MONTHLY MARKET REPORT DEC 2022

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THE YEAR THAT WAS.....NOW ONTO 2023

2022 was an incredibly tough year and there were very few places to hide. Our fund performed relatively well to be down only 27%, as the Nasdaq and the ARK Fintech ETF were down 33% and 65% respectively. The strong financial performance of our underlying companies makes the Fund very attractive at this point, with a 2022 PE of 9x and a div yield of 5%. Looking forward to 2023, our macro and company level growth drivers remain firmly in place, as the example below and many others clearly demonstrate. We anticipate +20% revenue and +30% earnings growth, which makes the 2023 multiples even more compelling.

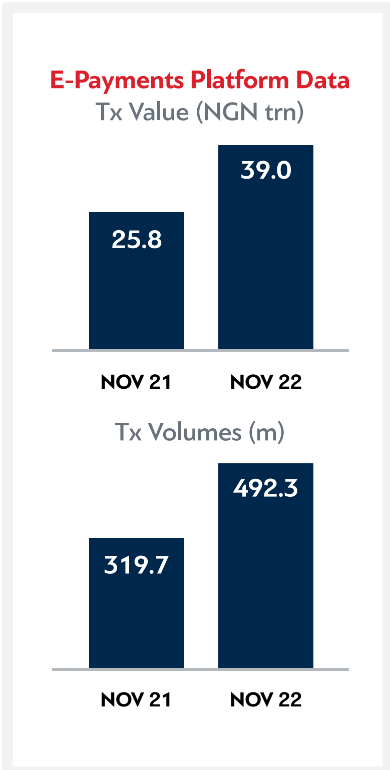
AFRICA FINTECH OVERVIEW

The proof is in the data

We've been proponents of the African growth story for some time, which may be hard to distinguish with all the noise. But in a country like Nigeria, in which many headlines are bleak, this growth story is proving itself – showing that a focus on the base of the pyramid, servicing underpenetrated sectors, has a sustainable impact in driving economic upliftment. Nigeria is the biggest and most relevant example of a country with all three megatrends at play: a high rate of urbanization, economic formalization and financial inclusion.

The digital disruption: the cash to non-cash revolution

The Central Bank of Nigeria (CBN) has been pushing financial inclusion in recent years. Despite the challenging economic climate, further dragged by global sentiment, it is successfully widening the runway for digital consumption. As of November 2022, the NIBSS Instant Payment platform recorded its highest monthly value of payment transactions, reaching NGN 39.0trn (USD 87bn), and representing +51% y/y growth. This shows not only more consumption via the platform, but more often, allowing for volume growth to mirror this at +54% growth to 492.3m transactions. Jan-Nov saw +43% y/y growth to NGN 345.1trn (USD 766.9bn); that's double the value of 2021's FY GDP – a significant portion of the economy.



One might be tempted to be cynical about the veracity of these statistics, but the devil is in the detail. Mobile channels, proving to be the most preferred transacting facility, grew +120% y/y in that month alone to NGN 2.1trn, bringing 11m of transactions to NGN 19.0trn. PoS growth was +24% y/y to NGN 9.6trn (USD 21.3bn) and E-bills grew +14% y/y to NGN 4.7trn (USD 10.4bn) from Jan-Nov. Cheques remained flat y/y, demonstrating that digital channels have replaced cash-based methods through ease of use and widescale adoption. Additionally, mobile subscriptions grew by 23m from Jan-Nov, reaching 218m according the GSMA report. The CBN then sought to further enforce e-payment growth by limiting cash withdrawals for corporates and individuals. Mobile tech contributes c.8% of GDP in Sub-Saharan Africa, adding USD 140bn in economic value. This gives us confidence in our thesis about investing in the African growth story; even in a challenging context, the data proves the point and the digital revolution continues to gain momentum.

ECONOMIC AND POLITICAL OVERVIEW

Nigeria

The tough macro environment continues as fuel scarcity threatens to worsen, given possible strikes over working conditions. Wheat prices have risen by +50% as importation was hampered by the Russian-Ukraine war, with a decline of -92% y/y of imports from Russia as a result. Food and beverage imports have risen by +71% from 3q18 to 3q22.

