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Monthly Investment Commentary

January 2017

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Macro Commentary

Politics to the Fore: Global equity markets continued their strong performance in December and January, following Donald Trump's surprise election as the next President of the United States and in anticipation of pro-growth policies likely to be adopted by his administration.

Equity indices in the US hit all-time highs on successive days during late December 2016 and January 2017, spurred on by improving economic news, M&A and expectations of US tax cuts.

In Europe, however, the outlook has been more mixed, overshadowed by perceptions of political risk around several elections in 2017. The key events to bear in mind are:

March 15: Parliamentary elections in the Netherlands, where the nationalist *Party for Freedom* is gaining ground;

April/May: French presidential and parliamentary elections, which could see gains for Marine Le Pen and her anti-immigration party the National Front; and

September: German Federal elections.

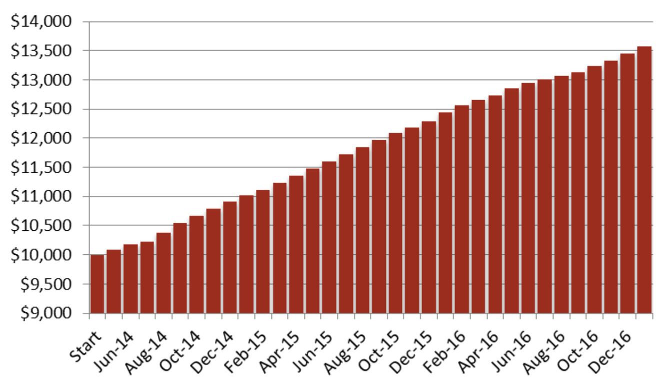
Given the recent failure of [political analysts and polling companies] (The Spectator) to accurately predict results, the uncertainty around the Eurozone's two biggest economies is creating unease amongst investors.

In Atria's direct universe, political events have also been prominent. In Ghana, Nana Akufo-Addo won the country's Presidential election at his third attempt, defeating incumbent John Mahama. Gambia has suffered upheaval as Yahya Jammeh was defeated by challenger Adama Barrow but re-fused to step down until Abdel Aziz, President of neighbouring Mauritania, negotiated an agreement for him to leave.

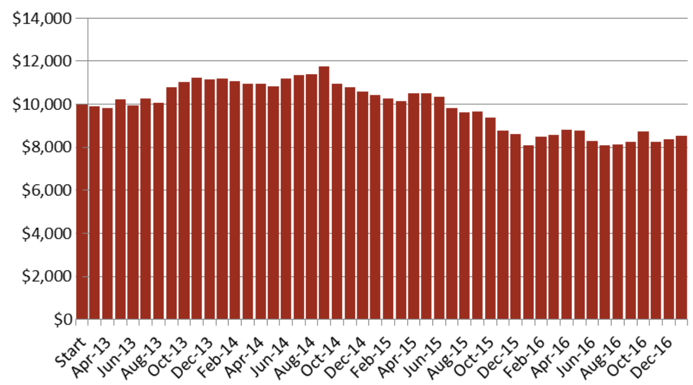
Economic news in December and January tended to disappoint. In South Africa, economic growth slowed more than expected. Analysts had expected an annualised growth rate of 0.6% compared to the reported figure of 0.2%. In Nigeria, consumer prices increased by 18.55% year-on-year in December 2016, following a 18.48% rise in the previous month.

African equity markets lacked strong direction, but continued to be impacted by the likelihood of further rate rises by the Federal Reserve over 2017, offset by some commodity price increases, particularly oil.

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 0.94% for the month of January, bringing its rolling twelve-month return to 9.17% and a return since inception of 35.76% underpinned by performance in Global Agri, Agro Commodities and FMCG sectors.

Most Africans derive their livelihoods from agriculture, and as such the Fund has taken an active interest in the sector. Whilst African farming is subsistence in nature opportunities are emerging to support development of agribusiness value chain. Per UNCTD, horticultural exports from Sub-Saharan Africa now exceed US$2 billion, yet this is only 4 percent of the world's total. There are opportunities for the Fund to grow this percentage by financing the supply of high value niche fresh produce to lucrative European and Asian markets. We have invested time and resources in understanding these trade cycles and their specific risk so that the Fund can deliver sustainable yields to our investors.

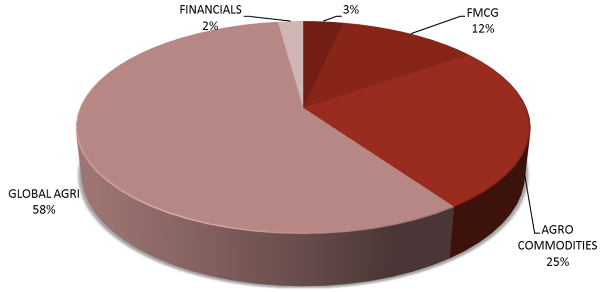
The model that has proven to be successful incorporates small scale farmers contracted by an established processor across multiple product lines. Southern and Central Africa has a competitive advantage thanks to its climate and its opposing seasons to the Northern Hemisphere, a key export destination for out of season production.

The challenge is infrastructure and processing facilities to meet international quality control expectations. This can range from on farm pack sheds to cold chain infrastructure at airports. Development of this sector according to UNCTD has been 'gradual and eclectic, primarily a private sector story, with entrepreneurs and farmers innovating and taking chances. The government has played an ambiguous role, being broadly supportive but often interfering; it sometimes contributed the most by leaving the sector alone, but gradually it has learned to be a facilitator.' Though underdeveloped, infrastructure has to meet international quality standards as a prerequisite to market access.

