AFRICA FINTECH OVERVIEW

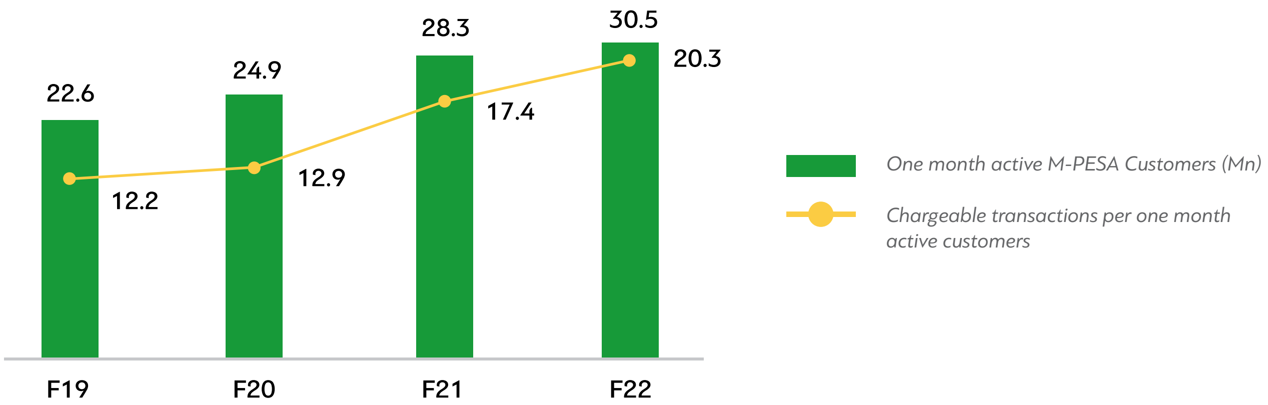
Divergence continues

Warren Buffett famously claimed that stock markets are "voting machines in the short term and counting machines in the long term"...and right now, nobody's bothering to count. Our key themes are firmly intact, evidenced by strong financial results and operating statistics in our underlying companies. Yet share prices continue to be a lightning rod for investor fear, making our stocks cheaper and cheaper.

Strong growth looks like this

We often talk about the components of growth being length and width of runway. Few companies demonstrate this better than **Safaricom's MPESA (Kenya, 7.4% of NAV)**. The chart below shows the number of customers in Kenya using this product (length), as well as the number of transactions they perform on the platform every month (width). In terms of length of runway, they have grown fast to get to 30.5m customers, but whats important is that not only are there more customers, but **more customers are using it more often**. These numbers don't land in your lap, you get there by having the best platform and the best suite of services.

Sustained usage momentum with return to charging



In terms of new services and widening the runway, consider the growth rates in the chart below. Think of these as seedlings in whose shade you as investors will sit in the months and years to come.

New Growth Areas: Performance is Gaining Momentum
New Growth Areas Revenue (KShs Bn)

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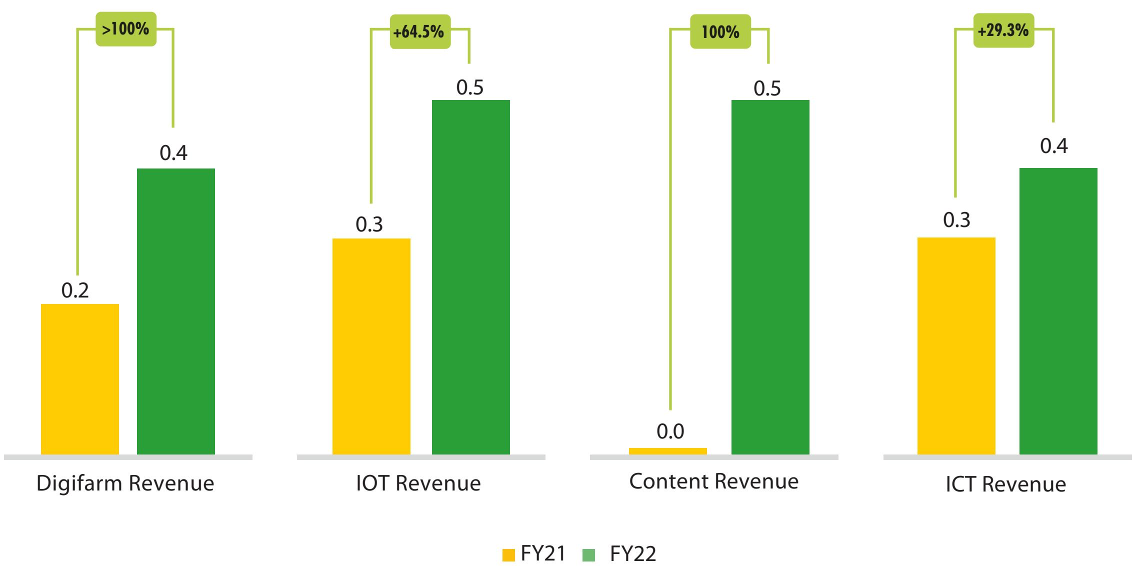

