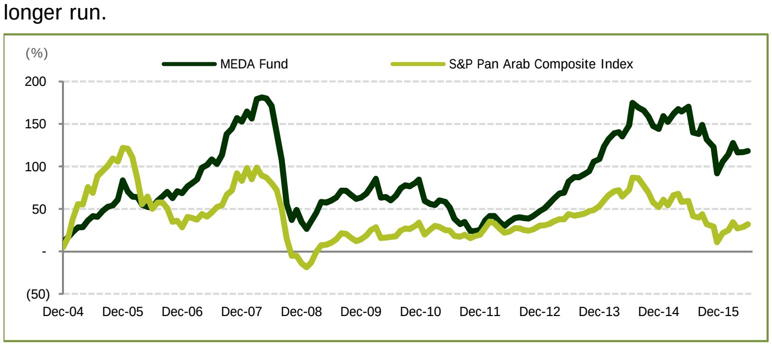
Regional markets were resilient last month given the backdrop of a 6.5% drop in Brent crude prices. The Egyptian market rallied 15.0% in USD terms while the Dubai Index was the best performer in the GCC having gained 8.2%. The Qatari Index had a 7.5% increase while the Abu Dhabi market gained 4.1%. The Omani and Saudi markets were both up 0.8%, while the Kuwaiti Index moved up by 0.6%. The Turkish market was the worst performing having lost 4.6% in USD terms.

Brent crude prices continued to slide downwards after crossing the USD 50 /bbl mark on the back of continuing oversupply concerns and uncertainty involving global demand. Saudi Arabia has now discounted its crude in Asian markets due to competitive pressures from Russia and the Middle East. Iraq's gain in market share in countries like India is a reflection of rising output adding to supply. Iran has also seen output jump to over 3.6mn barrels a day, an increase of approximately 600k barrels a day since the sanctions were lifted. These events in the backdrop of a lack of supply disruptions continue to indicate weakness, however pricing is likely to get a small push upwards given that OPEC is intending to hold talks again in September. A negative outcome from the meeting, along with a potentially mild winter could continue to keep prices depressed.

Egypt, struggling with a weakening currency, falling tourism and a growing budget deficit is in talks with the IMF for USD 12bn in funding over the coming three years, which has helped create significant positive sentiment on the market. The country is looking to embark on a three-year economic program that will cost USD 21bn and in addition to the IMF funds, Egypt will secure USD 4.5bn from the World Bank and African Development Bank. The economy has benefitted this year from the aid that came in from GCC neighbors and by a surge in infrastructure spending which should result in growth reaching over 4% in 2016. The IMF deal can bring in a lot of liquidity to the markets but there will be a lot to be achieved over the coming years. Further EGP devaluation is expected but hopefully with support in the form of reserves and strategic policies.

The aggregate earnings of Saudi Banks were up 3% Q-o-Q in Q2 2016 driven by an improvement in net interest spreads which was ahead of consensus estimates. Provisioning costs have however dampened the impact resulting in muted profit growth. Banks shedding deposits is a telling sign that perhaps the worst of the liquidity squeeze could be behind us. Pressures on margins are also waning as assets are re-priced at a faster pace. The outlook still would not be classified as positive on the sector as we may see an increasing cost of risk and drop in asset quality. We remain cautious given that the low price environment can in turn push NPL ratios higher which will not make the sector valuations look cheap anymore.

During the previous month we witnessed a failed coup attempt in Turkey which had the potential of creating a new dimension of uncertainty. The leaders of Turkey have however emerged stronger after the attempt and in turn are carrying out a massing program of purging out thousands of people across all bands of society. We remain focused on the market itself however and Turkish policy makers stated they would provide unlimited liquidity to banks and would support the currency. The quick actions taken have calmed the markets as stated by the head of the IMF, and we expect a rebound. The event of a coup overthrowing a democratically elected government could have resulted in a worse outcome for the economy in the longer run.



As of July 25, 2016

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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**	0.6%	3.2%	-2.6%
YTD	-2.1%	2.1%	-4.2%
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%
2011	-31.4%	-9.4%	-22.0%
2010	11.7%	16.1%	-4.4%
2009	8.7%	18.4%	-9.7%
2008	-42.1%	-50.6%	8.5%
2007	50.5%	41.1%	9.4%
2006	6.2%	-33.9%	40.1%

*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 June 27 2016 and July 25, 2016

Fund Characteristics

No. of Holdings	27
Weighted Market Cap	USD 4.0 billion
Average Dividend Yield*	2.6%
P/E Ratio 2015	14.2

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

Fund Metrics*

Alpha	9.2%
Beta	0.9
Volatility	15.9%
Information Ratio	1.6

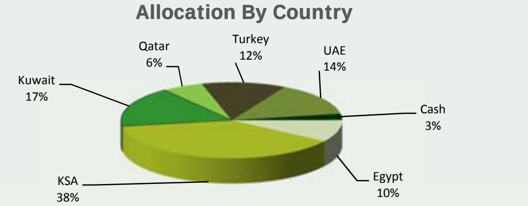
*Calculated vs. S&P Pan Arab Composite Large/Mid Cap Net TR USD since 29th December 2011

Top Five Holdings

Holding	Country	% of NAV*
Mezzan Holding	Kuwait	8.6%
Saudi Marketing Co	KSA	5.9%
Kuwait Food Co Americana	Kuwait	5.5%
Bupa Arabia for Cooperative Insurance	KSA	5.3%
Co for Cooperative Insurance	KSA	5.0%

*Figures as of July 25, 2016

Allocation By Country



Allocation By Sector

Fund Data

NAV per Share (Class A)	USD 30.73
Launch Date	July 1999
Management Fee	1.4%
Incentive Fee	15% over 10%
Expense Ratio	1.83%
Minimum Subscription	USD 10,000
Subscription / Redemption	Weekly

Fund Identifiers

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