

Quarterly report
Q4-2022

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 ICs

Fund Details

Type of Scheme	Open Ended
Inception date	February-2013
IC price	EGP 28.38
Dividends Since Inception	EGP 0.00

Fund Manager

Management company	Hermes Fund Management
Fund Manager	Nabil Moussa
Managing since	July-2017

Contact Details

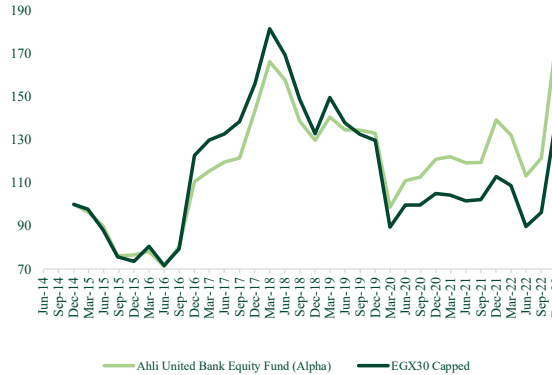
Ahly United Bank	
Telephone	19072
Website	http://www.ahliunited.com/egypt/

Portfolio

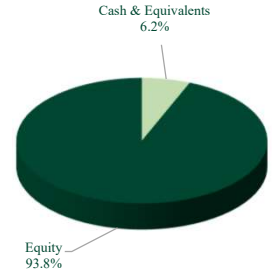
Performance Figures

Date	Return
Q4-2022	45.4%
YTD	26.8%
2021	15.2%
5-YTD	45.2%
Since Inception	183.8%

Relative Performance



Asset Allocation



Market Outlook

Global Equity Markets

Global markets witnessed the toughest year since the global financial crisis leading the US indices and emerging markets delivering their weakest performance since 2008 with the S&P500 down 19.4%, and the Nasdaq down 33.1%, while MSCI EM was down 22.4%. This was on the back of the FED hawkish move raising interest rates by 4.25%, which is the highest rate hike implemented since 2008, thus ending an era of abundant liquidity looking for investment opportunities.

Markets are expecting a slowdown in global growth, and a recession in the US with consensus predicting corporate earnings to drop on average by 10% in 2023. Historically, speaking a bear market driven by high inflation bottoms when the FED stops its tightening policy. As per the FED latest statement, rates are still to increase by 0.75% in 2023; however, there are several arguments that demand will squeeze and inflation will fall quickly since historically a steep rise in inflation is mirrored by a sharp fall.

US Monthly Inflation Rate

Month	2021	2022
January	1.40%	7.48%
February	1.68%	7.87%
March	2.62%	8.54%
April	4.16%	8.26%
May	4.99%	8.58%
June	5.39%	9.06%
July	5.37%	8.53%
August	5.25%	8.26%
September	5.39%	8.20%
October	6.22%	7.75%
November	6.81%	7.11%
December	7.04%	6.50%
Average	4.69%	8.15%

Therefore, 2023 will witness the end of the FED's monetary tightening yet the debate is whether it will end in 1Q 23 with a hike of 0.25% only, or it will end by 1H 23 with 0.75% hike. As a result, we expect the USD strength to stop which will reduce pressure on emerging markets and improve its capital inflows outlook.

Another factor that supports our bearish view to the USD is China's recent policy of reversing its zero-Covid restrictions and shifting towards restoring economic growth and loosening its credit conditions. China is expected to reach 80% capacity utilization by mid-2023 leading to a surge in China's economic activity similar to the one experienced in other countries upon re-opening the economy in 2021.

Therefore, we are bearish on USD and bullish on emerging markets and commodities.

Emerging Markets

Emerging markets valuation multiples have contracted during 2021 and 2022 given the USD strength and its implications on inflation leading to across the board higher interest rates thus weakening domestic demand thus cutting earnings expectations.

Currently, MSCI EM index is trading at a P/E of 10.7x, which around 25% lower than its historic average of 14.2x. We note that in the past 20 years, when the MSCI EM index was trading at 10.7x it had a positive return in the next year 90% of the cases.

The Egyptian market is moving in the same direction as MSCI EM trading at a P/E of 7.0x, which is around 23% lower than its historic average of 9.1x. We note that in the past 20 years, when the Egyptian market was trading at 6.5x it had a positive return in the next year 95% of the cases.

We note that given the recent monetary tightening applied, it is normal to be trading at a discount to the historic average, but given that we are approaching the end of the cycle, we believe that this discount will diminish gradually.

Egyptian Market

The Egyptian market main index declined by 22.8% in the first half of 2022 due to strong foreign outflows from the market post the Russian Ukrainian war along with the FED decision to start tightening thus leading to elevated risks among emerging markets.

The market recouped all losses in the second half of the year advancing by 58.2% to end the year up by 22.2% in EGP terms yet it decreased by 22.5% in USD terms given that the EGP depreciated by 36.6%.

Therefore, we believe that a change to a flexible FX regime is necessary to maintain the market rally as the current rally is supported by local inflows hedging against currency devaluation, while we are not expecting any foreign inflows without a flexible FX regime.

We note that in a recent survey among Emerging Markets active funds it shows that Egypt weight is neutral at 0.1% compared to an overweight allocation of 0.3% in the beginning of 2020. We highlight that corporate earnings increased by 33.8% in the first 9 months of 2022 supported by the energy sector which represent around 24% of the index benefiting from the strength of the USD and the continuous rise in commodity prices. In addition banks which represent around 30% of the index also benefited from the continuous rise in interest rates.

We believe that corporate earnings will maintain a strong momentum in 2023 supported by a higher average exchange rate given that USD/EGP average rate in 2022 was EGP19.26 compared to a current rate of EGP24.74. Moreover, the CBE hiked rates by 8% in 2022, which will be reflected in earnings of the financial sector during 2023.

As mentioned earlier, the Egyptian market is trading at 23% discount to its historic average. We attribute this multiple contraction to two major external shocks: 1) Covid-19 Pandemic and 2) Russian Ukrainian War affecting emerging markets in general, and Egypt specifically given its high level of foreign debt, and current account deficit.

We believe that a flexible FX regime along with the new IMF program insisting on economic reforms and more contribution of the private sector will provide the basis for a new cycle of multiple expansion.