

Quarterly report
Q1 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 treasury bills, treasury bonds, corporate bonds, securitization bonds and time deposits.
- Investments tenor shouldn't exceed 13 months and the weighted average duration shouldn't exceed 150 days.

Subscription/Redemption

- The fund offers daily liquidity to investors
- The valuation day for the fund is daily
- Minimum initial investment is 100 ICs

Fund Details

Type of Scheme	Open Ended
Inception date	September-2006
IC price	EGP 413.423
Dividends Since Inception	EGP 0.00
Duration	101.53 days
Fund Size	EGP 4,677.63 million
Bloomberg Ticker	EFQNSGB
ISIN	65077571

Fund Manager

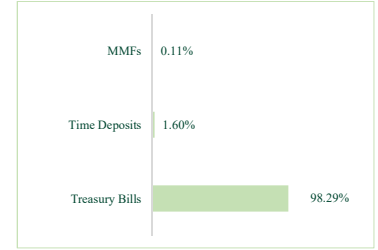
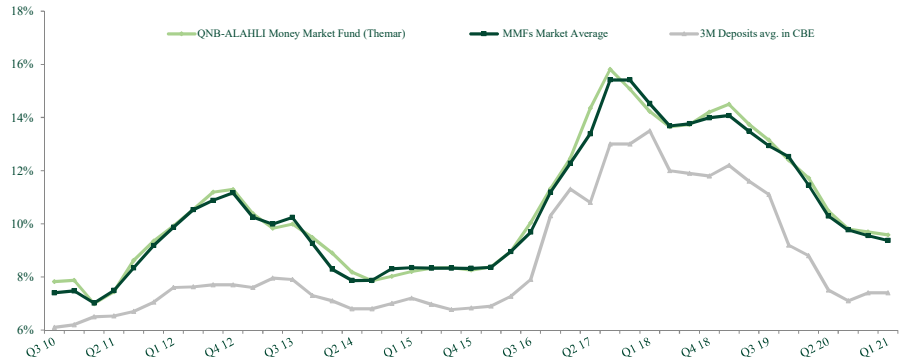
Management company	Hermes Fund Management
Fund Manager	Yehya Abdel Latif
Assistant Fund Manager	Aly Sallam

Contact Details

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Portfolio
Performance Figures

Date	Return
Q1 2021	9.58%
YTD	9.58%
2020	10.83%
2019	14.13%
5-YTD	13.02%
Since Inception	10.28%

Asset Allocation

Relative Performance

Market Outlook
Market Commentary

- During the quarter, most leading indicators were gradually recovering to their pre-pandemic levels. Global economic activity continued to show varying paces of recovery across countries and economic sectors, as the impact of the COVID-19 pandemic continues to weigh on the outlook.
- Foreign investment in Egyptian debt hit a historic high, completely reversing outflows in 2020 spurred by the coronavirus pandemic, with overseas holdings of treasury bills and bonds reaching USD28.5bn at the end of February.
- Egypt's 2Q20/21 GDP grew at c2%, up from 0.7% in the previous quarter, taking 1H20/21 GDP growth to 1.35%, compared to 5.6% in the same period a year earlier.
- JPMorgan has placed Egypt under review for eligibility for inclusion in its Government Bond Index-Emerging Markets, which would potentially give Egypt a weight of 1.8% in its GBI-EM Global Diversified.
- The quarter closed at: 3M: 13.14%, 6M: 13.43%, 9M: 13.41%, 1Yr: 13.40%.

Economic Update

- Egypt's GDP increased by 2.0% in 2Q20/21 up from 0.7% in 1Q20/21 implying GDP growth of 1.4% in 1H20/21 compared to pre-pandemic growth of 5.6% in 1H19/20. The government expects GDP growth to continue its gradual pick-up in 2H20/21 rising to 2.8% in 3Q and 5.3% in 4Q implying an expected GDP growth of 2.7% in FY20/21. The declining growth rates are a factor of pressure on the tourism sector in addition to subdued local private consumption.
- Egypt's current account deficit doubled from USD1.38 billion in 1Q19/20 to USD2.79 billion in 1Q20/21. The surge in current account deficit was mainly on the back of diminishing net tourism proceeds to USD0.3 billion only compared to USD3.24 billion in 1Q19/20 prior to the outbreak of COVID-19. The drop in tourism was partially offset by increase in private transfers from Egyptians working abroad by 19.9% from USD6.63 billion to USD7.95 billion.
- Egypt sold USD3.75 billion in bonds over three tranches with maturities of 5, 10, and 40 years. The breakdown of the issuance is as follows: USD750 million in 5-year bonds at 3.875%, USD1.5 billion in 10-year bonds at 5.875%, and USD1.5 billion in 40-year notes at 7.5%.
- The CBE maintained overnight deposit and lending rates stable at 8.25% and 9.25% respectively for the third consecutive meeting yet post 10.5% cuts over the period February 2018 to November 2020. The CBE stated that most of Egypt's indicators are gradually recovering to pre-pandemic levels, while international oil prices and other commodities have surged to post pandemic highs with increasing level of uncertainty regarding their future price trajectories. As a result, the MPC decided to keep policy rate unchanged.
- The government announced its draft budget for FY21/22 targeting a primary surplus of 1.5% and overall deficit of 6.6% of GDP. The budget is assuming 16.4% increase in total revenue, while wages are budgeted to grow by 11.4%. The budget is yet to be approved by the parliament and signed by the president.
- The CBE announced that Egypt's foreign reserves inched upwards to USD40.3 billion in March up from USD40.2 billion in February. We note that this occurred despite of around USD140 million drop in CBE's gold holdings due to declining international gold prices. Finally, we highlight that the CBE opted not to include the proceeds of the international bond sale of USD3.75 billion into the official reserves but rather included it into Tier II reserves that jumped by USD3.1 billion to USD8.7 billion.
- Egypt's annual headline inflation remained unchanged at 4.5% in March, in line with the inflation rate in February remaining close to a more than a decade low.

Strategy

- The fund manager will cautiously add to the duration, aiming to benefit from relatively high yields in anticipation of gradual economic recovery and a continuation of an easing monetary policy.