MTN (SA, 9.3% of NAV) story gathering momentum. On top of a very strong set of Q1's, MTN is continuing to gain ground in Fintech.

- It recently appointed JP Morgan as advisor to its newly demerged Fintech business, suggesting big plans ahead.
- MTN Nigeria was awarded its Payment Service Bank (PSB) license in Nigeria. With 66m customers and 800k MoMo agents across the country, they are well poised to achieve substantial MoMo growth in Africa's largest economy.
- April subscriber stats point to strong subscriber growth with just over 1m net adds. Annualize that and you have 12m new subscribers!

Country governance - Egypt ranks 1st in Middle East in open budget according to Global Barometer Index

We often get asked about governance, corruption and quality of reporting. Here is a very good result for Egypt, where xx% of the Fund is invested. We have asserted that Egypt is a technocratic, IMF aligned country with a well articulated roadmap to economic growth and reform. This award corroborates that assertion. The Global Barometer index is a new platform that includes a number of regional institutions and objective partners, who seek to assess the availability of data, governance and capacity. This collaborative project was achieved by standardizing databases on these topics by the United Nations Population Fund, the Global Initiative for Financial Transparency, and the International Budget Partnership, in cooperation with the World Bank and the Organization for Economic Cooperation and Development.

The Global Barometer and the Budget Transparency Index benefit major research centers and credit rating agencies, as it's a strong indicator that reflects the degree of safe investment for the country, as well as the role of each of them in disclosing the state's financial and tax policies; This helps investors to develop their future plans, facilitates access to the financial policies of the Egyptian economy, and stimulates the investment climate, as transparency is linked to low rates of corruption, and it has a direct relationship with improving economic and social development indicators, and improving economic competitiveness, and it is one of the tools to enhance the efficiency of the implementation of financial policies as well.

ECONOMIC AND POLITICAL OVERVIEW

Nigeria

GDP for 1q22 came in at 3.11% y/y (4q21: 3.98%), driven by the non-oil economy up +6.1% y/y. Personal household expenditure looks set to rebound, as the sector showed strong recovery. 2021 household expenditure grew +26% y/y (2020: -1.7%). The oil sector declined by -26% y/y; oil output only reaching 1.49mbpd during the quarter.

The Central Bank of Nigeria (CBN) raised rates quite significantly by 150bps to 13.0%. The governor noted that the MPC had to raise rates to curb increasing inflation.

Two positive longer term trends, in amongst the doom and gloom, deserve a mention:

- Cashless transactions rose by 44% y/y in the first four months of 2022, according to data from the Nigeria Inter-Bank Settlement System (NIBSS). This supports our cash to non-cash thesis and will be further supported by the final award of PSB licenses to MTN and Airtel, who we believe accelerate this trend further as well as substantially increase financial inclusion.
- PenCom noted that 73% of workers in the contributory pension scheme were under the age of 40. This bodes well for growth of the overall pension and savings pool and is a positive aspect of the demographic age dividend.

Macro releases (April stats):

- Inflation rose to 16.8% y/y (Mar: 15.9%).
- FX reserves remained steady at USD 39.58bn (Mar: USD 39.6bn).
- PMI grew to 55.8 (Mar: 54.1).
- M3 growth was 18.9% y/y (Mar: 17.9%).
- Credit to the private sector reached 16.4% y/y (Mar: 15.7%).

16.8% y/y	US$ 39.58bn	55.8	18.9%	16.4%
Inflation Rose	FX Reserves	PMI	M3 Growth	Credit to Private Sector

Egypt

The CBE's MPC raised policy rates by 200bps in its May 19 meeting, citing a willingness to control rising inflation. The MPC hiked the overnight deposit rate to 11.25% and the overnight lending rate to 12.25%. It noted in its statement that "raising policy rates is necessary to contain inflationary pressures which is consistent with achieving price stability over the medium-term." The aim is to anchor inflation expectations and contain demand-side pressures. The CBE added that annual headline inflation will remain "temporarily tolerated" above its pre-announced target of 7% +/-2%.

