

Quarterly Report
Q4 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 | EGP 240.6 |
| Dividend Since Inception | EGP 232.2 |
| Bloomberg Ticker | EFGULB1 |
| ISIN | 65077567 |

Fund Manager

| | |
|--------------------|------------------------|
| Management Company | Hermes Fund Management |
| Fund Manager | Nabil Moussa |

Contact Details

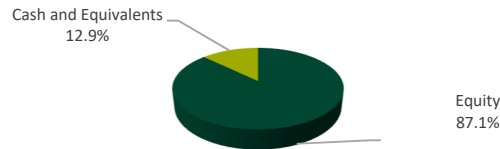
| | |
|--------------------|---|
| Egyptian Gulf Bank | |
| Telephone | 19342 |
| Fax | +202-37616848 |
| Website | https://eg-bank.com/ |

Portfolio

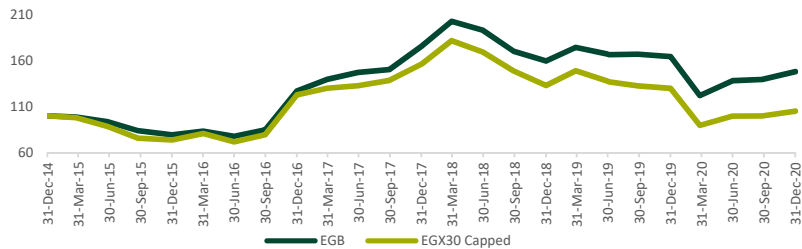
Performance Figures

| Date | Return |
|-----------------|--------|
| Q4 2020 | 6.0% |
| YTD | -10.0% |
| 2019 | 3.0% |
| 5-YTD | 86.7% |
| Since Inception | 459.2% |

Allocation



Relative Performance



Market Outlook

Market Commentary & Strategy

The market main index EGX30 declined by 22.3% in 2020, and by 40.9% since the peak of April 2018. This decline is mainly due to the following factors:

- 1) The outbreak of COVID-19 leading to slowdown in economic growth especially in the tourism sector which might have future negative implications on growth levels, and the country's foreign currency proceeds.
- 2) The slowdown in global trade especially with the decline in energy prices thus limiting the export capabilities of several emerging countries.
- 3) The political escalation in the region, whether between Iran and other Gulf states or in Libya, kept several investors away from the region until things stabilize.

The market's negative performance was associated with a decline in foreign participation in equity market to around 10% of total turnover compared to 15-20% in 2017. We attribute this decline to two main reasons: 1) The liquidity of the market relative to other emerging markets, and 2) The market need to new IPOs and stories to attract investors. This was evident in that despite the low foreign participation in the market; the only two exceptions were the two new IPOs: Fawry and CIRA.

Egypt significantly underperforming MSCI EM average index that increased by 15.8% in 2020. We note that MSCI average value is distorted by the weight of China, Taiwan, and Korea with a cumulative weight of around 65% of MSCI EM index, and all having a positive return of 27.3%, 36.9%, and 41.7% respectively thus muting the negative performance achieved in other markets.

Future Outlook

We believe that global economies will recover gradually during 2021, and that it will be a sort of transitional year until sufficient quantities of the vaccines are produced and accessible to large percentage of the world thus being able to return to normal life in 2022. However, we have a positive outlook for equity markets due to several reasons:

- 1) Better global economic conditions on vaccination along with the end of US elections would improve investment climate and support inflow of foreign investments into emerging markets.
- 2) The extension of global monetary stimulus to support manufacturing activities in Europe and Asia, should drive demand for commodities and could lead to a rebound in oil prices to above USD60 per barrel.
- 3) The CBE decision to cut interest rates by 10.5% since the beginning of the easing cycle in February 2018 will improve the capabilities of the economy and enhance growth prospects post COVID era.
- 4) We expect earnings to recover in 2021 given the shutdowns that occurred in 2020. The relative recovery in earnings will be a key driver for market performance. The market is currently trading at P/E (21e) of 7.4x with a chance for further leg recovery rerating to P/E of 10.0x implying 35% upside potential.

Based on our outlook we favor the following sectors for the market: Non-Banking Financials, Consumer Staples, Education and Health Care, Real Estate, and Industrial Sector.

Economic Update

- The CBE maintained overnight deposit and lending rates stable at 8.25% and 9.25% respectively in an expected move given that the CBE had already cut rates by 10.5% since the beginning of the easing cycle in February 2018. The CBE lowered its inflation target to 7% (+/- 2%) on average during 4Q22 down from its previous expectation of 9%.
- S&P maintained Egypt's rating at B with a stable outlook for the second time post the outbreak of COVID-19 pandemic. The credit agency expects Egypt to maintain positive economic growth of 2.5% in FY20/21 that will jump to 4.8% in FY21/22, and 5.4% in FY22/23, figure of USD27.8 billion as of February 2020. The ministry attributed the increasing appetite lately due to experiencing a quick and easy exit earlier this year unlike other markets that reacted differently during crisis.
- The government announced that unemployment rate dropped to 7.3% in 3Q20 down from 9.6% in 2Q20 and 7.7% in 1Q20 when unemployment surged as an outcome of lockdowns that resulted from the outbreak of COVID-19.
- The CBE announced that Egypt's net foreign reserves rose USD0.84bn in December to USD40.06bn, the highest level since March. An increase in reserves was expected in December, as Egypt received a second tranche of the Stand-By Agreement with the IMF of USD1.6bn.
- Egypt's headline consumer price inflation slowed down to 5.4% in December, from 5.7% in November, thanks to a deceleration in food prices.