Macro Releases (November stats):

- Inflation reached 21.5% y/y (Oct: 21.1%).
- FX reserves dipped slightly to USD 37.1bn (Oct: USD 37.4bn).
- PMI rose to 54.3 (Oct: 53.6).
- M3 grew +21.6% y/y (Oct: 21.9%).
- Private sector credit growth was +17.5% y/y (Oct: 17.8%).
- 3q22 debt-to-service ratio has reached 83%, described as "concerning" by the World Bank.
- Fitch Ratings Agency estimates 2023 GDP growth at +2.5%, accommodating for election disruptions, recovering to +3.3% in 2024.
- Mobile subscriptions grew by 23m to 218m from Jan-Nov according to the Global System for Mobile Communications Association (GSMA) report.
- The new Naira notes introduced in December have allowed for c.NGN 1trn (USD 2.2bn) to be removed from circulation.

21.5% y/y	US$ 37.1bn	54.3	21.6% y/y
Inflation Rate	FX Reserves	PMI	M3 Growth

Egypt

The Central Bank of Egypt (CBE) hiked rates by 300bps, a significant increase that surprised the market. Cumulatively, rate increases have totalled 800bps for 2022. The lending rate is now at 17.25%. The CBE also announced adjusted inflation targets, with the 4q24 target at 7% with a 2 percentage-point window.

Further to this, the CBE has announced a range of policies to encourage financial inclusion and boost the local economy. The CBE has extended its tourism support initiative to end-March, which aided the tourism pick-up; hotel occupancy rates reached over 80% in December. The CBE is also extending fee exemptions for e-transfers to December 2023. This includes no fees for MSME e-collection services as well as bank customers completing EGP-based transfers via e-channels. For other customers using mobile e-wallet transfers, the CBE has set a EGP 1 limit.

Egypt released goods worth USD 1.2bn during the last week of December to resolve the import backlog and restore normal economic function. This brought the total imports released to c.USD 6.8bn, with the government prioritising food and medicine. Additionally, the CBE terminated the use of Letters of Credit for Importation, returning instead to the pre-existing 'cash-against-documents' system. Meanwhile Egypt's agricultural exports reached 6.5m tonnes for 2022, reaching USD 3.3bn in revenue.

Macro Releases included (November stats):

- Inflation accelerated to 18.7% y/y (Oct: 16.2%), with food inflation at +17.8% y/y. The government has affirmed that there will be no price controls despite calls by MPs.
- FX reserves were USD 33.5bn (Oct: USD 33.4bn).
- PMI slid to 45.4 (Oct: 47.7) and has since recovered to 47.2 in December.
- M2 growth was +27.5% y/y (Oct: +27.1%).
- 1H FY22/23 primary surplus reached +2.3% of GDP (Target: +1.6% of GDP).
- World Bank revised its FY22/23 GDP forecast to 4.5% (Prev: 4.8%.)
- The Ministry of Finance estimates GDP at 5.5% in FY23/24.

18.7% y/y	US$ 33.5bn	45.4	27.5% y/y
Inflation Rate	FX Reserves	PMI	M2 Growth

Kenya

3q22 GDP growth was +4.7% (2q22: +5.2%, 3q21: +9.3%), ahead of expectations. Largest contributions from accommodation and food +22.9%, wholesale and retail trade +9.1% and professional, admin and support services +8.7%. Slowdown in activity led to a decline in agriculture forestry and fishing of -0.6%. Vegetable exports contracted by -26.1% while offset by increased fruit, coffee and cane production. Mining and quarrying also declined by -2.2%.

Fitch Ratings agency downgraded Kenya's long-term FX currency IDR to B with a stable outlook (Prev: B+). The cause is the twin deficits: fiscal and external, as well as deteriorating liquidity. The outlook is stable due to the ongoing fiscal consolidation progress alongside the IMF guidelines. Positively, Fitch expects the government to meet its external debt obligations over the next 2 years and projects GDP growth to be 5.4% for 2022 and averaging 5-6% for the medium term.