GDP for 1q22 was 5.4% y/y (1q21: 2.9%). Sectors driving growth were telecommunications +16.4% y/y, Suez canal +13.0% y/y and industrials +10.3% y/y. Cabinet cut its FY22/23 GDP forecast from 5.5% to 4.5%, on the back of Egypt's susceptibility to the Russian/Ukraine conflict.

As mentioned previously, we are confident in the government's will and capacity to navigate and grow through challenges. Two discretionary challenges are reliance on imported soft commodities particularly wheat, as well as excessive state and military involvement in the economy. We are encouraged by their recently announced 5-pillar plan which incorporates: 1) Supporting localisation efforts and promoting local products 2) developing the domestic stock exchange 3) publishing the State Ownership Policy Document to empower the private sector 4) maintaining social protection for its citizens 5) creating a 4-year private partnership program for USD 40bn.

Other near term developments are a Moody's outlook downgrade from stable to negative, an imminent IMF deal announcement (positive), sufficient wheat stores to January 2023 and local wheat production to YTD of 6m vs 3.5m tons in 2021 (positive).

Macro releases included (April stats):

- Inflation accelerated to 13.1% y/y (Mar: 10.5%).
- FX reserves largely flat at USD 37.13bn (Mar: USD 37.09bn).
- PMI was 46.9 (Mar: 46.5).
- M2 growth was 23.8% y/y (Mar: 22.4%).
- The unemployment rate declined to 7.2% in 1q22 (4q21: 7.4%), with urban unemployment reaching 10.5%.

13.1% y/y	US$ 37.13bn	46.9	23.8%
Inflation Rate	FX Reserves	PMI	M2 Growth

Kenya

GDP reached 7.5% in 2021 off a low base (2020: -0.3%). Tourism and education recorded the highest growth at 52.5% y/y and 21.4% y/y respectively. Primary contributing sectors were services +9.8% y/y and industry +7.2% y/y. However, agriculture was flat at a disappointing -0.2% y/y.

The CBK MPC raised rates by 50bps citing inflationary pressures and uncertainty around commodity prices and supply chain disruptions.

Kenya's elections on 9 August are looming into view. Outgoing President Uhuru Kenyatta has Raila Odinga (Luo) as his successor, after falling out with erstwhile ally and current Deputy President William Ruto (Kalenjin), who will contest under the recently formed United Democratic Alliance. Both candidates named Kikuyu running mates. Today's system is less winner takes all in nature and we do not expect post election violence. Local sentiment is that Ruto is a more market-friendly candidate.

Macro releases (April stats):

- Inflation increased to 6.5% y/y (Mar: 5.6%).
- FX reserves accumulated to USD 8.43bn (Mar: USD 7.84bn).
- PMI slipped to 49.5 (Mar: 50.5).
- Remittances were USD 355.0m, a slippage m/m but 18.6% y/y (Mar: 25.1%).

6.5% y/y	US$ 8.43bn	49.5
Inflation Rate	FX Reserves	PMI

Morocco

Morocco is the fourth largest producer of phosphate behind China, USA and Russia and importantly, has 72% of the world's known phosphate reserves. As such it stands to be a significant beneficiary of Russian sanctions.

Macro releases included (April stats):

- Inflation was 5.9% y/y (Mar: 5.3%).
- FX reserves were USD 33.6bn (Mar: USD 34.3bn).

5.9% y/y	US$ 33.6bn
Inflation Rate	FX Reserves

South Africa

Several by-elections were held in the past month, mostly in the ANC heartland of Soweto. ANC support collapsed in 4 out of 5 elections falling from 50% and above to average 31%. A new party, ProActionSA led by Herman Mashaba, charismatic businessman and ex-mayor of Johannesburg, did very well in winning two seats while the populist EFF also gained a seat. The important readthrough is that the ANC's grip on power, once near 70%, is expected to dip below 50% in the 2024 national elections. While Ramaphosa is widely supported across party lines and has gained some measure of control over a factional ANC, much damage has been done by corruption, a failing Eskom and deteriorating public infrastructure. At the same time, the ANC is caught between needing to grow the economy and creating jobs and a radical EFF on the left eroding its more radical voter base. We expect Ramaphosa to remain in power after 2024 but with a much weaker ANC and a much more competitive opposition from four main players - the DA, ProActionSA, EFF and the IFP.

