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Monthly Investment Commentary

August 2017

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Macro Commentary

World markets were generally stronger in August. Economic data was positive in the main, particularly in the US where Q2 GDP growth was revised upwards to an annualised 3.0%. This was largely the result of the consumer consumption with July retail sales ahead of expectations.

However, the impact of an improving economy was offset by rising tensions with North Korea and Hurricane Harvey, which made landfall near Texas. The hurricane caused much of the state's energy infrastructure to shut down and resulted in a 21% reduction in oil & gas production in the Gulf of Mexico.

The hurricane's impact on the insurance sector is not yet clear, although Moody's has already estimated the cost of the storm to the industry to be between USD 80 and USD 100 billion, making it the worst natural disaster in financial terms in US history, apart from Hurricane Katrina in 2005.

The net result was a 0.3% return from the S&P 500 over the month, with the technology and utility sectors performing best – the latter tracking falling Treasury yields. Unsurprisingly, energy stocks were generally weaker, impacted by Harvey.

Government bond yields in most regions fell during the month, primarily as a result of the worsening stand-off between the US and North Korea, with other haven assets following suit. Corporate bond prices also rose as Central Bank heads meeting at the annual Jackson Hole meeting were more dovish on rates and the outlook for inflation than many observers were expecting. The end result was US 10-year Treasury yields falling from 2.29% to 2.12% over the month.

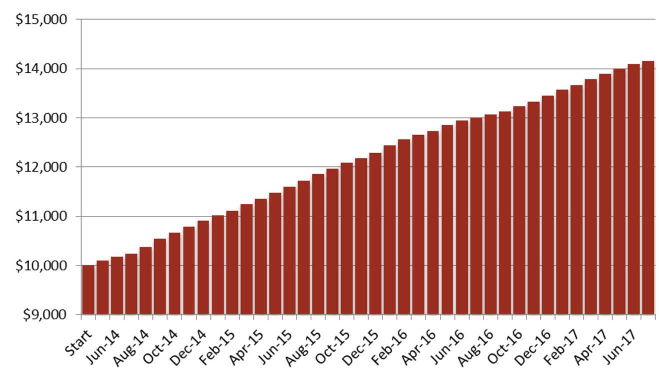
Eurozone data was stronger, across GDP growth and inflation and with speculation that the ECB was looking for ways to begin to reduce Q.E., the Euro was the strongest performing of the major currencies in August. However, this created a headwind for Eurozone stocks, which fell slightly.

The UK market performed strongly with the FTSE All-Share index rising 1.4%. Commodity and mining stocks rose, as did other defensive areas such as UK Government bonds as the likelihood of an early increase in the base rate receded. This was partly a reflection of declining confidence in UK economic growth and the Bank of England having downgraded its inflation expectations in its August report.

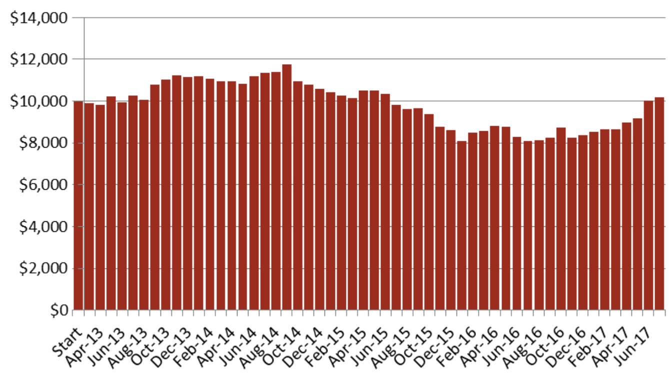
Emerging Markets enjoyed a good month. In USD terms the MSCI Emerging Markets index rose 2.27%, with many Latin American markets in particular rising as a result of stronger commodity prices. Korea and Qatar were exceptions, as a result of geopolitical issues weighing on both markets. In the case of Korea, the second largest market in the MSCI Emerging Market index, tax changes, rumoured conglomerate reforms and the conviction of Samsung's JY Lee also contributed to weaker performance.

In South Africa, President Zuma survived another attempt in the National Assembly to oust him. A motion of no confidence was defeated by 198 votes to 177. Even though the vote was held in secret, the opposition was unable to persuade enough members of the ANC to vote in favour. In any event, the ANC is meeting in December to choose President Zuma's successor once his term in office ends in 2019.

