

Quarterly report  
Q4-2022

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 335.86
Dividends Since Inception	EGP 25.50
ISIN	65122941

Fund Manager

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

Contact Details

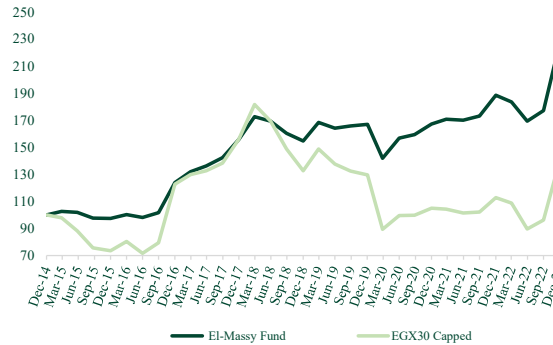
Egyptian Agricultural Bank	
Telephone	+202-27942471
Fax	+202-27948193
Website	<a href="https://www.abe.com.eg/">https://www.abe.com.eg/</a>

Portfolio

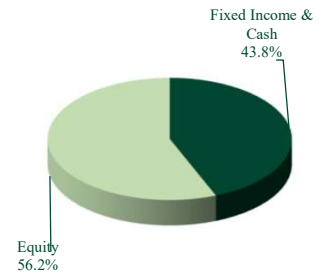
Performance Figures

Date	Return
Q4-2022	28.4%
YTD	20.6%
2021	12.7%
5-YTD	45.8%
Since Inception	286.3%

Relative Performance



Asset Allocation



Market Outlook

Equity Commentary

The Egyptian market main index declined by 22.8% in the first half of 2022 due to strong foreign outflows from the market post the Russian Ukrainian war along with the FED decision to start tightening thus leading to elevated risks among emerging markets.

The market recouped all losses in the second half of the year advancing by 58.2% to end the year up by 22.2% in EGP terms yet it decreased by 22.5% in USD terms given that the EGP depreciated by 36.6%. Therefore, we believe that a change to a flexible FX regime is necessary to maintain the market rally as the current rally is supported by local inflows hedging against currency devaluation, while we are not expecting any foreign inflows without a flexible FX regime.

We note that in a recent survey among Emerging Markets active funds it shows that Egypt weight is neutral at 0.1% compared to an overweight allocation of 0.3% in the beginning of 2020.

We highlight that corporate earnings increased by 33.8% in the first 9 months of 2022 supported by the energy sector which represent around 24% of the index benefitting from the strength of the USD and the continuous rise in commodity prices. In addition banks which represent around 30% of the index also benefited from the continuous rise in interest rates.

We believe that corporate earnings will maintain a strong momentum in 2023 supported by a higher average exchange rate given that USD/EGP average rate in 2022 was EGP19.26 compared to a current rate of EGP24.74. Moreover, the CBE hiked rates by 8% in 2022, which will be reflected in earnings of the financial sector during 2023.

As mentioned earlier, the Egyptian market is trading at 23% discount to its historic average. We attribute this multiple contraction to two major external shocks: 1) Covid-19 Pandemic and 2) Russian Ukrainian War affecting emerging markets in general, and Egypt specifically given its high level of foreign debt, and current account deficit.

We believe that a flexible FX regime along with the new IMF program insisting on economic reforms and more contribution of the private sector will provide the basis for a new cycle of multiple expansion.

Fixed Income Commentary

- Annual urban inflation has accelerated to 18.7% in November 2022. On the other hand, monthly inflation upped to 2.3% in November, impacted by weaker local currency.
- Net international reserves increased by USD470mn to USD34bn at the end of December 2022, according to central bank. This marks the four consecutive months of increase, with a total of USD850mn.
- Egypt Purchasing Managers' Index (PMI) declined to 45.4 in November from 47.7 in October, well below the 50.0 threshold that separates growth from contraction. This marks the second lowest reading since the pandemic dragged the index down in June 2020, and the 24th consecutive month of contraction.
- Egypt's economy grew 4.4% in 1QFY22/23, up from 3.3% the previous quarter according to preliminary data from the Planning Ministry. This comes down from 9.8% in 1QFY21/22. The government expects GDP growth of 5% in FY22/23.
- Egypt concluded the IMF agreement of USD3bn, with potential talks of another USD6bn, that should support FX availability
- The Central Bank of Egypt (CBE) decided to raise the overnight deposit and lending rates, and the CBE's main operation rate by 300bps to 16.25%, 17.25%, and 16.75%, respectively.
- Quarter Closed:
  - 3Yrs: 18.00%
  - 5Yrs: 15.00%
  - 7Yrs: 15.50%
  - 10Yrs: 14.68%

The fund manager will let duration fall naturally, in order to navigate expected volatility and possible redemptions in the short term. Given market conditions, the fund manager will be seeking to deploy cash positions in the best short-term available option.