The South African Reserve Bank (SARB) raised the repo rate by 50bps to 4.75%, echoing the sentiment of African peers – rising inflation. Food prices are expected to stay elevated into 2023, while fuel eases. GDP is forecast at 1.7% (Prev: 2.0%) in 2022, downwardly revised due to flooding in parts of the country and the ongoing Eskom energy constraints.
S&P revised South Africa's outlook to positive, up from stable. The ratings agency cites favourable terms of trade and structural reforms as drivers.

Macro releases (April stats):

- Inflation remained at 5.9% y/y (Mar: 5.9%).
- FX reserves climbed to USD 60.28bn (Mar: USD 58.16bn),
- PMI fell sharply to 50.7 (Mar: 60.0) as export sales dropped and heavy flooding affected the KZN province.

5.9% y/y	US$ 60.28bn	50.7
Inflation Rate	FX Reserves	PMI

COMPANY UPDATES

Safaricom

Safaricom (Kenya, Communications services) – FY22 results update and Outlook: In the right place at the wrong time. A very good set of results on most metrics, with revenues +12.3%, EBIT +13.5% and EPS flat on higher interest and taxes. Full year DPS of 1.39 was slightly up on 1.37 in FY21. At the interim results they gave two sets of EBIT guidance, including and Excluding Ethiopia, both were comfortably beaten. Excluding was KES107-110bn and they achieved KES114bn, whereas Including was KES97-100bn and they achieved KES109bn. In terms of revenues, Voice remains resilient at +0.8%, while Data was +8.1% and MPESA grew 30.3%. There are moving parts within MPESA, but perhaps the best metric that demonstrates how successful it is, is simply the number of active MPESA customers of 30.5m vs 22.6m in FY19 and the chargeable transactions per customer of 20.3 vs 12.2 in FY19. Put simply, more people are using it and even more people are using it more often. There are some regulatory uncertainties in Kenya, such as MTR reduction, however the outlook for the Kenya business is extremely positive and this remains an excellent franchise. For FY23, management is guiding to KES120-123bn EBIT in Kenya.

The more topical part is the outlook including Ethiopia. EBIT guidance is KES87-93bn as they enter the negative part of the J-curve. There is no country in the world where the number 1 cell phone operator hasn't made a huge amount of money and

I firmly believe Ethiopia will be no different. With a population more than twice that of Kenya's, the opportunity is significant. However the current global and EM market sentiment has little appetite with this view. While I concede that the optics of declining EBIT are not good, neither were they in 2001 when MTN announced its entry into Nigeria or in 2010, when MPESA was regarded as a curious gimmick.

MTN Group (SA, Communications services) results update: Momentum maintained with revenue up 15.9% and EBITDA +21.1%. Within this voice revenue grew 2.6%, Data 37.3% and Fintech +21.2%. The outlook for Data looks strong, with less than 50% of the total subscriber base of 276m customers using the product, as well as roll-out of 4G and piloting of 5G. Fintech revenue should re-accelerate with the final granting of the PSB license in Nigeria. Some of the underlying stats in Fintech are impressive with active MoMo customers +25.9% to 58.7m, active merchants +46.8% to 765k and InsurTech growing 37.8% to 17.4m policies.

For MTN in Nigeria, the NCC has released April subscriber data which shows that MTNN has extended subscriber market share gains over its competitors. MTN added 1.1m mobile subs in April, vs Airtel (918k), Glo (331k) and 9Mobile (-107k). In the data market, MTN added 1.1m data subs in April, vs Airtel (867k), Glo (258k) and 9Mobile (-34k).

Equity Group (Kenya, Financials) results update: Strong 1q22 results with PBT +31% y/y driven by ~30% loan growth on slightly higher margins and 21% growth in transaction fees. Again the theme we like the most, fintech transaction growth, is growing very strongly, almost doubling this year after growing >150% in 2021. The Eazzy App channel did a TPV of ~USD 7bn in the first quarter and is now edging ahead of other channels (agency, merchants, branches, ATMs and USSD) in size. Taking Eazzy App and USSD transactions (mobile 2G) together, it is remarkable that more than 50% of Equity Bank transactions are mobile phone based. The other source of growth, regional expansion and specifically the DRC, is improving steadily as a very lazy balance sheet gets pushed into higher yielding assets in sovereign debt, commodity finance and logistics. We await more progress on agency banking in the DRC which is still in its early stages. Still comfortable with our 40% earnings growth number for 2022. Kenyan elections may create some pause before a healthy regional economy continues to grow and underpin Equity's performance.

