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Monthly Investment Commentary

February 2017

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Macro Commentary

Trump Bump Continues: global markets continued to rise in February, following January's strong performance, hitting record highs. In the US, the S&P 500 returned 4% over the month with the Dow Jones Industrial Average and Nasdaq Composite indices increasing 4.6% and 3.2% respectively.

Sentiment around the world's largest economy has improved following the Trump Administration's expected policy of reflating the US economy, principally by increasing infrastructure spending and reducing taxes and regulation. The economic data, particularly employment statistics, has also continued to improve, creating mounting speculation that the US Federal Reserve will increase rates faster than expected in 2017, following the rate hike at its policy meeting earlier in March.

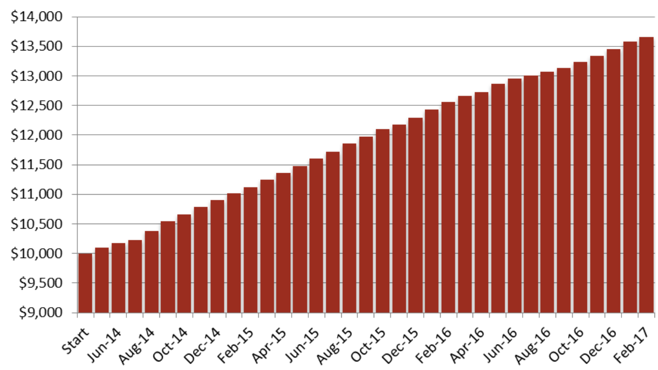
Other developed market indices also performed well: the FTSE 100 index was up 2.8%, Hang Seng 2.0% and Xetra DAX 1.5%.

Reflecting the news-flow elsewhere in the world, growth expectations for frontier markets also improved in February. There was more of a mixed picture in some of Atria's core markets in Africa. A number of countries reported higher growth expectations, notably Nigeria, although this was accompanied by higher than expected inflation reports in many countries. Kenya published figures showing inflation at a 12 month high (6.99% Y-o-Y). In Egypt, inflation increased for a third consecutive month during January, to its highest level since the flotation of the pound and implementation of multiple reforms (up 4.9% to 28.1% Y-o-Y).

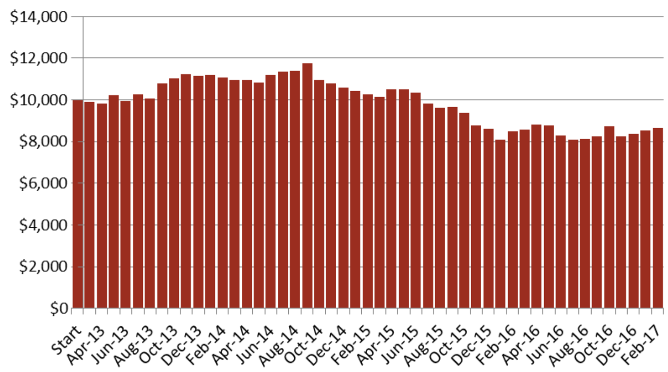
A particular theme during February was rising food prices, caused by a number of regional issues – adverse weather in East Africa, an infestation of army worm in Southern Africa and weakness in domestic currencies making imports more expensive (Nigeria, Zimbabwe).

In South Africa, tipped to become the continent's biggest economy (Financial Times, subscription required) once again following Nigeria's recent devaluation of the Naira, Finance Minister Pravin Gordhan presented the Government's annual budget to Parliament. In his speech, he said the Government was likely to have to increase taxes by ZAR 28bn in order to meet this year's budget deficit target of 3.1%, with the economy expected to grow by only 1.3% over 2017.

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 February, bringing its rolling twelve-month return to 8.72% and a return since inception of 36.59%.

Investors and financiers place heavy reliance on economic forecasts and projections for investment decisions. This has become a challenging task due to the heightened geopolitical risk resulting from uncertainty and lack of clarity on policies from the incoming U.S. administration, "Brexit" and changes in Europe, and threats to free trade (US-China relationship, US-Mexico and NAFTA). So how will Africa fare in this new world? So far there hasn't been any insight on US engagement with Africa, so its policy scope and form remain uncertain. Since Africa trades more with China and Europe than the US, it is the changes in Europe, such as "Brexit", that are likely to impact Africa more.

