

Fund Manager's Strategy & Outlook

The year 2008 ended with a slightly better mood and an acute year-end rally after seven consecutive months of negative returns for the Hermes Financial Index (HFI). The Fund is up 8.8% for the month of December, bringing YTD losses to 46.2%; outperforming the HFI by 7.7%. The HFI lost 32.3% during 4Q alone and the Fund outperformed by a whopping 10.8%. The Investment Manager attributes this outperformance to a proactive strategy that focused mainly on raising cash substantially and shifting equity exposure away from high beta stocks to focus more on high dividend paying companies and more defensive stocks.

Maridive Oil & Services Company was this month's top contributor to the Fund adding 1.3% to December 2008 returns. During December the company announced better than expected 3Q2008 results, mainly due to a positive surprise from revenues coming from the Offshore Construction Services (OCS) segment bringing revenues up 30% year-on-year. The company benefits from a healthy balance sheet and strong cash flow generation, has a backlog of contracts worth USD530 million and is currently bidding for several new contracts which should act as a near term catalyst under a scenario of oil prices not rebounding.

Top holdings spot belongs to Orascom Construction Industries (OCI) contributing 0.7% to returns. OCI has been awarded the contract to build a new 1,300 MW steam-powered power plant in Abu Kir, Alexandria, Egypt. OCI was the lowest bidder among four international groups on the USD280 million project which includes piling, concrete, civil works, supply and installation of steel structures for state-owned West Delta Electricity Production Company. This comes as reassurance of OCI's continuing ability to increase the size of its backlog of projects and the size of its business.

On the economic front urban consumer price inflation (CPI) dropped to 18.3% year-on-year during December from 20.3% in November and a peak of 23.6% in August of 2008. The December CPI figures support expectations of a sharp drop in annual inflation beginning January 2009 onwards, bringing inflation down to the single digit figures before the end of the calendar year. The drop in inflation figures increases the probability that the Central Bank of Egypt (CBE) will be more inclined to cut policy rates at its next meeting after leaving rates unchanged during its December meetings.

The Investment Manager maintains a cautious investment strategy over the medium term and the focus will remain on defensive and high dividend yield plays while opportunistically using the cash position to take advantage of the inefficiencies in the investment universe.

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Objective

The principal objective of the fund is long term capital appreciation through investing in Egyptian equity and equity related securities.

Fund Performance

Returns	Egypt Fund
Month to Date	8.8%
Year to Date	-46.2%
2007	61.9%
2006	8.6%
2005	130.7%
2004	113.1%

Fund Information

NAV per share	USD 34.58
Launch Date	August, 1996
Listing	Irish Stock Exchange
Structure	Open Ended
Management fee	1.75%
Minimum Subscription	USD 10,000
Subscription/Redemption	Monthly

Fund Identifiers

ISIN	BMG2948Y1093
Sedol	0-306-504
Reuters Code	LCFR13, RSJA55, CLSA51, WDRIFMEA1, ABNFUNDS15
Bloomberg Ticker	EFGHEGY BH

Fund Characteristics

No. of Holdings	17
Beta	0.78
Sharpe Ratio	0.22

Top Holdings

Holding	Sector	% Holding
OCI	Contracting	8.1%
Maridive Oil & Services	Oil & Petrochemicals	6.6%
Telecom Egypt	TMT	6.4%

Allocation By Sector Breakdown

