

Quarterly Report 1Q 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 liquidity to investors except on Thursday
- The valuation day for the fund is the last business day of every week
- Minimum initial investment is 5 IC's
- Maximum investment is 500,000 IC's

Fund Details

Type of scheme	Open Ended
Inception date	November 1995
IC price	89.77 EGP
Dividend Since Inception	0 EGP
Bloomberg Ticker	EFGBNQA
ISIN	65077563

Fund Manager

Management Company	Hermes Fund Management
Fund Manager	Nabil Moussa

Contact Details

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Portfolio

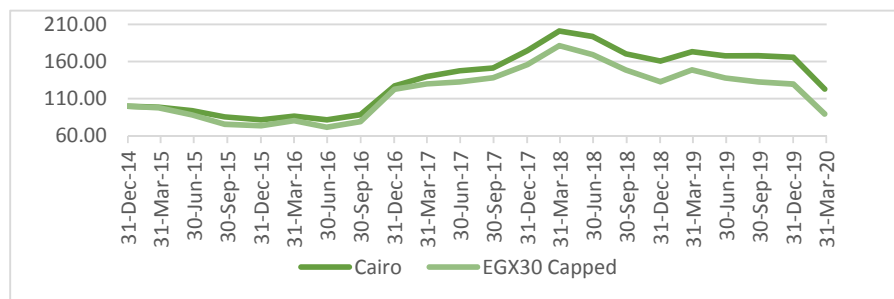
Performance Figures

Date	Return
Q1 2020	-25.8%
YTD	-25.8%
2019	3.2%
5-YTD	24.9%
Since Inception	797.7%

Allocation



Relative Performance



Market Outlook

Market Commentary & Strategy

- The Egyptian Market main index EGX30 decreased by 31.2% since the beginning of 2020 and by 47.8% since April 2018 peak. The drop in local markets is in line with what's happening in emerging markets that dropped by 23.9% since the beginning of 2020 and by 33.3% since the peak of 2018.
- This market drop was mainly on the back of the following reasons: 1) The spread of corona virus and its expected impact on global economies amid fears of global recession, 2) The trade tension between the USA and China, and 3) The oil war impact on several emerging economies.
- As a result, we note that the Egyptian market is significantly affected by the performance of emerging markets especially in volatile periods whereby there are significant redemptions across the board, and several margin calls are triggered which adds additional selling pressure on the market.
- We believe that the equity markets will remain volatile for at least 3-6 months until global economies return to safe mode.
- We believe that the global lockdown along with low energy prices will significantly hit global economies; therefore, we will concentrate our investments in sectors relying on Egypt's private consumption rather than external demand. As a result, we will concentrate our investments in the following sectors:
 - **Banking:** The banking sector has strong balance sheets, and banks have the ability to diversify its investments between corporate loans and government debt in light of the government continuous need for borrowing to cover its budget deficit.
 - **Food and Beverage:** The sector is totally dependent on local private consumption given Egypt's population of more than 100 million in constant need to food supply even in economic slowdown
 - **Health Care and Education:** Both sectors are dependent on Egypt's private consumption given the high population and the inability of the government to provide both services to everyone.

Economic Update

- The CBE Monetary Policy Committee (MPC) held an unscheduled meeting to cut overnight deposit and lending rates by 300 bps to 9.25% and 10.25% respectively implying total cuts of 950 bps since the beginning of the easing cycle in February 2018. The CBE stated that its decision aims to provide appropriate support to domestic economic activity given the current challenge in external environment, while maintaining its inflation outlook of 9.0% (+/- 3.0%) in 4Q 2020.
- The government reduced its GDP growth forecast for FY19/20 to 5.1% down from 5.6% due to the impact of COVID-19 outbreak on the economy. The government clarified that it achieved 5.6% growth in 1H19/20 and expect growth to slow to 5.2% in 3Q19/20 and 4.0% in 4Q19/20. Moreover, the government expects its economy to grow by 4.2% in FY20/21 down from its initial estimate of 6.0% subject to being able to control COVID-19 before July.
- The government announced reducing natural gas prices to USD4.5 per MMBTU for industrial users (mainly steel and cement), and USD5.5 per MMBTU for other heavy manufacturing industries. Moreover, reducing electricity prices for heavy manufacturing industries by EGP0.1 per KWh. This comes as a part of wider support plans that aims to stimulate industrial activity amid global pressure in light of the COVID-19 outbreak.
- Net International Reserves (NIR) dropped to USD40.1bn from USD45.5bn in Feb yielding a USD5.4bn during the month. Post the drop, NIR still preserves a healthy import cover of 7.6 months, based on 2H19 imports.