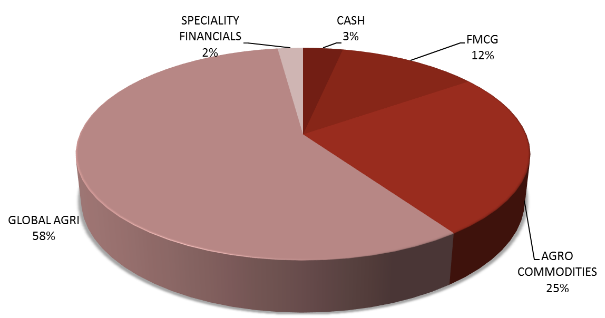
When it comes to world trade, Africa plays only a marginal role. UNCTAD statistics show that Africa's share of global exports is only 2.4%, with Sub-Saharan Africa (SSA) accounting for just 1.7%, dominated by raw materials, fuels, ores, metals and agricultural products. Its share of the Global Value Chain participation, crucial for value creation and employment creation, is at 2.2% of total.

The Observatory of Economic Complexity reports that, "in 2014 the UK exported $15.9bn worth of goods and services to Africa, with some $25.6bn heading in the opposite direction". British FDI in Africa doubled between 2005 and 2014, from £20.8 billion to £42.5 billion according to government statistics. This is significantly larger than the African FDI in the UK which stood at £3 billion in 2014. In 2016, Africa accounted for only 2.8% of UK exports by value compared to 54.3% to Europe and 21.2% to Asia. With such comparative statistics, will Africa be a priority post "Brexit"? Africa, is a diverse continent comprising independent nations at various stages of development and grouped into eight regional trading blocs (SADC, COMESA, EAC, ECOWAS, CEN-SAD, ECCAS, IGAD, and UMA). For the UK, trying to strike arrangements with the 54 nations and its trading blocs is going to be a complicated process, especially so when one considers already existing EU/China/India/Brazil trade agreements. Yonov Frederick Agah, a Nigerian deputy director general at the WTO argued that "the emergence of African's single market, Continental Free Trade Area could make it easier for Africa's partners to conclude trade deals on a continent-wide basis rather than having to negotiate on a country by country basis,". This should give the continent leverage to negotiate better deals given the size, resources and opportunities driven by rapid urbanisation.

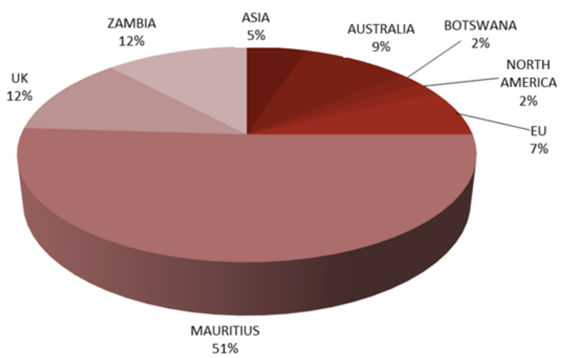
Britain has endeavoured to maintain a commercial presence in Africa and to take full advantage of its historic "estate". A former British minister for Africa and a Brexit supporter, James Duddridge argued for "Britain to focus more on bilateral relationships with Africa and will look at Africa for its needs rather than looking at it through the prism of the EU…" However, In the presence of other players such as China, Brazil, Russia and Japan, Britain must reinvent its relationship with Africa. Not as a landlord "with a duty to develop his estate improving…. the property, making communications, making outlets for the product of his land" as Colonial Secretary Joseph Chamberlain once argued. But rather taking a cue from James Duddridge, looking at Africa for its needs and forging partnerships that develop both parties. (Source: African Business Magazine).

As a Fund, we see value for our investors in the Global Value Chains, an area we have focused on since inception. This in our view talks to Global Value Chains that link into a specific part of the production chain based on a country or sector's comparative advantage. To achieve effective participation in Global Value Chains, investments in sector-specific skills and human capital, infrastructure, financial services and a conducive policy framework will be required.

