

Quarterly report Q2 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 423.263
Dividends Since Inception	EGP 0.00
Duration	118.86 days
Fund Size	EGP 4,868.83 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

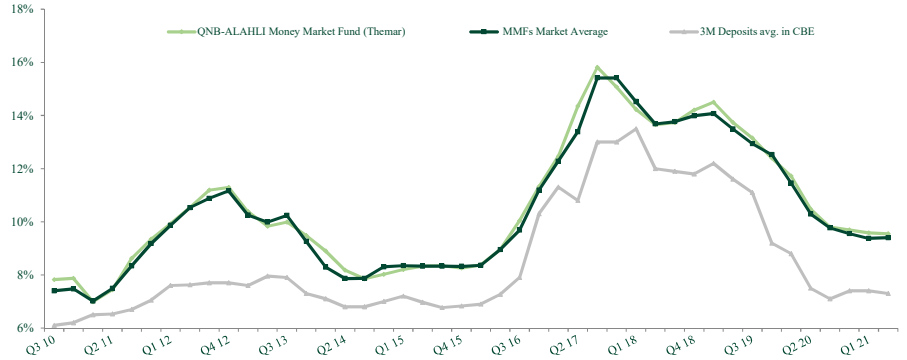
Performance Figures

Date	Return
Q2 2021	9.55%
YTD	9.68%
2020	10.83%
2019	14.13%
5-YTD	13.05%
Since Inception	10.27%

Asset Allocation

MMFs	0.16%
Time Deposits	0.44%
Treasury Bills	99.40%

Relative Performance



Market Outlook

Market Commentary

- Real GDP growth recorded a preliminary figure of 2.9% during 1Q21, up from 2.0% in the previous quarter.
- Egypt's 1Q21 unemployment rate increased to 7.4% from 7.2% during the previous quarter.
- International prices for oil, food, and other commodities rose, due to both supply and demand factors, leading to uncertainty regarding their future trajectories. Against this background, the MPC decided that keeping policy rates unchanged remains consistent with achieving the inflation target of 7% (+/- 2%) on average in 4Q22 and price stability over the medium term.
- Egypt's balance of payment (BOP) recorded a surplus of USD330m in 3Q20/21 from a deficit of USD5.53bn last year
- Foreign Holding in Egyptian T-bills rose to USD22.3bn by the end of May from USD20.9bn by the end of April
- The quarter closed at 3M: 13.19%, 6M: 13.38%, 9M: 13.38%, 1Yr: 13.30%

Economic Update

- The CBE maintained overnight deposit and lending rates stable at 8.25% and 9.25, respectively for the fifth consecutive meeting yet post 10.5% cuts over the period February 2018 to November 2020. The CBE stated that inflation remained subdued while economic activity continued to recover yet rising international food and commodity prices is raising the level of uncertainty regarding future price trajectories.
- The IMF announced completing Egypt's Stand-by Agreement (SBA) loan programme that Egypt initiated with the IMF upon the outbreak of COVID-19, which paved the way for Egypt to receive USD1.6 billion representing its third tranche of the loan. The IMF indicated that Egypt's net international reserves and the primary budget balance exceeded the program target, while inflation remained stable at 6.1%.
- The parliament approved FY 21/22 budget submitted by the government with an expectation of achieving 5.4% real GDP growth while reducing budget deficit to GDP ratio to 6.7%. The budget is targeting total revenues of EGP1.3 trillion, while total expenses to reach EGP1.8 trillion. The government expenditure bill is including 27.6% increase in public investment reaching EGP358 billion in addition to 11.4% increase in wages and compensations of state employees to reach EGP361 billion.
- Foreigners purchased additional local treasuries worth USD1.5 billion throughout May raising their total holdings to an all-time high of USD22.3 billion. We note that foreigners currently own 23% of Egypt's total outstanding treasury, and have been net buyers in the market since July 2020 with the exception of March 2021 were they turned into net sellers; however, resumed their buying position in the following two months.
- Egypt's current account deficit surged 1.8x from USD7.34 billion in 9M19/20 to USD13.30 billion in 9M20/21. The surge in current account deficit was mainly on the back of diminishing net tourism proceeds to USD1.14 billion only compared to USD6.72 billion in 9M19/20 prior to the outbreak of COVID-19. The drop in tourism was partially offset by increase in private transfers from Egyptians working abroad by 8.8% from USD21.31 billion to USD23.19 billion.
- JP Morgan issued a statement saying that Egypt is on index watch list to join its GBI-EM index for domestic debt market. The statement says that Egypt would have a potential weight of 1.8% which would result in around USD4.0 billion of passive inflows. The final decision for the inclusion will be taken in the next index review in October. We note that foreigners currently own around 15% of Egypt's local debt market while lacking any passive money, thus the inclusion should add additional flow to the local market which bodes well for the EGP and help reduce borrowing costs.
- The government announced increasing electricity prices by an average of 13% for residential consumption compared to an increase of 19% that occurred in the last year. The government stated that it extended its plan of complete subsidy phase out to FY24/25 instead of FY21/22 taking into consideration the economic impact of the pandemic on citizens. The delayed liberalization is expected to cost the budget around EGP26.7 billion over the next three years.
- The CBE announced that Egypt's foreign reserves inched upwards to USD40.58 billion in June 2021 up from USD40.47 billion in May implying an import coverage ratio of 7.1 months. We note that foreign reserves increased by 12.7% from the low of USD36.00 billion recorded in May 2020, yet still below the USD45.51 billion pre COVID-19 level seen in February 2020. However, we note that the CBE holds USD10.1 billion in tier II reserves implying total CBE reserves of USD50.7 billion compared to pre COVID-19 level of USD52.5 billion.
- Egypt's headline inflation inched upwards to 4.9% in June compared to 4.8% in May, yet up from 4.1% in April. We note that inflation remains subdued since the beginning of 2020. We expect inflation to gradually pick up in the second half of 2021 in light of constant rise in global commodity prices that will force producers to gradually pass on rising input prices. Despite of the rising inflation we believe that Egypt will remain working in a positive interest rate environment yet we do not forecast any further cuts from the CBE till end of the year.

Strategy

- The fund manager will 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