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Monthly Investment Commentary

March 2017

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Macro Commentary

Global equity markets ended March slightly weaker, with investors cautious as they worried about global political developments ranging from the developing North Korea crisis and European elections to the commencement of the formal Brexit process in the UK and growing political paralysis in South Africa.

In the US, the most significant event was the Trump administration's failure to repeal the Affordable Care Act, known as Obamacare. This followed several weeks of negotiations which ultimately foundered due to a lack of support amongst Republicans in Congress.

The failure of the repeal bill knocked confidence in the Trump Trade, as it raised concerns over the President's ability to force through the proposed tax cuts that have driven much of equity markets' strong performance since Donald Trump's election.

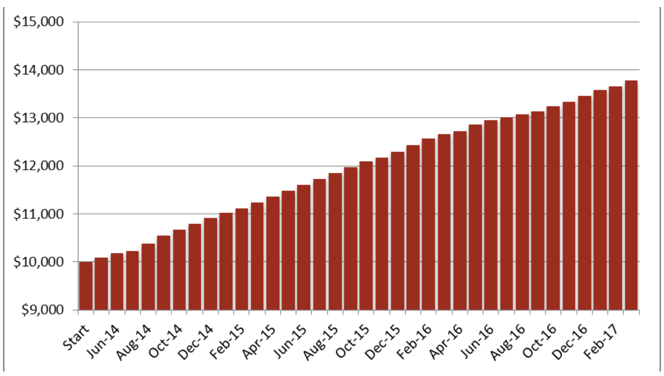
In the UK, Prime Minister Theresa May formally triggered Article 50, with a letter informing the European Council of Britain's intention to leave the European Union. The formal notification starts a two year period of negotiations through which Britain will establish the basis of its exit from the Union.

Emerging Markets were the top performing equity markets in the first quarter, with the MSCI EM index up 11% in the three months to 31 March. This was largely off the back of continuing recovery in economic growth rates, as well as a declining probability of aggressive rate rises in the United States, with the Federal Reserve sticking to its forecast of three increases in 2017.

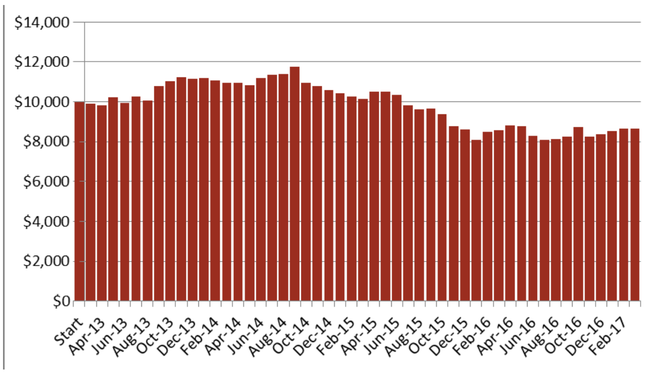
Towards the end of March, the South African Rand fell sharply after President Jacob Zuma dismissed finance minister Pravin Gordhan, prompting fears of a downgrade to the country's credit rating, which subsequently materialised in early April. Malusi Gigaba, the home affairs minister, was announced as Mr Gordhan's replacement. A further eight ministers were also replaced.

Elsewhere in Africa, there was mixed economic news. The continent's trade deficit with the rest of the world hit the lowest it has been for the last three years, partly driven by stronger commodity prices, but partly also due to economic weakness in prior quarters that has reduced demand for imported goods.

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 0.90% for the month of March, bringing its rolling twelve-month return to 8.87% and a return since inception of 37.82%.

Economic diversification in Sub Saharan Africa (SSA) in the face of the dominance of primary commodities has long been argued as the continent's solution to finding sustained economic growth. The need to close infrastructure gaps and rapid urbanisation creates opportunities for economic change which in turn helps limit economies' vulnerability to commodity price fluctuations.

Despite the continent's dependency on specific commodities, be it oil and petroleum products for Angola, Ghana and Nigeria, metals and minerals for South Africa, copper for Zambia and Cocoa for Ivory Coast, agriculture remains a common denominator throughout the sub-continent. As such the trend has shown agricultural performance still maintains considerable influence on business and/or investor confidence in the region. The IMF and World Bank are raising economic growth projections, particularly for Southern African countries, because of an improved agricultural season.

