المجموعة المالية هيرميس
EFG HERMES
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The EFG-Hermes Middle East & Developing Africa (MEDA) Fund
November 2017

Fund Manager's Strategy & Outlook

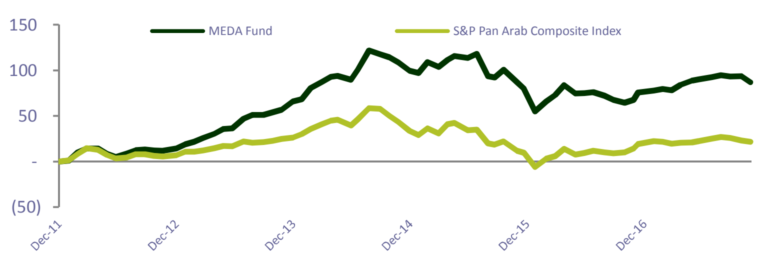
Global risk assets had a mixed November; the progress of the US tax cuts revived waning investor sentiments towards the end of the month, supported by further strong economic data. However, political uncertainty weighed on the Eurozone, and USD strength led to the underperformance of emerging markets vis-a-vis the developed market.
Within the region, geopolitics came to the forefront last month which led to a volatile market environment. Return spreads among markets in our investment remit remained wide. Most markets in the GCC recorded losses and also underperformed the broader regional benchmark while markets in the periphery recorded both profits and outperformance.

At the start of the month, the anti-corruption drive in Saudi Arabia that led to arrests of senior members of the royal family along with former ministers and businesspeople took a toll on investors' sentiments. Oddly enough, the Tadawul index closed the month on a positive note as the large caps in the markets were well supported. However, markets in the GCC, except for thinly traded Oman, lost 4.5% to 6.1% during the same period. The risk aversion faced by regional investors is understandable as it emanates from both, heightened levels of political and geopolitical risks in the region.

During the month, Saudi Arabia released its Q3 fiscal assessment report which points to a better than expected fiscal deficit over the 9 months period, supported by higher oil revenues and muted spending growth. The decision by OPEC to extend production cuts till the end of 2018 is highly supportive of oil prices in a market where the top 10 oil consumers – who account for over 60% of oil consumption, are expected to grow their GDP at a rate of 2.6%. Improving demand-supply dynamics in the oil markets will create fiscal space for oil exporters in the GCC to pursue pro-growth policies after a period of fiscal retrenchment over the past three years. We expect a pro-growth budget in Saudi Arabia will have a highly positive read through for the entire GCC and will be supportive of the investment sentiment in the region.

During the month, the Fund lost 3.4% during the month and was behind the benchmark by 2.1%. Our allocation decisions – specifically the decision to underweight Qatar was the biggest contributor to relative performance. However, our overweight in the UAE and Kuwait detracted from relative performance. Regarding stock selection, our positions in KSA, Qatar and Lebanon witnessed indiscriminate selling on the back of heightened geopolitical uncertainty. Within Kuwait, our largest position in Human Soft Holdings – a provider of higher education came under pressure due to the less than satisfactory outcome of the accelerated book build for promoter and majority shareholder who wanted to bring down the ownership from 40% to 30%. Separately, our position in Blom Bank came under pressure as political instability in Lebanon raised the risk of capital flight from the domestic economy, therefore, putting pressure on the local exchange rate which is tightly managed with reference to the US dollar. In KSA, our relative overweight towards mid-cap stocks and underweight in large cap stocks led to poor performance. During the period, there was minimal activity in the Fund with any changes in country and sector allocations predominately an outcome of market action. The Portfolio ended the month with a cash position of 4.1%.

Looking ahead and positioning for 2018, the Investment Manager expects a recovery in consumer sentiment supported by pro-growth fiscal policies of the sovereigns of the GCC and consequently, leading to an improvement in domestic demand. In Egypt, core inflation continues to decline owing to the base year effect. Nonetheless, we expect interest rates in Egypt to remain at elevated levels till mid-2018 as the Central Bank of Egypt will continue to use interest rates to manage inflationary expectations.
From a portfolio positioning perspective, we expect the opportunity set in KSA to mostly comprise of petrochemicals (due to strength in oil prices and global growth expectations) and consumer discretionary businesses (due to expansionary fiscal policies in the GCC). In Egypt, as inflation subsides and wage growth continues to restore purchasing power to pre-devaluation levels, we should expect a recovery in demand. However, in our opinion, a gradual normalization of monetary policy is the critical medium-term catalyst which will crystallize the case for investment in Egyptian equities. At the time of writing this update, the portfolio is well positioned in Egypt and has a sufficient cash buffer to capitalize on any further market dislocation in the short term.



As of November 27, 2017

Objective

Long-term capital appreciation through investing in Middle East and North African equities and equity related securities.

Fund Performance

	MEDA Fund Class A	S&P Pan Arab*	Difference
MTD**	-3.4%	-1.3%	-2.1%
YTD***	6.4%	1.9%	4.5%
2016	-2.2%	8.8%	-11.0%
2015	-10.0%	-18.0%	8.0%
2014	20.4%	6.0%	14.4%
2013	45.1%	26.3%	18.8%
2012	14.3%	6.8%	7.5%

*Figures reflect performance since inception of S&P Pan Arab Composite Large/Mid Cap Net TR Index in Dec 2004 as of the relevant Valuation Days of the MEDA Fund
**MTD figures reflect performance between October 30, 2017 and November 27, 2017
***YTD figures reflect performance between December 12, 2016 and November 27, 2017

Fund Characteristics

No. of Holdings	17
Weighted Market Cap	USD 5.9 billion
Average Dividend Yield*	3.5%
P/E Ratio 2018	12.8x

*Figure reflects the weighted average yield of a dividend-bearing security in the portfolio

Fund Metrics*

Alpha	6.8%
Beta	0.9
Volatility	14.4%
Information Ratio	1.1

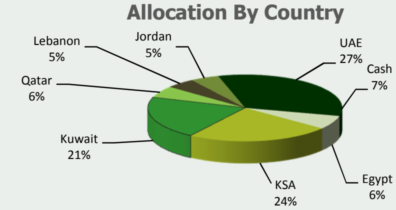
*Calculated vs. S&P Pan Arab Composite Large/Mid Cap Net TR USD since 29th December 2011

Top Five Holdings

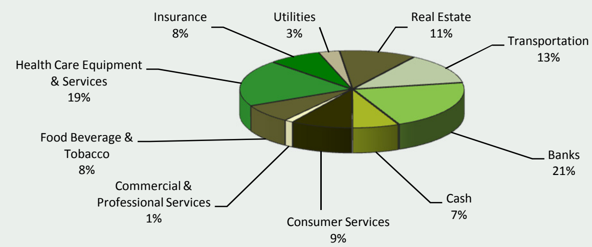
Holding	Country	% of NAV*
NMC Health	UAE	9.0%
Human Soft Holding Co	Kuwait	8.9%
Al Rajhi Bank	KSA	8.3%
Aramex	UAE	8.0%
Mouwasat Medical Services Co	KSA	7.9%

*Figures as of November 27, 2017

Allocation By Country



Allocation By Sector



Fund Data

NAV per Share (Class A)	USD 32.64
Launch Date	July 1999
Management Fee	1.4%
Incentive Fee	15% over 10%
Expense Ratio	1.9%
Minimum Subscription	USD 10,000
Subscription / Redemption	Weekly

Fund Identifiers

ISIN (Class A shares)	BMG294041030
Bloomberg Ticker	EFGMEAF BH
Merrill Lynch Code	EFGAT