

Faisal Islamic Bank of Egypt Fund

Quarterly Report –Q4-2017

Fund's Performance

The Egyptian market index increased by 8.14% during the 4Q2017. The market continued its uptrend during the quarter and showed an increase of 3.26% in October, while November was a slower month with the market up 1.67%; however, the market continued to pick up in December to close the month 4.72% up at 15,019 points. With EGP1.13 billion average daily turnover during the quarter, foreign investors were net buyers by EGP0.18 billion, along with Arab investors net buyers by EGP1.32 billion. While local investors were net sellers by EGP1.50 billion. The fund performance for 4Q2017 reached 15.7% while the EGX30 showed a performance of 8.1% for the same period.

Economy & Market Outlook

The Egyptian market witnessed two IPOs during 4Q2017; Dice Sports and Casual Wear concluded the sale of 62.4%, the deal was worth around EGP800 million and the stock started trading on 14 November 2017 at EGP22.6 per share. Secondly, Ibsina Pharma concluded the sale of 40.0%, the deal was worth around EGP1.6 billion and the stock started trading on 12 December 2017 at EGP5.80 per share.

On the financial front, EFG Hermes offered a new Fintech solution under the brand name 'valu' offering consumer programs for payment on installments in the Egyptian market. The product will be officially launched in January 2018 in Cairo before expanding into other governorates. On the consumer front, Juhayna announced its 9M17 results showing a drop of 10.5% in net income amounting EGP151 million down from EGP168 million. This came due to a 51.8% spike in net interest expense reaching EGP290 million. Additionally, El Sewedy Electric also released its 9M17 results showing a 108.2% increase in operating revenues amounting to EGP32.1 billion; with a 94.2% growth in net income reaching EGP4.6 billion. Furthermore, EPICO also announced strong 9M17 financial results, net income increased by 47.6% reaching EGP543 million. On the other hand, Ezz Steel announced its 9M17 results showing a net loss that surged 3.7x amounting to EGP1.4 billion due to the 2.4x hike in financing costs that reached EGP2.3 billion due to high debt level and high interest rate environment.

On the economic front, the CBE increased reserve requirement ratio for domestic banks from 10% to 14%. In addition, the CBE raised the entrance fee of its repatriation mechanism for foreign portfolio investors by 1.0% while maintaining the exit fee at 0.5%. Egypt's current account deficit declined by 65.7% in 1Q17/18 amounting to USD1.6 billion. This significant drop came on the back of three main reasons: 1) Net Tourism proceeds of USD2.0 billion; 2) Egyptian remittances increased by 37.4% to reach USD5.9 billion; and 3) Total exports increased by 11% amounting to USD5.8 billion. Furthermore, the Ministry of Petroleum announced that Egypt's new offshore gas field Zohr is set to begin production by year end and it would initially yield 350 million cubic feet per day. Egypt's Net International Reserves remained at USD37.0 billion as of December 2017. Egypt's inflation rate also dropped to 21.9 % in December 2017 mainly on the back of favorable base effect post the EGP floatation in November 2016. Additionally, the IMF executive board approved the second review of Egypt's economic reform program paving the way for the disbursement of USD2.0 billion representing the third tranche of the USD12 billion loan granted to Egypt to support its economic reform program. The IMF highlighted that Egypt's economy is showing signs of stabilization with GDP growth recovering, inflation moderating, fiscal consolidation on track, and international reserves reaching their highest level since 2011. Finally, the CBE maintained overnight deposit and lending rates stable at 18.75% and 19.75% respectively. We note that the CBE has raised rates by 700 bps since floating the pound in November 2016 in order to ease inflation pressures associated with this decision.

Investment Strategy

The fund manager believes there is a decent chance of another upward rally over the medium term driven by an expected GDP growth of above 5% during 2018, further expectations of a drop in inflation rate and interest rates cuts by the CBE. Moreover, we believe that the beginning of production in Zohr field along with tourism recovery will improve the balance of payment dynamics leading to a stronger EGP. As a result, the fund manager will concentrate stock selection in consumer staples and real estate stocks given that their performance is positively correlated with EGP appreciation and interest rate cuts.

Fund's Performance

Returns	Faisal Islamic Bank Fund
Q4 2017	15.7%
Q3-2017	0.5%
Q2-2017	2.9%
Q1-2017	8.8%
YTD	30.1%
2016	50.6%
2015	-19.3%
2014	9.9%
2013	20.5%
2012	30.2%
2011	-47.0%
2010	3.2%
2009	10.6%
2008	-37.6%
2007	34.4%
2006	6.0%
2005	63.2%
Since Inception	136.8%

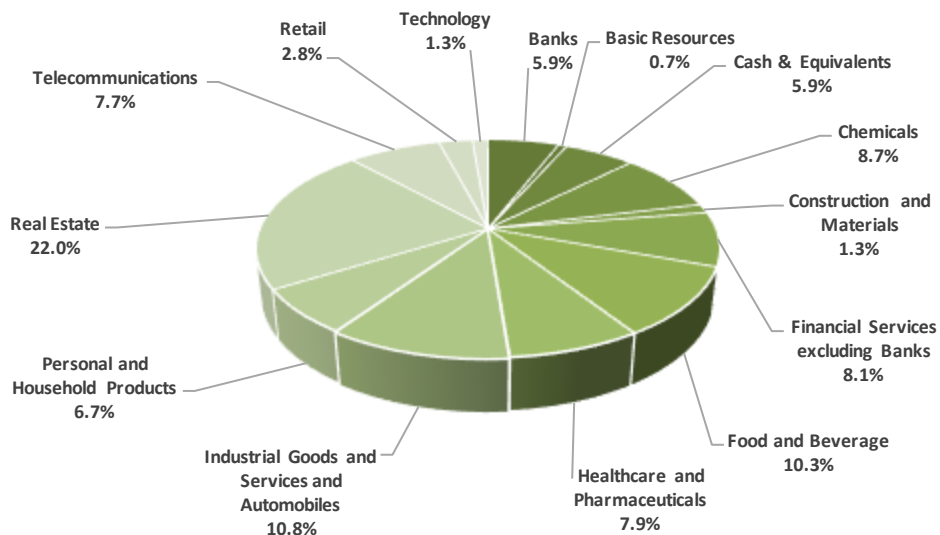
Top Holdings

Holding	Sector
ElSewedy Electric Co	Industrial Goods and Services and Automobiles
Talaat Moustafa Group	Real Estate
Sidi Kerir Petrochemicals Co	Chemicals
Global Telecom Holding SAE	Telecommunications
Egyptian Financial Group-Hermes Holding Co	Financial Services excluding Banks

Fund Information

IC Price (31/12/2017) EGP 135.91	Subscription/Redemption Weekly/ Weekly
Dividends Distributed Since Inception EGP 72	Fund Management EFG-Hermes Asset Management
Inception Date December 2004	Fund Manager Nabil Moussa
Inception Price EGP 100	Assistant fund Manager Mostafa Amer
Bloomberg Ticker EFGFISL	Reuters Lipper Code 65077570

Asset Allocation



For Further Information:

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