Sector Allocation



Country Allocation



Franchise Fund Monthly Report

The fund continued to maintain strength, gaining 1.24% for the month. Because of the funds' stellar performance over the last two months, the losses incurred during the previous twelve months have been clawed back. Whilst strengthening currencies have been a major contributor to the recent gains we remain confident that the fund is positioned to benefit from a host of value accretive variables throughout our investment universe.

This investment universe, comprising sixteen markets, ended the month strongly with just five counters having lost value in US Dollar terms. Here the Zimbabwean Stock Exchange led the losers, falling -3.5%. Egypt led the gainers, thanks to a massive 20% currency gain, which lifted an otherwise listless market.

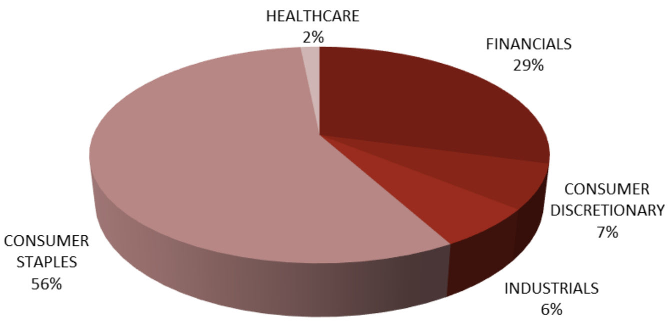
The progress of African capital markets being spurred on through internal growth from its own resources rather than foreign capital, has been an ongoing seed of discussion for some time. Indeed, the recent and drawn-out weakness in both currencies and stock indices has demonstrated the significance of this foreign capital. However, as economies around the world continue to retract their capital, meaningful and lasting solutions in Africa, must come from within. Supporting this notion, we have already started to witness positive reforms throughout the pension fund industries of Africa. For example, in Nigeria the Nigerian Pension Commission will look to kick-start the Micro pension schemes, which seek to provide a framework to support the self-employed, informal sector which accounts for an estimated 70% of the working population. The incumbent Contributory Pensions Scheme in Nigeria, covers less than 10% of the total labour force which, according to the National Pensions Commission, is valued at USD 20 billion. Of this just 8% or USD 1.6 billion is invested in the local stock exchange.

In Kenya, the Retirement Benefits Authority has recently approved investment by local pension funds into Exchange Traded Funds (ETFs) and Real Estate Investment Securities (REITS), thus providing significant latitude to fund managers to retain and grow their assets under management. In the same vein the Zimbabwe Association of Pension Funds has, of late, established compulsory measures for industry stakeholders to obtain a certificate of proficiency to strengthen the intellectual pool of capital that is charged with administrating this important asset.

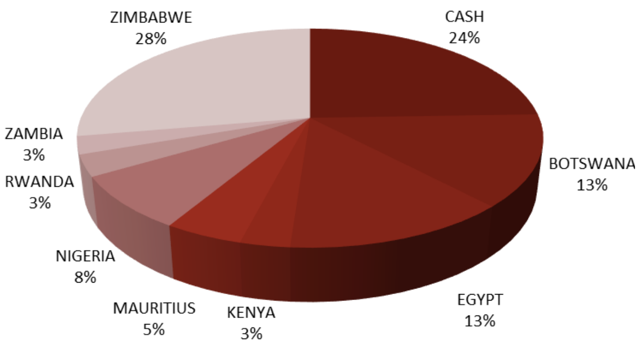
African pension statistics are skewed by South Africa having the largest pension industry by value, estimated to be in the region of USD 310 billion or 80% of the value of the entire industry in Africa. Despite this imbalance, the importance of retaining and growing pension capital remains constant, regardless of its geography. For more than a decade African capital markets have been significant beneficiaries of global capital inflows with the Africa Rising (previously discussed in our August 2016 monthly) concept having been the nexus to such inflows. The narrative was recently displaced (the trigger being rising interest rates and tapering in the United States), resulting in unprecedented capital losses throughout the continent. By way of example, within our universe of sixteen markets, almost $100billion has been lost through declining prices and foreign currency losses since February 2014. The magnitude of such capital losses underlines the importance of asset quality (assets which are demonstrably more abrasive to value loss) rather than simply investing in rising values (momentum).

Our Africa Franchise Fund has maintained this notion from inception, where each investment undergoes an intense analytical process aimed at identifying true value.

Sector Allocation



Country Allocation



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.