Trade Finance Fund: Value of US$ 10,000 invested since launch



Franchise Fund: Value of US$ 10,000 invested since launch



Trade Finance Fund Monthly Report

The Fund achieved a return of 0.61% for the month of August, bringing its rolling twelve-month return to 8.97% and a return since inception of 41.61%

The IMF in its recent publication *Sub-Saharan Africa: Restarting the Growth Engine* highlighted the importance of the informal economy to most Sub Saharan African economies. The publication states that the informal economy contributes between 25 to 65% of GDP and between 30 to 90% total of non-agriculture employment. With rapid urbanisation, due to the migration of people from rural to urban centers, that has not kept pace with the growth in industrialisation, the informal sector *act as a safety net providing employment and income to a large, growing working age population that may otherwise be unemployed in the absence of sufficient employment in the formal sector. (SSA: Restarting Growth Engine - April 2017).*

A lot has been said about economic structural transformation needed to stimulate industrialisation in Africa. Diversification of economies to reduce dependency on natural resources and primary commodities, act as a catalyst for job creation, higher productivity, innovation and building equitable societies. What is becoming clear is the shift in reliance on natural resources and primary commodities as the major if not the only economic growth driver in Sub Saharan African countries. A World Bank report in 2015 found that the five fastest growing economies in Africa were non-resource rich countries with Ethiopia, Cote d'Ivoire and Rwanda leading the pack. The Africa Economic Outlook in June 2017 projected GDP growth in Africa of 3.4% and 4.3% in 2017 and 2018 respectively, *driven by increasing domestic demand by Africa's growing population representing a major catalyst for African entrepreneurship and contribution of entrepreneurs* (including those in the informal sector) to industrialization (AEO, 2017).

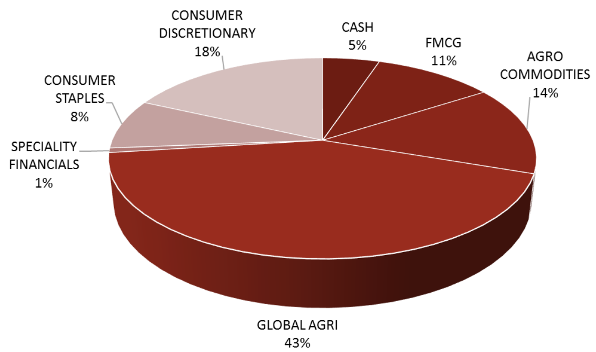
The relevance of the informal economy in Africa calls for policies that support growth in the informal sector. Such interventions tend to lift productivity in both the formal and informal sectors, as experienced in Mauritius and Rwanda. The IMF reported that between 2010 and 2014, Mauritius and Rwanda, through a programme aimed at transforming the informal sector into formal enterprises, reduced the size of its informal enterprises. This was achieved through creating a business environment for SMEs to flourish, removing barriers to formalisation, and strengthening the capacity of these enterprises to become more competitive. Rwanda on the other hand, reformed its commercial law, improved regulations to ease access to credit and accelerated trade and property registrations.

Successive governments in Mauritius have proactively supported SMEs since 1980. They improved access to finance, provided free access to export market intelligence and developed suitable infrastructure that enabled the transition from informal to formal businesses. The government worked with formal businesses to establish a platform that enabled the co-sharing of risks with the banking system, giving SMEs the ability to access credit at prime interest rates. Company registration processes were streamlined and SMEs were provided with a one stop shop to assist with financing, information and the delivery of permits and licenses. Tax reform introduced by government facilitated compliance by SMEs, leading to increased tax revenues.

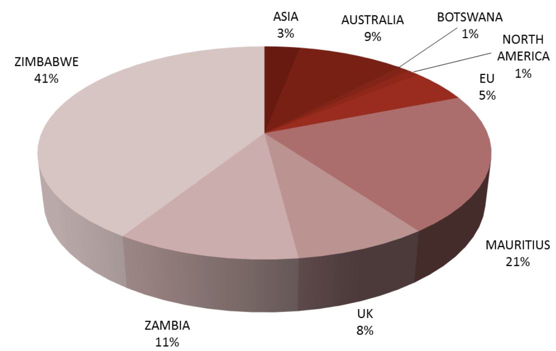
Results of such intervention were seen during the global financial crisis of 2007, with employment in SMEs continuing to grow and contributing more employment growth than larger firms in Mauritius. Today, SMEs play a more significant role in the Mauritian economy representing close to 40% of GDP and about 45% of total employment, reflecting the success of the policy initiatives to support the development of informal SMEs into the formal sector. (Source: IMF Regional Economic Outlook Apr 2017)

With the massive infrastructure gap estimated at $50bln and rapid urbanisation in Sub Saharan Africa, the opportunities for developing informal businesses into formal businesses are huge. Especially, if other governments in Africa adopt models like in Rwanda and Mauritius. This opens opportunities for international investors, such as the Atria Trade Finance Fund, to provide capital where it is most needed.

Sector Allocation



Country Allocation



Franchise Fund Monthly Report

The Franchise Fund continued its strong performance, rising 1.6% in July and 2.95% in August, taking the fund's return so far in 2017 to 25.4%, well above its benchmark, the MSCI FM Africa index.

Much of this strong performance is attributable to the continuing strength of the ZSEI, which has risen 140% so far this year and 250% over the last twelve months. The Franchise fund has maintained a consistently high weighting to the Zimbabwean market, currently representing 30% of the fund. The fund has an 11% weighting to Nigeria, which also contributed to performance with the Nigerian market rising nearly 32% year to date.

In Kenya, Presidential elections were held on 8 August. The incumbent, Uhuru Kenyatta, was initially declared the winner having polled 54% of the vote compared to long-time rival Raila Odinga on 45%. However, the declaration was followed by allegations of electoral fraud by the opposition, leading to several days of violence.

