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## Imara Asset Management Q2 2019 Investor Call - Transcript

Thank you Harry, Good afternoon everyone, thank you for taking the time to dial into the call.

Any performance numbers we mention in the presentation refer to the Imara Africa Fund class A, which is our flagship mutual fund. For the other funds you will have to refer to the individual factsheets which we release monthly.

On slide 2 we note that the fund has kept pace with African indices but more importantly we have captured less of the downside in negative years. We are most proud of relative gaps during the down years because that is when we believe an investment in quality companies pay off. By relative gap I am referring to our performance compared to well-known investable Africa indices such as the MSCI Africa or the S&P Africa. In the up years everything runs – quality or not quality - and our aim is to capture most of that upside.

If you turn to slide 3, you can see that year to date the Imara Africa Fund is up +1.1% for 2Q19 and +6.9% for 1H19 despite the negative contribution from Nigeria. Our contrarian call on Nigeria Breweries has been a large source of this negative contribution with the market responding negatively to the “beer wars”/price wars in the country, there was also the impact of the increase in excise duties which were absorbed by the beverage companies instead of being passed on to the consumer. We are quite patient with our strategy, Nigeria Breweries remains the only profitable and cashflow positive player in the market, with market share of 55%+. Excise duties will lap, and it is a matter of time until we see price points shift up as the Nigerian macro improves and consumer disposable incomes recover. When this happens Nigeria Breweries will return to normalized profits and cashflows. Earlier in the year we used the price weakness as an opportunity to buy at successively lower prices.

Our Egyptian, Kenyan and Moroccan positions have performed well. Our main source of positive attribution came from Egypt, where all the positions were up for the year, our investment in Commercial International Bank of Egypt (‘COMI’) continues to grow, with high profitability, ROE of 28% and a payout ratio of 25%, the majority of profits are reinvested in the company, growing BV book value c20% per year. In Kenya our investment in payments through Equity Bank and Safaricom are playing out well, we really like this theme because it is an everyday theme with repeat use and strong network effects, it’s not lumpy or once-off, it’s a share in day-day economic activity, the competition is against incumbents, the competition is cash. In Morocco our investments in retail (which is 17% formalized) and payments also performed well.

Our country allocations and our sector allocations haven’t changed much since the last call. You will recall that we try to keep our name turnover low and only rebalance to target weights opportunistically. Our sell disciplines are we only sell when 1) there is a sharp deterioration in fundamentals 2) valuation becomes excessive 3) a superior opportunity is identified. Our name turnover over the past 5 years has been 20%. The best companies are ones we don’t sell, where a company reinvests into high internally generated returns, this continues to drive the price upwards, a good example of that is COMI which I just mentioned earlier, a low payout and high ROE leads to book value growth and price eventually follows.

Turning to the next slide, we provide a simple infographic on some key macros. Overall, the African macro indicates an early cycle recovery, with rate cuts to follow. The global backdrop will make it easier to cut rates. We are most positive on

Egypt where some positive feedback loops are providing a tailwind to our companies. Nigeria has disappointed so far, post elections, the pace of the recovery hasn't been as quick as it should be, Buhari was sworn in on the 29th of May and we still don't have a cabinet. The economy could be better managed and the policy impotence is compromising growth. We expect the CBN (Nigeria) and CBE (Egypt) to move for a 200-300bps cut in the next 6 - 12 months. Kenya has also moved on positively after the IMF loan / rate cap issues dominating 2018, an interesting development is the recent arrest of the Kenya's Finance Minister Henry Rotich and other treasury officials arrested on corruption and fraud charges related to a multimillion-dollar project to build two massive dams, we think the charges are politically motivated. Morocco continues to move along mostly stable.

Zimbabwe reintroduced the Zimbabwe Dollar and ended the multicurrency regime at the end of June. We have valued all Zimbabwe positions at an 89% discount. The country eventually needed its own currency and inflation was running rampant. Doing it without an external line of credit is an extremely bold/daring move. The signing of the Staff Monitored Program with the IMF which ends March 2020 does offer a path to reestablishing credibility with foreign creditors. Sticking to the plan will be hard, the government needs to stop quasi-fiscal operations, reign in recurrent expenditure, float its currency on the interbank exchange rate and most importantly avoid printing! If the Government sticks to the plan and they are to be believed then the monetary support measures should mop up excess liquidity and be contractionary in nature.

Our June 2019 Strategic Asset Allocation Meeting reflects our views after new data points from FY18 and 1q19 results. After discussions, our overall view is that the majority of our watchlist and portfolio companies:

- deliver moderate growth which reflects an early cycle economic recovery,
- maintain quality metrics and
- are priced at substantial discounts to fair value.

The Q-scores remain stable with no real change in ratings from FY18 to our FY19 outlook (for those that missed the 1Q call, we gave a refresher on QVG, our Q-score is our quality metric score). Our valuation perspective remains positive – we still expect capital gains to close fair value discounts and move closer to average in the 5yr range. Our growth outlook is for moderate Noplat growth in line or just ahead of inflation, with pockets of higher growth for FY19 and FY20 as economies benefit from a loosening of monetary policy. Highly profitability financials offer greater potential capital growth ranging between 15-20% and would be responsive to any multiple re-rating cycle.

The table to the right shows our top 5 ideas. You can see that for these ideas the Q-scores are high, the valuation is below 50% of the range and the capital return in each of them is above domestic inflation. An unintended positive consequence of prices being lower in the range is the attractive dividend yields on offer in quality names. Again, our focus isn't on income returns/dividend yields to be the key driver of our expected return because we prefer companies to reinvest in high ROICs or ROEs and grow through these internally generated returns.

Before I close, I would just like to comment briefly on ESG. Last year we announced a skill addition in April Mthupha, she has done a lot of work beefing up our ESG. We are pleased to announce that because of our work we have improved our UN PRI scorecard (to BBB from BCC) and we are increasing our ESG database to 52 companies. It is early days, but we are finding a strong correlation between good ESG companies and our Q-score metrics. As a reminder we use 2 approaches: Positive screening (preferring companies with a higher ESG score in our ranking) and integration (integrating governance aspects into our qualitative Q-score).

The last two slides are snapshots of where PERs are for our markets, still below the average but off all-time lows. Our portfolio trades at a premium to the passive indices but has a considerably higher ROE/ROIC/Div yield. We are confident that we are getting good quality companies at decent prices.

Thank you for listening, Harry may we please go to Q&A unless Rainer or Tony have any additional comments.