Egyptian Gulf Bank Mutual Fund

Quarterly Report
2Q 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 weekly liquidity to investors
- The valuation day for the fund is the last business day of every week
- Minimum initial investment is 10 IC's

Fund Details

Type of scheme	Open Ended
Inception date	May 1997
IC price	224.8EGP
Dividend Since Inception	232.20EGP
Bloomberg Ticker	EFGULBI
ISIN	65077567

Fund Manager

Management Company	Hermes Fund Management
Fund Manager	Nabil Moussa

Contact Details

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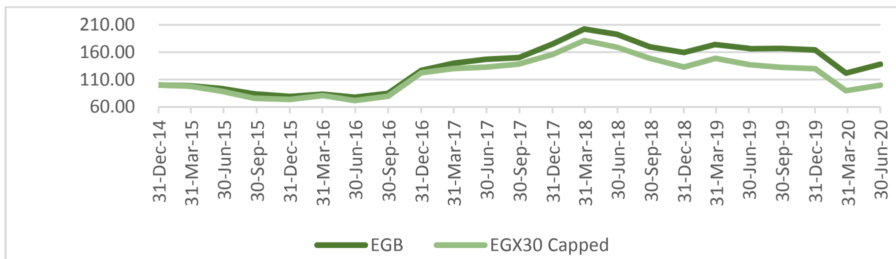
Portfolio

Performance Figures

Date	Return
Q2 2020	13.3%
YTD	-15.9%
2019	3.0%
5-YTD	47.8%
Since Inception	422.5%

Allocation

Relative Performance



Market Outlook

Market Commentary & Strategy

The first half of 2020 have been a tale of two quarters for the global equity markets, with stocks selling off in March on the back of the expected economic fallout from the COVID-19, before performing a strong comeback in the second quarter. The strong recovery in 2Q20 in global equity markets was mainly supported by the oversold market conditions and the significant monetary and fiscal stimulus measures by policymakers.

The Egyptian equity market followed the global trend, with the Egyptian market main index EGX30 gaining 12.2% in 2Q20 and reducing YTD negative performance to 22.9%, primarily boosted by retail individuals and local institutional buying appetite. Nevertheless the EGX30 underperformed significantly the emerging markets which enjoyed a V-shaped recovery in the 2Q20, with MSCI EM index gaining 18% in the second quarter and reducing the YTD negative performance to 10.7%. This underperformance can be attributed to the geopolitical uncertainties across the region causing foreign institutions to be net sellers by EGP8.5bn during 1H20.

We believe that the market will trade sideways given the political tension in the region while investors are also curious to witness 2Q20 results to assess how companies are able to stand the lockdown imposed during the quarter as a result of COVID-19 outbreak. We believe that investors assessment will be more towards how strong the balance sheet rather than the income statement as everyone is discounting 2020 earnings but are trying to bet on 2021 outperformers. As such, we maintain our preference to the following sectors: Banks, Health Care, Consumer Staples, e-payments, and education.

After a challenging first half of 2020, we enter the third quarter with several catalysts to keep track of:

1. Improvements in the geopolitical situation
2. Lower Infection rates related to COVID-19
3. A treatment or vaccine for COVID-19
4. Improvement in the economic Indicators such as: Unemployment, PMIs and GDP growth

Economic Update

The executive board of the IMF approved Egypt's request for an emergency financial assistance package worth USD2.8 billion to meet the country's urgent needs post the outbreak of COVID-19. According to the IMF, the loan will help limit the decline in net international reserves and provide financing to the budget for targeted and temporary spending in order to contain the economic impact of COVID-19. Additionally, the executive board of the IMF approved a new USD5.2 billion, 12 month loan that aims to help Egypt cope with the impact of COVID-19 on budget and balance of payment shortfalls. The program targets to maintain Egypt's macroeconomic stability while giving priority to protect social and health spending while avoiding an excessive build-up in public debt.

Egypt successfully raised USD5.0 billion Eurobond over three tranches. The first tranche worth USD1.25 billion (4-year tranche), while the second tranche is worth USD1.75 billion (12-year tranche), and the third tranche worth USD2.0 billion (30-year tranche). The Eurobond was successfully covered around 5 times and was priced in a range of 5.475% to 7.505% above US treasury rates. We highlight that this pricing is around 2.5% less than the previous month pricing.

The CBE maintained overnight deposit and lending rates stable at 9.25% and 10.25% respectively in an expected move given that the CBE held last March an emergency meeting cutting rates by 300 bps in a preemptive move to support the economy amid the outbreak of COVID-19.

Ministry of Finance stated that GDP growth in FY19/20 dropped from the expected 6.0% to around 4.0% (EGP130 billion drop) as a result of the COVID-19 crisis mainly on the back of drop in tax and non-tax revenue. Moreover, the Ministry indicated that it used around EGP63 billion out of the EGP100 billion stimulus package distributed to several sectors including health care and industrials.

Ministry of Finance indicated that FY20/21 budget deficit could widen to 7.8% of GDP compared to its previous forecast of 6.2% given the negative impact of COVID-19 on the economy. Moreover, the primary surplus would also drop from previous projection of 2.0% to 0.6%. Finally, total debt could rise to 88% of GDP compared to the previous estimate of 83%.

The CBE announced that Egypt's foreign reserves increased to USD38.2 billion in June up from USD36.0 billion in May. As a result of this drop, Egypt's import coverage ratio dropped from 6.6 months to 7.3 months.

Egypt's headline inflation accelerated to 5.6% in June up from 4.7% in May. Monthly prices increased by 0.1% compared to a zero change in the previous month