

Quarterly report Q3-2023

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 daily liquidity to investors except on Thursday
- The valuation day for the fund is the last business day of every week
- Minimum initial investment is 5 ICs
- Maximum investment is 500,000 ICs

Fund Details

Type of Scheme	Open Ended
Inception date	November-1995
IC price	EGP 196.36
Dividends Since Inception	EGP 0.00
Bloomberg Ticker	EFGBNQA
ISIN	65077563

Fund Manager

Management company	Hermes Fund Management
Fund Manager	Nabil Moussa

Contact Details

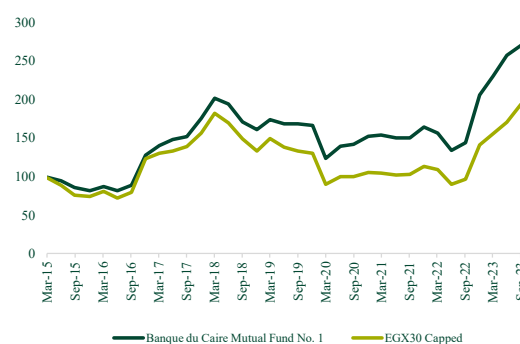
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Portfolio

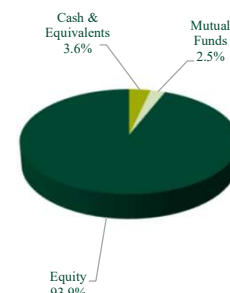
Performance Figures

Date	Return
Q3-2023	5.0%
YTD	31.3%
2022	25.0%
2021	8.0%
5-YTD	58.0%
Since Inception	1863.6%

Relative Performance



Asset Allocation



Market Outlook

Global Equity Markets

Global markets witnessed a correction in the third quarter of 2023 with the S&P500 down 3.6% and MSCI World index down 3.8% thus reducing their YTD gains to 11.7% and 9.6%, respectively. We view this correction as a normal scenario given the market outperformance during the first half of the year, while future economic assumptions predict a slowdown.

The market outperformance was mainly on the back of expectations that the Fed's tightening cycle is near the end, and the policy will reverse as early as the first quarter of 2024. However, the correction was triggered with the FED hinted that rate cuts will be slow to come even if inflation moderates yet economic growth and employment figures remain strong. Therefore, short-term interest rates will remain higher for a longer period than initial expectations.

We note that recent released data showed that 80% of American Households depleted their excess savings, and that current retail bank deposits are less than pre-covid levels in March 2020. Moreover, the global economy is contracting with global trade value declining 10% in USD terms since last year. As a result, we expect the US economy to start slowing in the coming period; however, this will take several months but ultimately weak economic data will be the sign that the FED will start loosening its monetary policy.

Emerging Markets

Emerging markets moved in the same direction as global markets down 3.7% in the third quarter of 2023 thus eroding all its YTD gains and turning into negative territory down 0.4% in 2023. Emerging markets are negatively impacted by China's performance given that it represents around 31% of the index and was down 3.0% in the third quarter and 9.3% from the beginning of the year.

We note that Chinese economy is facing downward pressure as stimulus packages offered by the government are far behind market expectations, and consumer confidence is still less than pre-covid era. Moreover, the government is planning to deleverage thus restricting new investments, which implies a lower growth rate. We highlight that this is affecting global economies given that China is one of the most important engines for global growth.

The Chinese market is currently trading at a forward P/E of 8.7x based on Bloomberg consensus, which implies 42% discount to its historic P/E average of 15.0x, while MSCI EM is trading at forward P/E of 10.3x implying 27% discount to its historic P/E average of 14.1x.

We believe that the Chinese market and MSCI EM will move in a sideways range given the current stressed valuations with only two catalysts to improve the status: 1) The Fed starts to reverse its tightening cycle, and 2) The Chinese government decides to increase expenditure and offers strong stimulus packages to the economy to boost growth.

Egyptian Market

The Egyptian market moved on the opposite direction of global markets advancing by 14.2% in the third quarter of 2023 implying YTD total gain of 38.2%. However, if we factor the 19.9% EGP devaluation that occurred in the first quarter of the year, this implies that the market YTD positive performance in 2023 is 10.7% only.

We highlight that corporate's operating profits increased by 40.1% in the first half of 2023, while total earnings if we factor FX gains increased by 57.1%. Therefore, we can see that earnings growth is outpacing the market in local currency implying that valuations are contracting reflecting investor's fear from Egypt's high level of foreign debt and its implications on the currency.

The Egyptian market is currently trading at a P/E of 6.3x, which is around 34% lower than its historic average of 9.6x. We believe that the market requires a flexible FX regime in addition to strong economic reforms and more contributions from the private sector to witness a new cycle of multiple expansion. However, we note that the market is currently acting as a hedge against further EGP devaluation, which we believe will keep the market supported, especially with the expected earnings growth. As a result, we believe that the market will remain achieving positive returns in EGP terms.