

Quarterly report  
Q4 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 weekly liquidity to investors
- The valuation day for the fund is the last business day of every week
- Minimum initial investment is 10 ICS

Fund Details

Type of Scheme	Open Ended
Inception date	February-2013
IC price	EGP 22.38
Dividends Since Inception	EGP 0.00

Fund Manager

Management company	Hermes Fund Management
Fund Manager	Nabil Moussa
Managing since	July-2017

Contact Details

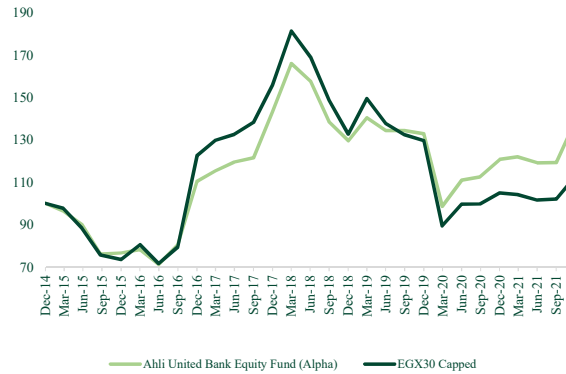
Ahly United Bank	
Telephone	19072
Website	<a href="http://www.ahliunited.com/egypt/">http://www.ahliunited.com/egypt/</a>

Portfolio

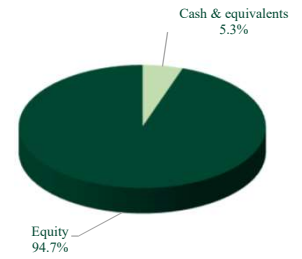
Performance Figures

Date	Return
Q4 2021	16.6%
2021	15.2%
2020	-9.1%
5-YTD	26.0%
Since Inception	123.8%

Relative Performance



Asset Allocation



Market Outlook

Strategy Update

The EGX30 Capped Index closed off the year on a positive note, Q4 was the strongest quarter of the year surging by 10.42%, lifting the YTD performance to the positive territory up 7.42%. The index rally was mainly driven by the real estate and banking sectors. Q4 saw Heliopolis Housing and TMG return 36.75% and 22.90%, respectively. While in the banking sector CIB and Credit Agricole increased by 24.21% and 31.62%, respectively.

The quarter started off with strong performance from commodity related stocks, driven by surging global prices. This rally ended beginning of November after gas prices were adjusted from USD4.5/MMBTU to USD5.75/MMBTU for industrials. Soon after, local fertilizer selling prices were adjusted as well from EGP 3,200/ton to EGP 4,500/ton.

The quarter also witnessed the IPO of E-Finance with an initial plan to offer up to 16% of the company; however, the strong interest from foreign investors made the government increase the offering size to 26% of the company (USD370 million). Moreover, the government made a secondary offering for 10% of Abu Qir Fertilizers in the market (USD140 million) whereby the book was covered 3x.

Al Dar Real Estate led a consortium offer to purchase a stake in SODIC at EGP20 per share which was approved this quarter, as a result other listed real estate companies performance was boosted like Heliopolis Housing, TMGH and Medinet Nasr Housing.

Market Outlook

Privatization Program is Key Catalyst

Egypt is targeting to increase foreign participation in the market through resuming its privatization program in order to attract fresh new foreign funds. We believe that the revival of the IPO program will bring new investment themes along with depth and variety in the market thus attracting investors and increasing appetite on the market. The government is planning to keep its list of IPOs entering the market throughout 2022 with the key target being the offering of Banque du Caïre.

Growth and Earnings Outlook

Earnings of listed companies have increased by around 70% during the first 9 months of 2021. We note that this growth was partially boosted by low base effect in 2020 given the lockdown Egypt faced in 2Q20 post the outbreak of COVID-19. Moreover, we expect earnings to grow by a further 20% in 2022. However, the market didn't reflect the recovery in earnings during 2021 with EGX30 increasing by 10.2% only.

As a result, the market is currently trading at P/E of 7.3x for 2021 and 6.4x for 2022.

Future Outlook

We note that the Egyptian market is part of the MSCI EM index along with 25 other markets thus we always have a positive correlation with the performance of emerging markets in general being significantly affected by its inflows and outflows. Recently, the market has been trading at a significant discount to MSCI EM index with MSCI Egypt being down 3.8% over the past 5

Year	MSCI EM Return (USD)	MSCI Egypt Return (USD)
2017	34.30%	4.60%
2018	-16.60%	-17.40%
2019	15.40%	40.50%
2020	15.80%	-25.10%
2021	-4.60%	5.70%
5- Years	42.90%	-3.80%

This underperformance can mainly be attributed to three main reasons: 1) Low liquidity in USD terms kept several investors away from the market, 2) Some concerns over corporate governance in the CIB, left some investors skeptical to invest in the market, and 3) Some political concerns regarding the tension between Egypt and Ethiopia.

We note that sentiment is improving gradually in line with stability in the management of the CIB along with strong results, in addition to offering new IPOs, attracting new investors thus improving the appetite of investors on the Egyptian market. As a result, we started to witness an improvement in market performance since the second half of 2021, and we ended the year outperforming MSCI EM, which is something we expect to be maintained in 2022.

Economy

- The CBE maintained overnight deposit and lending rates stable at 8.25% and 9.25% respectively implying no change in interest rates during 2021 yet post 10.5% cuts over the period February 2018 to November 2020. We believe that given the global tightening monetary policy, there will be no further rate cuts in the foreseen future.
- Ministry of Planning indicated that Egypt's economy is expected to grow by 6-7% in the current quarter (2Q21/22), and expects to end the fiscal year 2021/2022 with an overall GDP growth in the range of 5.5-5.7%. We note that 1Q21/22 growth was 9.8% boosted by very low base effect in the previous year due to COVID-19 lockdown limitations.
- The Ministry of Finance stated that total budget deficit reached EGP267 billion in 5M21/22 representing 3.7% of GDP up from 3.2% in the previous year. The increase in deficit was a reflection of 6.5% increase in total revenues compared to a 16.1% increase in total expenditure. Core reason of the increase in expenditure is 23% increase in interest payments representing 40% of total expenditure.
- The government announced increasing gas prices by 27.8% for industrial players in the fertilizers, steel, and cement sector that were operating at a fixed rate of USD4.5 per MMBTU to a new rate of USD5.75 per MMBTU. This increase is not applicable to companies that are already operating via pricing formula.
- Saudi Arabia deposited USD3.0 billion in the CBE, and extended the maturity of USD2.3 billion existing deposit. This is considered a supportive step to Egypt's foreign reserve position boosting the country's FX buffers to meet its funding needs in FY21/22.
- The CBE announced that Egypt's foreign reserves inched upwards to USD40.93 billion in December up from USD40.91 billion in November implying a stable import coverage ratio of 6.9 months.
- Egypt's headline inflation slowed to 5.9% in December compared to 5.6% in November.