Egyptian Gulf Bank Mutual Fund

Quarterly report
Q1-2022

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 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	May-1997
IC price	EGP 257.4
Dividends Since Inception	EGP 233.4
Bloomberg Ticker	EFGULBI
ISIN	65077567

Fund Manager

Management company	Hermes Fund Management
Fund Manager	Nabil Moussa

Contact Details

Egyptian Gulf Bank

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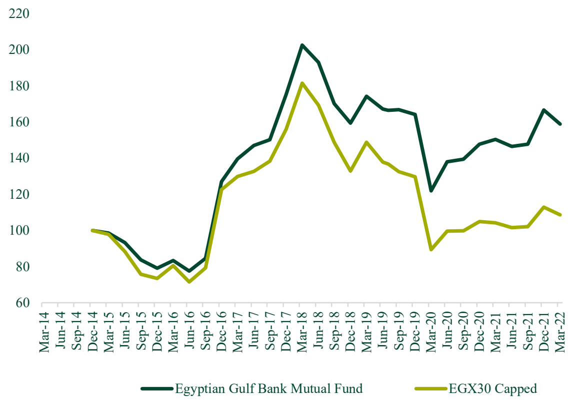
Portfolio

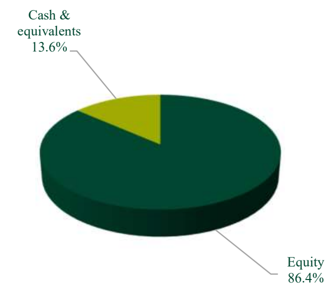
Performance Figures

Date	Return
Q1-2022	-4.7%
2021	12.8%
5-YTD	13.8%
Since Inception	501.1%

Relative Performance



Asset Allocation



Market Outlook

Strategy Update

The EGX30 Capped index closed down by 3.6% in 1Q2022, however, we note that the market is down in USD terms by 17.2% due to the EGP being devalued by 14.1%. We note that MSCI EM index dropped by 2.5% in March implying YTD negative performance of 7.3%.

The current Russian Ukrainian war along with economic sanctions imposed by the West, and the fears of further escalations led to a spike in energy prices across the globe. We note that high energy prices are a major driver for global inflation which is already high and have been weighing on Emerging Markets currencies and rates over the past few months. As a result, oil importing countries are expected to suffer from elevated food inflation leading to rising current account deficits, at a time whereby the FED is expected to tighten its monetary policy leading to limited financial flows into Emerging Markets.

We highlight that the combination of rising energy prices, high political risk, and rising US rates always lead to weak inflows into emerging markets. Therefore, we believe that Egypt will face two major problems during 2022: 1) Rising current account deficit as a result of hike in commodity prices, especially wheat and corn combined with lower number of Russian tourists, and 2) Limited foreign sources of funds due to limited foreign emerging markets inflows.

In order to mitigate the current account deficit and attract foreign inflows into local debt market the CBE decided to increase policy rates by 100 bps and let the currency to devalue in a surprise meeting held on the 21st of March 2022. The EGP/USD exchange rate stabilized around 18.2 falling from 15.7.

What does this mean for EGX30?

In terms of valuations we note that around 65 – 70% of EGX30 components benefit from this theme based on the following assumptions:

Inflation and rising rates: Higher inflation increases demand for working capital loans, which increases the nominal balance sheets and income statements for banks and other non-banking financial institutions lenders.

Rising Energy Prices and Possible USD Strengthening: We note that around 20 – 25% of the EGX30 is concentrated in Energy stocks that are benefiting from the recent hike in commodity prices, and will also benefit in case the USD strengths given that their pricing in local market is based on USD official exchange rate.

Despite of the fact that the bulk of EGX30 is benefitting from the current theme, we believe that the market will face volatility in the short term due to high global political risk and rising US rates.

Economy

- The CBE hiked overnight rates by 100 bps signaling the first hike to occur since May 2017, and implying overnight deposit rate of 9.25%, and overnight lending rate of 10.25%. Moreover, the EGP was devalued by around 15% back to 2018 levels in an action that aims to keep foreign liquidity in the local market and preserving global financial markets confidence in Egypt. Finally, the CBE stated that exchange rate flexibility is an important factor to maintain the country's competitiveness.
- The government announced lowering its real GDP growth target in FY22/23 from 5.7% to 5.5% due to the effects of the Russian Ukrainian war on our economy. Moreover, the government indicated its plan to restrict its fiscal budget in order to adjust for the implications of the war.
- Egypt started discussing with the IMF a new possible loan as the Russian Ukrainian War is adding further pressure on the country's economy. The IMF indicated that its staff is working closely with Egyptian authorities to prepare for a program that helps provide sustainable economic stability, while emphasizing that exchange rate flexibility is essential to absorb external shocks during uncertain time, and that a prudent fiscal and monetary policy will also be needed to preserve macroeconomic stability.
- Saudi Arabia deposited USD5 billion in the CBE with one-year maturity that can be renewed based on mutual agreement. Moreover, the Saudi Public Investment Fund (PIF) is aiming to attract USD10 billion worth of investments in cooperation with the Sovereign Fund of Egypt. The Egyptian government indicated that investments are part of a package of Saudi projects that will be established in Egypt with details to be announced as soon as possible.
- The government announced signing USD5 billion worth of Investment deals with Qatar. The government gave no details of the signed investment deals indicating only that the two countries will set up a joint committee to strengthen cooperation across different fields.
- The CBE announced that Egypt's foreign reserves declined in March 2022 to USD37.1 billion from USD41.0 billion in February 2022, this has been the first decline in the past 22 months.
- Egypt's headline inflation jumped to 10.5% in March up from 8.8% in February implying the highest monthly inflation figure since June 2019, and an average inflation figure of 6.5% for 8M21/22 compared to an average of 4.5% in FY20/21. The Jump in inflation was led by a sharp rise in food prices that accelerated driven by a wide range increase in fruits and vegetables, mainly.