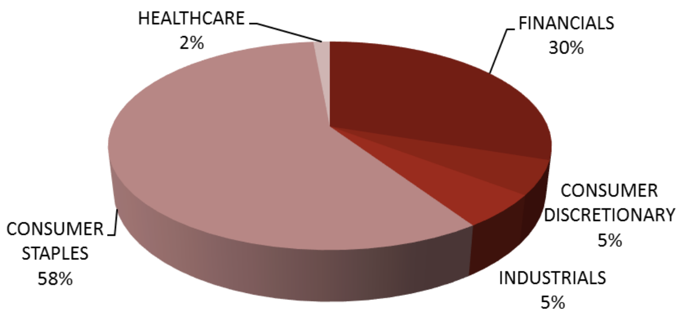
Mr Odinga, who was contesting his fourth election, appealed to the Supreme Court to have the result overturned. Following several days of deliberations, the Court nullified the election result on 1 September, saying that the Kenyan electoral commission had "failed, neglected or refused to conduct the presidential election in a manner consistent with the dictates of the constitution". It called for a new election to be held within 60 days.

The Supreme Court's decision was unprecedented in Africa and while it is likely to be positive for democracy in the future, the political uncertainty will have an impact on the Kenyan economy, which was already under pressure, until the new election is held. Unsurprisingly, blue chip companies on the Nairobi stock exchange fell 10% after the ruling, leading to trading being halted temporarily. The Franchise Fund has 4% of the portfolio invested in Kenya.

August saw the successful completion of Sub-Saharan Africa's biggest IPO of 2017 so far. Vodacom Tanzania listed on the Dar es Salaam exchange, raising USD 213m. The IPO was the result of a Government requirement for all telecoms operators to list at least 25% of their businesses locally. The shares have risen modestly since listing and two other operators are likely to follow Vodacom Tanzania's lead, although their prospectuses have not yet been approved.

In Botswana, where the fund has 11% of its assets invested, the Bank of Botswana maintained rates at 5.5%, despite the economy growing at 3.9% in the 12 months to March 2017. Economic activity has been boosted by the non-mining sector, particularly as a result of public sector investment and positive macro-economic policies.

Sector Allocation



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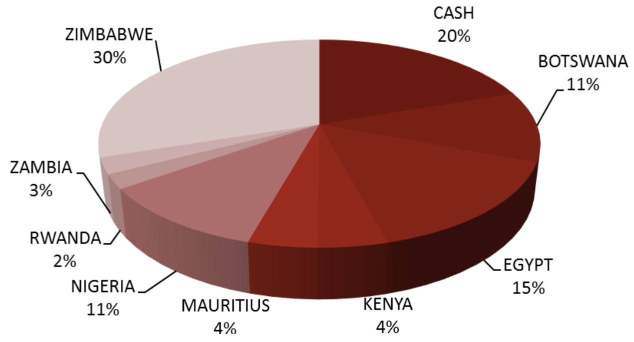

The Background

Who We Are

Atria Africa is an investment manager specialising in Sub-Saharan Africa. We are regulated and licensed by the Mauritian Financial Services Commission and the South African Financial Services Board.

Investment Philosophy

We seek to achieve meaningful and sustainable investment returns on both a real and relative basis, through investing in advantaged businesses, run by exceptional management teams, which meet our strict investment criteria.

Investment Process

We follow precisely defined investment themes in order to benefit from the continuing economic development of Africa. Within these themes we identify durable scalable businesses run by exceptional management teams. We invest in businesses whose shares are trading at a discount to our assessment of intrinsic value as determined by our internally developed rigorous bottom up methodology. This is complemented by a top down overview, regular management contacts and qualitative analysis. This allows us to continually interrogate our assumptions on value, guarding against the potential for permanent capital loss. These factors encourage a strict sell side discipline, critical in volatile African markets. Fixed income and cash form an important part of our investment process. Where markets are expensive relative to our assessment of intrinsic value, we will hold cash or income bearing securities as a hedge pending investment.

Our Values

We do not profess to be nor aspire to be all things to all people. By concentrating on specific themes, we commit our resources to knowing more about our chosen themes than the average fund manager. This focus allows us to better understand the complexities of a particular business and its competitive advantages in a market, lowering the overall risk of an investment decision. We believe in running high conviction portfolios comprising investments in only the best performing entities (12-25 holdings at most). Given the limited opportunity set and liquidity constraints in our target markets, we have predetermined optimum product sizes.

This ensures we place greater emphasis on monitoring existing investment performance as opposed to simply gathering new assets. Constant market price monitoring of potential holdings versus our valuation metrics enables us to rapidly respond to opportunities that present themselves. It also means our best ideas are not diluted thereby prejudicing performance. We put our own money at the same risk as our investors. Our officers and staff are only able to invest in our own products, ensuring our interests are perfectly aligned with our clients. Our investment team is also responsible for our clients, allowing our clients to interact with and get first hand knowledge from the investment decision makers.

We will make mistakes. When we err in our investment judgment, we will own up to it, we will learn from it and we will endeavour to ensure it will not happen again. As part of this process we will engage frequently with our clients in a transparent, informative and honest manner.

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