

Drakens Africa ex S.A. UCITS Fund

Long Only Equity

October 2019

Performance Returns

For the month of October 2019 the Drakens Africa ex S.A. UCITS Fund's NAV returned 1.8%, which was behind the performance of the MSCI EFM Africa Ex-South Africa benchmark which rose 2.1%.

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

We have spilled much ink in previous factsheets discussing the cap on Kenyan interest rates and how this legislation has stifled credit growth in Kenya; dampening economic growth and subduing the banking sector's profitability. In our September commentary we noted that the market consensus was that parliament was going to keep this legislation in place and the president would ratify this decision despite his misgivings. It turned out that this consensus was wrong. In October, the president challenged parliament's attempt to reinstate the legislation. As at month end, the finance committee of parliament had proposed that they concede to the president (rather than attempt to overrule the president through a 2/3s majority vote). On the back of this development the listed Kenyan banks rallied, ending the month 23% higher on average. The Kenyan equity market ended the month 10% higher, mainly driven by the banks, but also assisted by an 8.2% return from index heavyweight, Safaricom. It has long been known that Safaricom would like to enter Ethiopia when the country opens its telecom sector up to competition. This potential now looks imminent, as Safaricom's interim CEO announced that he expects bidding for a licence to be opened in November. Due to the expected costs of the licence as well as required capital outlays, Safaricom was planning to tender a joint bid with parent Vodacom. This could be a key step for the innovative telco player to break the national bounds that have limited its growth to this day.

In Nigeria, developments weren't quite as positive, as the government and central bank further attempted to tighten their grip on the economy through added regulations. In particular, the minimum loan to deposit ratio for banks was increased further to 65% in an attempt to coerce banks to lend to the private sector, and imports through land borders were halted in an attempt to restrict smuggling and to protect domestic industries. These heavy handed approaches may benefit the economy in the long run, but in the short run they continue to make operating conditions difficult for the Nigerian stocks in the fund. In response the Nigerian equity market fell 4.9% in USD during the month. We trimmed the Nigerian positions in the fund, and at month end the fund is 2% underweight to the benchmark. The remaining holdings are resilient companies that can withstand the near term pressures, and which are currently trading at deep valuation discounts.

The fund achieved its 1.8% USD gain on the back of the Kenyan stocks' rally mentioned above as well as strong performances from Egyptian financials. This more than countered the negative performance in the Nigerian holdings. It wasn't however enough to outperform the benchmark. The reason largely being the concentration of the benchmark. The benchmark has a 10% weight in Safaricom, and a 20% weight in Commercial International Bank (CIB) in Egypt (which gained 4.4%). The fund is thus perpetually underweight these counters for diversification and UCITS regulatory reasons. Thus despite the benefit to active return of a 4% overweight to Kenyan Banks, and a 2% underweight to the Nigerian market, the fund still underperformed the benchmark by 0.3%.

SOURCE: Bloomberg L.P. as of 31 October 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%			2.59%
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%			9.72%
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	\$33.0 million
Inception	28 th 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

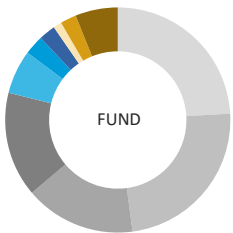
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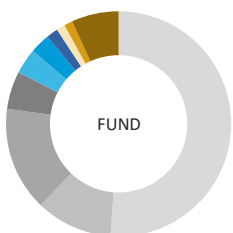
Portfolio Overview (%)

Country Breakdown



	% of Port.	vs. Index	
Kenya	24.1	5.1	
Egypt	23.8	-0.1	
Nigeria	15.9	-2.1	
Morocco	15.1	-13.4	
Mauritius	6.3	-0.1	
Multinational	2.8	2.8	
Tanzania	2.4	2.4	
BRVM	1.2	-1.0	
Other	2.3	0.4	
Cash	6.1	6.1	

Sector Breakdown



	% of Port.	vs. Index	
Financials	46.1	-6.0	
Consumer Staples	19.9	8.1	
Communication Services	13.5	-9.7	
Energy	4.9	3.7	
Industrials	3.3	1.5	
Consumer Discretionary	2.6	2.2	
Healthcare	1.5	1.5	
Materials	1.1	-7.6	
Utilities	1.1	0.2	
Cash	6.1	6.1	

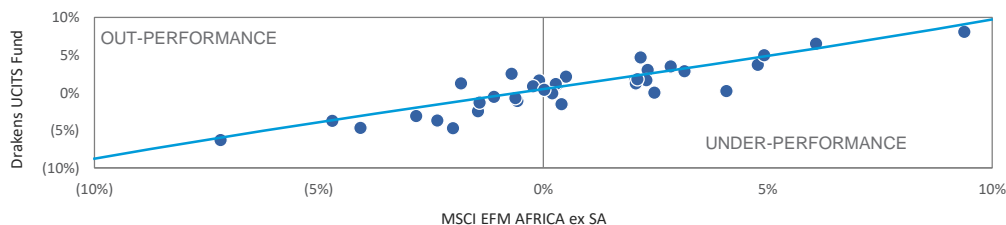
Top 10 Holdings (100%)

SAFARICOM PLC	8.6%
MCB GROUP LTD	6.7%
EQUITY GROUP HOLDINGS	6.1%
COMMERCIAL INTERNATIONAL BANK	6.0%
CREDIT AGRICOLE EGYPT	5.4%
ATTIJARIWABA BANK	5.1%
KCB GROUP LTD	4.7%
LABEL VIE	4.6%
EFG HERMES HOLDINGS	4.4%
EAST AFRICAN BREWERIES	4.3%

Financial Ratios

	Fund	Index
Price Earnings (12 months forward)	8.1	9.4
Price to Book	1.7	2.3
Return on Equity	20.6	22.3
Dividend Yield	5.4	4.7

Active Monthly Returns*



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

Contact Details

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