



Quarterly report
Q3 2021

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 ICs

Fund Details

Type of Scheme	Open Ended
Inception date	April-2008
IC price	EGP 266.03
Dividends Since Inception	EGP 12.00
ISIN	65122941

Fund Manager

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

Contact Details

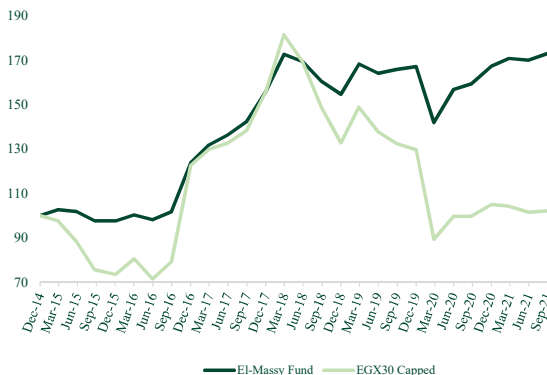
Egyptian Agricultural Bank	
Telephone	+202-27942471
Fax	+202-27948193
Website	https://www.abe.com.eg/

Portfolio

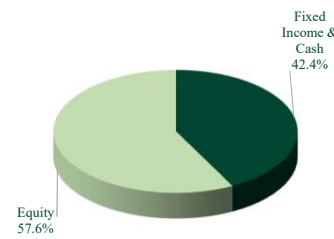
Performance Figures

Date	Return
Q3 2021	1.7%
YTD	3.4%
2020	0.1%
5-YTD	70.0%
Since Inception	193.9%

Relative Performance



Asset Allocation



Market Outlook

Strategy Update

The EGX30 Index reached a low on the 20th of June after the rebalancing of both MSCI EM Index and FTSE EM Index saw a decrease in CIB's weight. Passive and active outflows pushed CIB to historic low valuations. On the 24th of June the bank announced the appointment of Hussien Abaza as CEO and Managing Director of the bank, foreign inflows started returning to the stock due to its attractive valuation and a more stable outlook on management, the stock rallied by 9.5% in July and 9.2% in August. The rally of the index heavyweight had spillover effects on the remainder of the index and helped it breach the 11,000 mark. Q2 2021 results were positive across the board, which further reassured investors that corporate earnings are recovering from the low witnessed during 2020.

The market rally got interrupted in September, with news about the implementation of capital gain taxes resurfacing again. The Capital Gains Law (199/2020) was first passed in July 2014, but the government was forced to postpone its implementation twice (in 2015 and 2017) for six years, opting instead to impose a stamp tax on trading operations. On 3 September, the Ministry of Finance said the law would be implemented on January 2022 as scheduled, imposing a 10 percent capital gain tax. The tax will be implemented on local investors only, while foreign investors will continue to pay the stamp tax. This news had some negative effect on the market sentiment, especially within the retail investors, as small cap stocks come from a high base after a significant rally in 2020 and 2021. Sentiment got another hit later in September as emerging markets started to decline after news emerged about the debt crisis of Evergrande Group in China. Evergrande is one of China's biggest real estate developers, with liabilities over USD 300 billion, the company failed to meet two interest rate payments on bonds, and is offering some of its assets for sale to face its current liquidity squeeze.

On the corporate front, Al Dar Real Estate led consortium submitted an offer to purchase a stake in SODIC not less than 51% and not more than 90%. The offer is to purchase the company at EGP20 per share implying a total value of EGP7.1 billion for the company. The offer is still being studied by the Financial Regulatory Authority (FRA) and yet to be approved. And EK holding announced that 69% of its shares listed in Egypt had converted into EGP from USD. The company had previously 1.13 billion shares, 60% of which are listed and traded in Egypt, while the remaining 40% are listed and traded in Kuwait Stock Exchange. This implies that around 670 million shares are traded in Egypt in USD before the conversion, and around 461 million shares of which have converted to trade in EGP while the remaining balance is still traded in USD.

Future Outlook

Currently the market is awaiting the highly anticipated e-Finance IPO, due mid-October. Locals trying to generate some liquidity for the IPO are putting further pressure on the market. We believe post IPO, the market should witness a rebound in the short-term. We are keeping a close eye on how the Evergrande debt crisis will evolve and its effect on emerging markets, it is still unclear whether there will be a swift solution for this or if further repercussions will emerge.

Commodity prices had another round of increases in September, as Brent reached USD 80/ton, while Urea reached a high of USD 600/ton. This bodes very well for commodity stocks in Egypt especially for 2H 2021 results.

Economy

Capital Gains Tax to be Implemented on Public Equities for Local Investors starting 2022

The government announced its plan to start from January 1st, 2022 implementing a 10% capital gains tax on public equities, while canceling the 0.1255% stamp duty tax for local resident investors. On the other hand, foreign investors will be exempted from the capital gains tax yet will continue paying stamp duty tax at 0.125% for each transaction.

MPC Maintains Overnight Deposit and Lending Rates

The CBE maintained overnight deposit and lending rates stable at 8.25% and 9.25% respectively for the sixth consecutive meeting yet post 10.5% cuts over the period February 2018 to November 2020. We believe that with global inflationary pressures and the government need to constantly push for price adjustments, there will be no change in interest rates for the remaining period of 2021.

Egypt Raises USD3 in Eurobond Issuance

Egypt raised USD3 billion from its Eurobond issuance that was covered 3 times. The sale included USD1.125 billion 6-year note at a yield of 5.8%, USD1.125 billion 12-year notes at yield of 7.3%, and USD0.75 billion 30-year notes at yield of 8.75%.

Bank's Net Foreign Assets Liability Deepens further into USD4.4 Billion Liability

The CBE announced that net foreign assets of local Egyptian banks went further into the red registering USD4.4 billion net liability position compared to USD1.6 billion in July, and a net asset position of USD1.7 billion in June. This implies USD6.2 billion drop in two months. We believe that drop was due to widening current account deficit due to rising import pressure forcing banks to use some of its assets to fund FX obligations.

Foreign Reserves Inch Upwards to USD40.67 Billion

The CBE announced that Egypt's foreign reserves inched upwards to USD40.83 billion in September 2021 up from USD40.67 billion in August 2021 implying a stable import coverage ratio of 7.2 months.

Inflation Increases to 6.6% in September

Egypt's headline inflation increased to 6.6% in September up from 5.7% in August, and an average of 4.5% during FY20/21. This is the highest monthly inflation figure since April 2020, which was expected due to unfavorable base effect in food prices in August/September 2020. We believe that inflation will keep gradually picking up in light of constant rise in global commodity prices that will force producers to pass on rising input prices. We note that the CBE expects inflation to reach 7% (+/-2%) as of 4Q2022, and we expect the figure to be in line yet towards the mid to upper end.

On the fixed income side, Going forward the fund will maintain the same level of duration in anticipation of gradual economic recovery.