

# Drakens Africa ex S.A. UCITS Fund

## Long Only Equity

December 2019

### Performance Returns

For the month of December 2019 the Drakens Africa ex S.A. UCITS Fund's NAV returned 1.4%, which was behind the 4.9% return of the MSCI EFM Africa Ex-South Africa Total Return benchmark.

### Investment Objective & Strategy

Drakens Capital employs a long only equity strategy with a heavy focus on sustainability that is the result of two decades of investing in emerging markets. The investment philosophy at Drakens Capital is distilled into a four factor investment valuation model that encompasses Socially Responsible Investing, Risk, Quality and Value. The Fund invests in equities which derive the majority of earnings from the African continent, with the exception of those listed in South Africa. The tremendous growth opportunities found on the continent provide a rapidly expanding pool of investment opportunities. Growth and volatility often go hand in hand hence the Fund's measured and systematic investment approach seeks to tap into the emergence of the African continent whilst mitigating the risks associated with the Africa Rising story.

### Monthly Commentary

In December, the announcement of a "phase 1" trade deal between the US and China created a surge of positive sentiment in global markets. The USD weakened, commodity prices rose, and emerging markets outperformed their developed market peers. This fed through to the Africa ex South Africa markets. The Kenyan, Moroccan, Mauritanian and Egyptian market indices ended the month 6.5%, 4.0%, 3.5% and 1.8% higher respectively in USD terms. Nigeria had the notable divergent index performance, as it ended the month 1.5% lower.

The underperformance of Nigeria comes as foreign investors grow wary of the Central Bank of Nigeria's (CBN) continued changes to the banking sector and treasury market regulations. During December the CBN announced restrictions on the levels of fees that can be charged by the banks for various transactions. We have in recent months reduced the fund's Nigeria exposure to 16.5%, due to the uncertainty caused by fast-changing regulations.

In other relevant news, Tullow Oil lowered medium term production guidance and announced the resignation of the CEO and Exploration director. This is the second month in a row of negative news from the company, and as such the market showed no mercy for this development – the company shed half of its market cap in the month.

The poor performance in Tullow was part of the reason for the underperformance of the fund to the benchmark for the month. The rest is due to the outperformance of large liquid stocks relative to mid caps, with the benchmark being more concentrated in large stocks than the fund. This was a trend for the full year and is discussed below.

Reflecting on the year that passed, there have been many notable developments. Egypt's reform agenda continues on track and inflation fell from mid teens in the prior year to 3.6% at the November reading. In Kenya, the stifling interest rate caps were finally repealed, giving a boost to credit growth for the coming year. In Zimbabwe, the reintroduced Zimbabwean Dollar was one of the worst performing currencies globally in 2019. In Nigeria, Buhari was elected for a second term, and his actions to date suggest that this will play out much like his first term.

We see from the above that developments were both positive and negative, but global uncertainty meant that foreign participation remained low. In the less liquid markets, exiting foreigners pushed price levels to historically low levels. In contrast, companies with large liquid free floats that proved they could grow earnings in this environment saw their premiums expand. Hence the benchmark which is highly concentrated (40% of the benchmark is in the largest three stocks) performed significantly better than the fund. This trend should reverse in periods characterised by foreign inflows into these markets as this liquidity premium should diminish.

SOURCE: Bloomberg L.P. as of 31 December 2019, unless stated otherwise.

### UCITS Fund Performance

Fund	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Y-T-D
2019	2.87%	3.47%	-0.75%	0.02%	-3.13%	1.67%	-4.73%	1.22%	0.39%	1.83%	0.29%	1.43%	4.36%
2018	6.49%	-0.54%	4.69%	1.16%	-6.28%	-1.52%	-2.47%	-3.68%	-3.74%	-4.68%	-0.07%	-1.31%	-12.00%
2017	1.06%	2.52%	1.59%	1.76%	8.08%	3.68%	4.97%	-1.10%	1.22%	0.84%	3.01%	2.14%	33.81%
2016											0.23%	0.23%	0.46%

Benchmark	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec	Y-T-D
2019	3.15%	2.84%	-0.62%	2.48%	-2.83%	2.30%	-2.01%	2.06%	0.02%	2.15%	1.31%	4.94%	16.65%
2018	6.08%	-1.10%	2.17%	0.28%	-7.19%	0.41%	-1.45%	-2.36%	-4.70%	-4.07%	0.20%	-1.42%	-12.95%
2017	0.31%	-0.70%	-0.09%	2.06%	9.38%	4.78%	4.92%	-0.58%	-1.83%	-0.22%	2.32%	0.51%	22.31%
2016											0.16%	4.08%	4.25%

The performance figures quoted above represent the performance of the Drakens Africa ex S.A UCITS Fund (USD Inst. Class) since launch on 28th November 2016. These performance figures refer to the past and past performance is not a reliable guide to future performance.

