

## Quarterly Report Q2 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 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 IC's

### Fund Details

Type of scheme	Open Ended
Inception date	September 2006
IC price	EGP 384.800
Dividend since Inception	EGP 0.00
Duration	105.83 days
Fund Size	EGP 3,952.87 million
Bloomberg Ticker	EFGNSGB
ISIN	65077571

### Fund Manager

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

### Contact Details

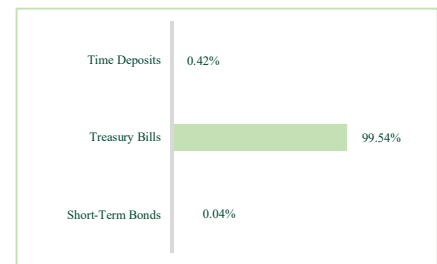
QNB Al Ahli	19700
Telephone	19700
Website	<a href="http://www.qnbalahli.com/">http://www.qnbalahli.com/</a>

## Portfolio

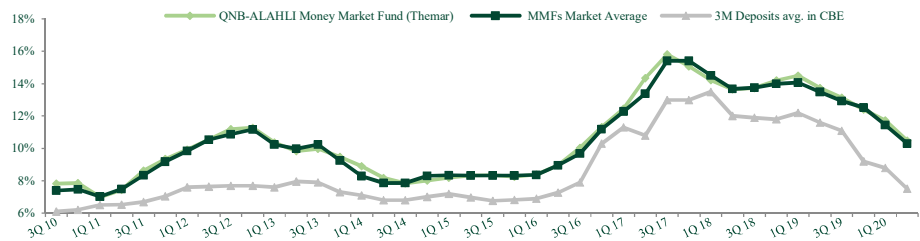
### Performance Figures

Date	Return
Q2 2020	10.48%
YTD	11.25%
2019	14.13%
2018	14.70%
5-YTD	12.83%
Since Inception	10.32%

### Asset Allocation



### Relative Performance



## Market Outlook

### Market Commentary

- During the quarter, the IMF stated that global economy will shrink by 3% this year for the first time since the great depression.
- The Egyptian government revised its GDP growth forecasts for FY20-21 from 5.6% to 4.2%.
- OPEC producers agreed to cut 9.7 million barrels per day.
- Egypt's net international reserves recorded a third consecutive monthly decline in May, reaching its lowest level in three years, standing at USD36Bn in May.
- The EGP depreciated against the greenback by 2.6% since mid-May. Egypt has sought different sources of funding in order to battle the adverse effects from the spread of the virus. The country embarked on a Eurobonds sale worth USD5Bn in addition to an IMF loan worth USD2.8Bn. Egypt has also made an agreement with the IMF for another USD5.2Bn funding.
- Most Countries started re-opening their economies for gradual recovery; however, investors are still assessing the ease of lockdown against the risk of a second wave of infections.
- The Monetary Policy Committee of the Central Bank of Egypt has decided to keep the benchmark overnight deposit and lending rates unchanged at 9.25% and 10.25%, respectively, at its June meeting.
- The quarter closed at:
  - 3M: 13.35%
  - 6M: 13.35%
  - 9M: 13.49%
  - 1Yr: 13.29%

### 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.

### Strategy

- The Fund has maintained a lowered duration and an increased short-term liquidity position due to the ongoing global pandemic and extended economic recovery. This allows the fund to be well positioned and prepared for any expected volatility as well as face any redemption requests. The fund manager will continue to monitor the market situation for investment opportunities.