Mutandis (Morocco, Consumer staples) 1q22 results: Strong topline rebound at +40% y/y. Season brand (25% of revs) showed the strongest growth +16% y/y with seasonal monthly sales as expected. Beverage bottles (14% of revs) grew +39% y/y driven by a significant volume rebound on the back of tourism resumption and hospitality demands. Detergents (34% of revs) grew a more muted +5% y/y and driven by prices and stable volume growth. Seafood (21% of revs) fell -10% y/y, with volume declines in canned sardines due to a new one-month biological rest started in 2022. This has been proposed to enhance the overall future availability of sardines. Management pushed price increases to consumers, which had minimal impact on volumes.

Nestlé (Nigeria, Consumer staples) 1q22 results: Revenues were up +26% y/y, driven equally by food and beverages which reverted back to their traditional topline split of 60:40 respectively. Despite the limited number of SKUs and management's reluctance to overtly innovate in Nigeria, the group has managed to consistently grow their brands. Nestlé was hit by raw material input costs, leading to a slight GP margin decline of 58bps to 39.2%. Despite this, operating costs were well managed resulting in EBIT growth of +30% y/y. An increase in finance income bolstered bottom line, PBT up +47% y/y and PAT +45% y/y. Strong balance sheet remains, with the group in a net cash position.

Nigerian Breweries (Nigeria, Consumer staples) 1q22 results: Strong topline up 30.4% y/y, driven by both prices and volumes. Management put through another price increase in February, which narrowed distributor margins and increased recommended retail prices. Market share based on revs back at a stable 56%. The group managed to bypass input price increases, with COGS up a mere +14% y/y which led to GP margin reaching 45% up 779bps from 1q21. Despite a heavy increase in expenditure due to marketing costs +55% y/y, PBT grew +80% y/y, and PAT +78% y/y. The group reduced debt, with Net Debt/Equity now at 13% down from 20% in 1q21.

MARKET OUTLOOK

We continue to allocate to high quality businesses; those that score highly on our internally developed, Likert Q-scoring system, both currently and over time. We have two additional quantitative overlays, valuation and growth. We also have two qualitative overlays being management and ESG. What is particularly exciting is that we have a number of businesses across Africa that fit these criteria. The key transformational trends of financial inclusion, urbanisation and economic formalisation underpin a robust African consumer story that is taking shape regardless of global volatility. We allocate to the best companies in the sectors that tap into this transformation. At the moment, we have a bias towards financial inclusion and fintech themes as they do particularly well on our growth metrics.

Nigeria – Nigeria's outlook is improving with substantially higher oil prices making painful but necessary economic reforms more likely. However, the latest plan to delay fuel subsidy reform again shows institutional weakness. We still wait for a signal from the CBN for a free flow and float of the Naira which is for us the real trigger for economic recovery. The communications, fintech and banking sectors are growing strongly, yet high quality companies exploiting these, are at all time low valuation multiples.

Egypt – The outlook for Egypt remains positive especially towards the end of 2022 when a new capex cycle is expected to kick off. The exceptional progress made under the IMF program from 2017 to 2020 has been evidenced in a stable FX and net reserve position. Moving from gas importer to exporter helped cushion the blow from lost tourism revenues and the CBE's sound monetary policies have kept the bond carry trade alive. With 98% of household consumption in cash, the investment opportunity for us in fintech is immense in this 100m population country and it will also drive economic formalisation and increased government revenue through widening of the tax net. Management teams are signalling a new capex cycle. We expect an acceleration of capex projects towards the end of 2022 as capacity becomes stretched.

Morocco – Morocco's key economic drivers are mining, agriculture and tourism. Strong commodity prices and a good rainy season should help to offset weakness from tourism. In terms of outlook it remains a stable, mid-growth country with excellent opportunities in retail and fintech.

Kenya – Kenya missed its key tourist season of July-August, owing to travel restrictions. Some support will be provided by a good agriculture season and high soft commodity prices, where Kenya is a large exporter of tea, coffee, flowers and vegetables. Overall, we are satisfied by the performance of our financial inclusion focus here and expect growth to be steady.