### The Manager



#### Sven Richter

Sven started investing in emerging markets 24 years ago. He joined Drakens Capital in 2011 and was instrumental in the 2016 management buyout. He came to the firm from Franklin Templeton where he launched one of the first Frontier Funds in the world which has today become a household name in frontier investing.

#### Orrin Flugel, CFA, CAIA

Orrin has over 12 years of industry experience as a macro economist and investment analyst. Orrin excelled in company research at Cape-Town based Oasis Asset Managers then progressed as a Senior Industrial Analyst at First National Bank. He joined the team in July 2011.

#### Paul Ross, CFA, CA(SA)

Joined in May 2011 as an Investment Analyst. Paul has over 12 years of investment experience and is a qualified Chartered Accountant. Prior to Drakens Capital, Paul was a sell-side analyst at Afrifocus Securities where he specialised in diversified industrials.

### Fund Facts

Structure	UCITS Fund
Domicile	Ireland
Liquidity	Daily
Fund AUM	\$33.6 million
Inception	28 <sup>th</sup> November 2016
Share Class	Institutional
Currency	EUR/USD/CHF/GBP
Mgt. Fee	1.25%
Perf. Fee	0.00%
Min Init. Sub.	1,000,000
ISIN Codes	EUR: IE00BD3S0347 USD: IE00BD3S0560 CHF: IE00BD3S0677 GBP: IE00BD3S0453

Share Class	Retail
Currency	EUR/USD/CHF/GBP
Mgt. Fee	2.00%
Perf. Fee	0.00%
Min Init. Sub.	10,000
ISIN Codes	EUR: IE00BD3S0784 USD: IE00BD3S0909 CHF: IE00BD3S0B24 GBP: IE00BD3S0891

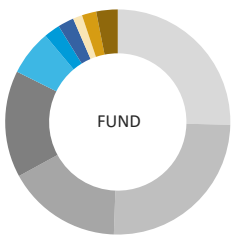
# Drakens Africa ex S.A. UCITS Fund

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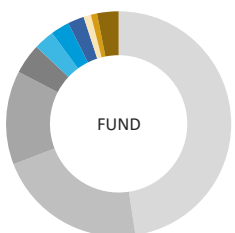
### Portfolio Overview (%)

#### Country Breakdown



	% of Port.	vs. Index
Kenya	25.4	8.7
Egypt	25.1	1.2
Nigeria	16.5	-1.4
Morocco	15.3	-14.9
Mauritius	6.5	-0.3
Tanzania	2.3	2.3
Multinational	2.3	2.3
BRVM	1.3	-1.0
Other	2.1	0.0
Cash	3.1	3.1

#### Sector Breakdown



	% of Port.	vs. Index
Financials	47.6	-2.6
Consumer Staples	21.5	9.1
Communication Services	13.5	-10.7
Energy	4.4	4.4
Healthcare	3.0	1.6
Industrials	2.7	2.2
Consumer Discretionary	2.3	0.8
Materials	1.1	-7.9
Utilities	0.9	0.0
Cash	3.1	3.1

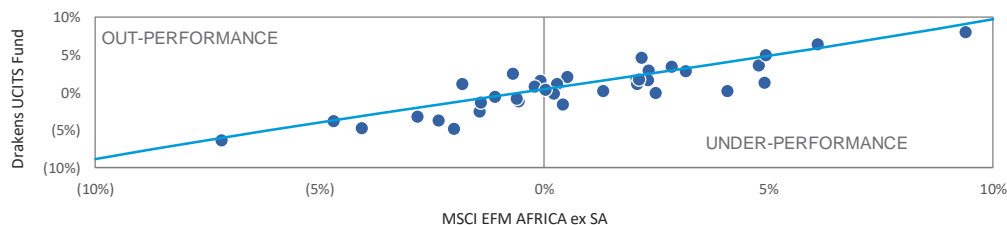
#### Top 10 Holdings (100%)

SAFARICOM PLC	8.9%
EQUITY GROUP HOLDINGS	6.8%
MCB GROUP LTD	6.7%
COMMERCIAL INTERNATIONAL BANK	5.9%
ATTIJARIWafa BANK	5.2%
CREDIT AGRICOLE EGYPT	5.1%
KCB GROUP LTD	4.6%
NESTLE NIGERIA	4.4%
LABEL VIE	4.2%
ZENITH BANK	4.2%

#### Financial Ratios

	Fund	Index
Price Earnings (12 months forward)	8.1	10.4
Price to Book	1.8	2.6
Return on Equity	20.2	24.0
Dividend Yield	5.2	4.3

### Active Monthly Returns\*



\*Since Inception to 31 December 2019, USD Inst. Share Class: Monthly, %

### Contact Details

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