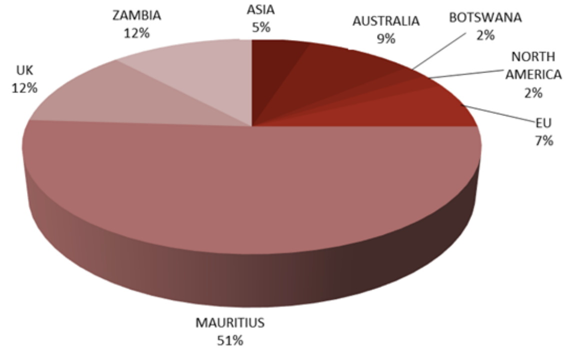
In Kenya, the horticultural industry accounted for two-thirds of all growth in agricultural exports and recently surpassed coffee to become the second largest merchandise export, after tea. Kenya is the second largest horticultural exporter in Sub-Saharan Africa (after South Africa), the second largest developing-country exporter of flowers in the world (after Colombia), and the second largest developing-country supplier of vegetables to the European Union (after Morocco). (Source: UNU: Agro-Processing and Horticultural Exports from Africa)

The opportunity for the Fund lies in enabling better integration of African Horticulture into global trade and international value chains, providing the necessary working capital to the processors and exporters to source product and process to SUPPLY an established market whose business norms we understand. In the process a formalised and structured way of doing business will be developed in Africa that will warrant more investment in trade infrastructure in Africa.

Sector Allocation



Country Allocation



Franchise Fund Monthly Report

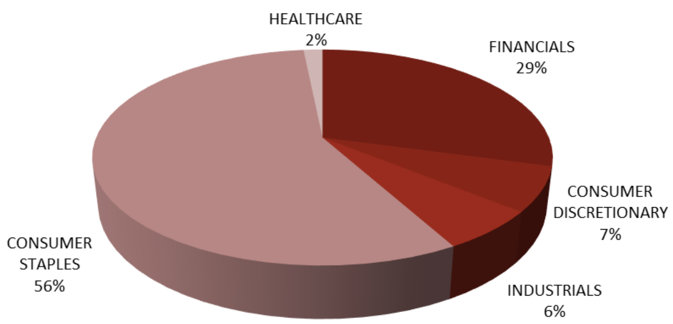
The fund ended the final quarter of 2016, up 1.54% and maintained this momentum through January, closing the month up a further 1.99%. In both instances the fund outperformed its benchmark which had gained 0.49% and 0.80% for the respective periods. The fund closed the year with annual performance of -3.05% against its benchmark which was down -11.18%.

Regardless of our benchmark, a negative return is something we do not take lightly. Upon each negative return, our managers are faced with the task of rechecking the key determinates of the value proposition of each of our holdings. In Africa the key constituents of value can alter daily, providing a continuous pipeline of fluctuating variables across all sixteen markets. In order to mitigate such, it is becoming increasingly necessary for successful investment decisions to be driven through a solid understanding and high conviction of value. Another important, and often ignored, component to successful investing is the necessity of patient investment capital. This is key to enable investors to truly realise value in their investment, as opposed to merely realising performance gains through timing the ebbs and flows of market momentum, as a result of the global carry trade.

Diageo's African subsidiaries were the first to shake off the Christmas hangover with Guinness Breweries reporting their half year results. No surprises here as losses continued to dissolve balance sheet value. Like all consumer manufacturing businesses in Nigeria, FX illiquidity was a significant contributor to driving the cost of sales (up 55%). This was despite serious efforts from management to stem the losses through a concentrated focus on the access or low cost segment, where sales increased 19% yoy. Elsewhere, East African Breweries maintained healthy momentum throughout its geographical footprint (Kenya, Tanzania, South Sudan and Uganda) despite pressure from excise induced price increments. EABL, provides investors with a well-defined template of the Diageo business model which thrives in a growing economy where they maintain strong market share in mainstream and premium segments. On the other hand, Guinness Nigeria exposes its weakness where the absence of strong markets into the lower tier beer market has proved costly, resulting in the need to call upon shareholders to inject further capital into the business. This will be done by way of a N40billion (approximately USD100million) rights issue, yet to be approved.

Our approach to managing, preserving and growing your hard earned capital is simple and one which we carry throughout the continent. This is to assure ourselves that any investment made should be channelled toward businesses that are driven by management teams who possess the calibre and skill to interpret their respective markets and have the flexibility to adapt their businesses to change. Thus assuring that the returns (cashflows) remain sustainable and steadfast, above the cost of their shareholders capital. We measure this ability, not by market performance, but rather through an intimate understanding of our returns as a shareholder over the long term.

Sector Allocation



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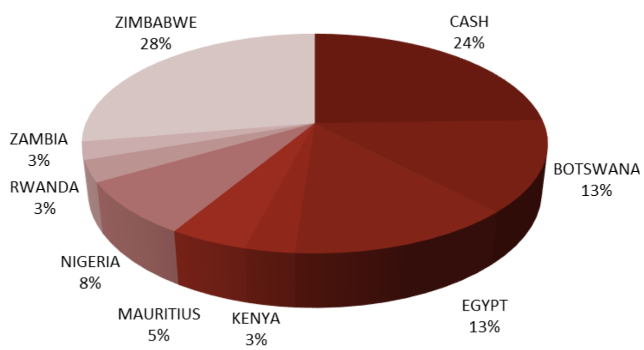

The Background

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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