Egyptian Agricultural Bank (Al Massy)

Quarterly Report
Q3 2020

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 daily subscription to investors
- The fund offers weekly redemption 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 2008
IC price	EGP 245.97
Dividend Since Inception	EGP 11
ISIN	65122941

Fund Manager

Management Company	Hermes Fund Management
Fund Manager	Nabil Moussa
Assistant Fund Manager	Mostafa Amer
Managing since	July 2013

Contact Details

Egyptian Agricultural Bank

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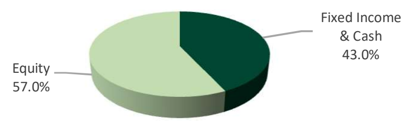
Portfolio

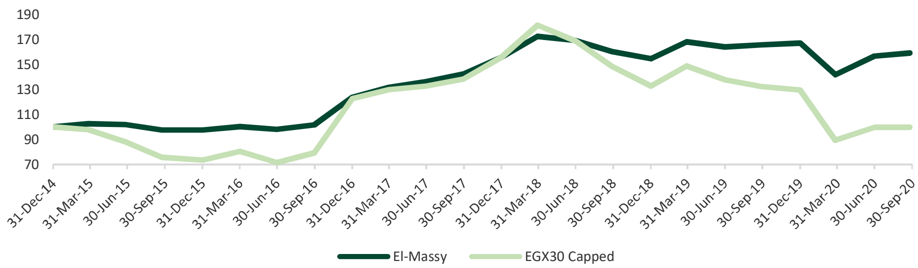
Performance Figures

Date	Return
Q3 2020	1.6%
YTD	-4.6%
2019	8.0%
5-YTD	63.1%
Since Inception	170.7%

Allocation



Relative Performance



Market Outlook

Market Commentary & Strategy

The market main index EGX30 declined by 21.3% in the first nine months of 2020, and by 40.2% since the peak of April 2018. This decline is mainly due to the following factors:

1) The outbreak of COVID-19 leading to slowdown in economic growth especially in the tourism sector which might have future negative implications on growth levels, and the country's foreign currency proceeds.
2) The slowdown in global trade especially with the decline in energy prices thus limiting the export capabilities of several emerging countries.
3) The political escalation in the region, whether between Iran and other Gulf states or in Libya, kept several investors away from the region until things stabilize.

We highlight that Egypt's MSCI index declined by 18.8% during the first nine months of 2020 ranking 11 out of 26 markets, yet significantly underperforming MSCI EM average index that declined by 1.2%. We note that MSCI average value is distorted by the weight of China (41%), Taiwan (12%), and Korea (12%) all having a positive return thus muting the severe negative performance achieved in other markets.

We note that the relative YTD underperformance of the Egyptian market coincided with low foreign participation standing around 10% of trading.

We believe that global economies are facing several uncertainties over the next period due to the following reasons:

1) The uncertainties regarding the impact of COVID-19 second wave and its implications on global demand.
2) The increasing tension between the UK and the EU regarding the structure of the Brexit deal could also lead to some trade tension across Europe.
3) The US presidential elections is adding further pressure on global economies given that Trump victory could trigger an escalation of the trade war with China, while Biden victory might not be welcomed by US market given his intention to raise taxes.

Nonetheless, on the other hand, we believe that global monetary easing trend will continue along with several stimulus packages supporting economies. Therefore, we expect global markets including Egypt to trade sideways until the end of 2020.

On the fixed income side, with such volatility and the uncertainty surrounding the second wave prices are dropping back to lucrative levels. The Manger will attempt to benefit from such chances without hindering his ability to meet any expected liability needs while avoiding unnecessary risks.

Economic Update

The CBE Monetary Policy Committee (MPC) surprised the market by cutting rates by 50 bps bringing overnight deposit and lending rates to 8.75% and 9.75% respectively implying total cuts of 1,000 bps since the beginning of the easing cycle in February 2018. The CBE stated that muted inflationary pressure registering below 6% since February 2020 confirms the moderation of inflation expectations thus the cut aims to provide appropriate support to economic activity.

The government announced that fiscal deficit narrowed to 7.8% of GDP in FY19/20 down from 8.2% in FY18/19 despite of COVID-19 crisis and its impact on economy. The government indicated that it achieved a primary surplus of 1.8% of GDP only 0.2% lower than its initial target, while public debt declined to 86.2% of GDP down from 90.4% a year earlier.

The government announced that GDP growth stood at 3.5% in FY19/20 down from a preliminary figure of 3.8%. The government added that growth have been 1.9% if it wasn't for the support and stimulus package amid the outbreak of COVID-19 in March 2020.

Unemployment rate jumped to around 9.6% (two year high) amid the outbreak of COVID-19 and its impact on the economy. We highlight that unemployment was 7.7% at the end of March 2020 and jumped around 2% over the next quarter with the outbreak of COVID-19 and the lockdown imposed.

Egypt sold USD750 million five-year green bonds offering investors a yield of 5.25%. The proceeds of the bond will be used to finance or refinance green projects in transportation, renewable energy, and energy efficiency. It's worth mentioning that Egypt is the first country in the MENA region to issue such bonds.

The CBE announced that Egypt's foreign reserves inched upwards from USD38.36 billion in August to USD38.43. This is considered the fourth consecutive month with stable reserves post the COVID-19 outbreak that led to USD9.5 billion drop in foreign reserves during the period March to May 2020.

Egypt's headline inflation climbs to 3.7% in September, MoM rises to 0.3% on marginal cost-push impacts; but food prices continue to decline. We highlight that this is the fifth consecutive month we witness drop in food prices partially due to seasonality and partially due to weak consumption level mostly on the back of recent announced figure of an increase in unemployed people by around 2.7 million.