Kenya maize imports doubled to 519,611 tons in 9m22 (9m21: 214 101t); maize subsidies were removed as one of President Ruto's first moves. On the export side, Kenyan exporters booked significant FX exchange gains. For example, tea exports grew +45.5% in value to KES 40.3bn (USD 325.8m) in contrast with a muted +9.8% increase in tea leaf volumes. However, Kenya is currently facing a drought and food prices are increasing rapidly. The government plans to import 10m bags of different foods to mitigate the inevitable shortages.

Macro Releases (November stats):

- Inflation was 9.5% y/y (Oct: 9.6%).
- FX reserves inched down to USD 7.1bn (Oct: 7.3bn) equivalent to 4.0m of import cover.
- PMI is still expansionary at 50.9 (Oct: 50.2).
- Tourism arrivals grew +74% in 2022.
- Remittances grew +7.9% y/y to USD 345.4m.
- Mobile money accounts reached 73.2m a growth of +9% y/y, through 315,240 agents in the country. Total cash handled reached KES 639.8bn (up +6.5% y/y) through a total of 190.5m transactions (+2.4% y/y).

9.5% y/y	US$ 7.1bn	50.9	+74%
Inflation Rate	FX Reserves	PMI	Tourism arrivals

Mauritius

The Bank of Mauritius raised rates by 50bps to 4.5%, as inflation is still elevated. The central bank estimates a downturn in inflation for December, bolstered by economic recovery. GDP is estimated to reach +7% in 2022 and 5% in 2023.

Macro Releases included (November stats):

- Inflation was 12.1% y/y (Oct: 11.9%).
- FX reserves were USD 6.7bn (Oct: USD 6.5bn).

12.1% y/y	US$ 6.7bn
Inflation Rate	FX Reserves

Morocco

Morocco's central bank, Bank Al-Maghrib, raised the policy rate to 2.5% from 2.0% to combat inflation. This was the second rate hike for 2022. Taking a cautionary approach, the country has also extended the state of emergency introduced in 2020 to end-January 2023 following the tail end of its 5th COVID-19 wave. This allows the government to be agile in response to any pandemic outbreaks.

The economy is expected to reach +3.4% y/y growth in GDP in 1q23 according to the government's Higher commission for Planning. Agriculture is set to recover as rains have been good since November and supportive of growth. Morocco is the 3rd largest exporter of industrial products in the MENA region, reaching USD 19.9bn in 2021.

Macro Releases (November stats):

- Inflation rose to 8.3% y/y (Oct: 8.1%).
- FX reserves reached USD 32.0bn (Oct: USD 31.1bn), and dipped to USD 31.3bn at end-December.
- Trade deficit widened +57% y/y in 11m22, with imports up +42% y/y to MAD 677bn (USD 64.8bn) land exports +36% y/y.
- Remittances grew +15% y/y for the 11m from Jan-Nov, reaching MAD 99.5bn (USD 9.5bn).
- Morocco withdrew USD 2bn from its IMF Precautionary and Liquidity Credit Line in order to repay a significant bond loan.

8.3% y/y	US$ 32.0bn
Inflation Rate	FX Reserves

COMPANY UPDATES

KEY TO BRACKETS: (COUNTRY, INDUSTRY, WEIGHTING)

No company holdings feedback.

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 2022 has been evidenced in more robust FX reserves, consistently good and continuous economic policy as well as additional funding from the IMF. 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 the bulk 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 better rainy season 2022/23 should help to offset weakness from the drought in 2021/22 as well as the hit from higher soft commodity prices. In terms of outlook it remains a stable, mid-growth country with excellent opportunities in retail, manufacturing and fintech.

Kenya – Peaceful elections and a new, business friendly President bode well for the country in the foreseeable future. Continued recovery in tourism and lower soft commodity import prices, should provide tailwinds too. Corporate expansion into neighbouring countries such as the DRC and Ethiopia, provide significant opportunities for Kenya. Safaricom and Equity Group are the two main drivers. IMF and World Bank support will also allow the country to maintain a strong growth trajectory.