With the summer crop harvest season upon us, agricultural performance is taking the better part of our mindshare to gauge business and investor sentiment. More so for us at Atria, as we have just returned from one of our regular field visits to a project we supported. Working through a Collateral Manager we participated in a maize input support scheme to a group of eleven very competent and experienced farmers on 7000ha of arable land with highly mechanised operations. Our assessment so far is pointing towards a bumper harvest and a good return for our investors thanks to the good rains and world class level of organisation, execution and commitment from all stakeholders.

What we learned from this experience is that farmers just want to be left to farming. Provided they get a fair deal for their toil, an association with an organisation that arranges finance for input and capital equipment, insurance, logistics, accounting and administration, market linkages and pricing negotiations is far more desirable for them, leaving them to focus on what they do best - farming.

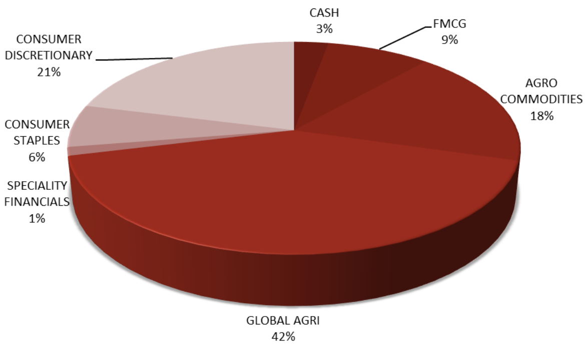
To help farmers succeed, financiers should put in place structures that allow the decision making on farm operations to be delegated to the farmers on the ground, so as to ensure that operations are not disrupted. This reduces delays brought about by corporate bureaucracy, usually associated with corporate personnel with little or no knowledge of farming who are better left to desktop analysis.

Africa, unlike the developed world, has significant sensitivities and complexities that despite an abundance of available information on agricultural potential, donor and DFI support and focus, has a history of mega agricultural projects that have failed or taken too long to develop. As a result, agricultural productivity has largely remained primitive and inefficient, failing to provide food security for a rapidly urbanising region, and lacks the capability to compete with other nations or regions vying for lucrative export markets.

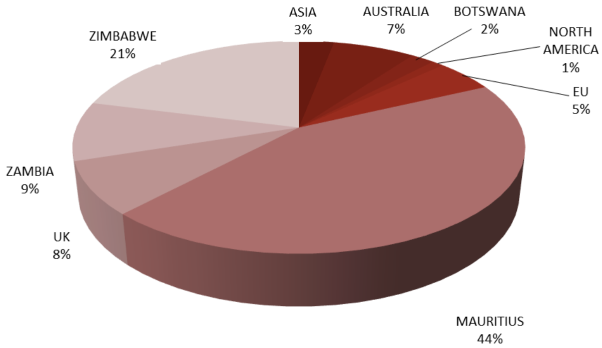
Take Mozambique for instance: ProSavana, an ambitious agricultural cooperation project between Mozambique, Brazil and Japan which sought to unlock more than 25 million hectares of arable land to provide food security for Mozambique and open export market opportunities for primary and value added agricultural products. To date, the project remains only half implemented due to its corporate approach that has not adequately catered for the social impact. Certain negative perceptions have been widely reported, along the lines that the project will displace small subsistence farmers, which highlight the nature of the complexities associated with African farming.

With our experience, we are expanding beyond just funding niche horticultural production and we remain motivated and excited in seeking opportunities in the agriculture value chain. We believe this is where the need is and we will remain an anchor to SSA economies in the foresee-able future. We are also encouraged by the interest in our programme, with more farmers enquiring about the upcoming winter cropping season. Our principles of doing business with people we know and trust and on business models that makes sense to us, remains the same.

Sector Allocation



Country Allocation



Franchise Fund Monthly Report

During March the fund was down just 0.04%, whilst gains over the rest of the quarter resulted in a commendable 3.2% increase for the first three months of the year. Contrasting this performance, the MSCI FM Africa benchmark index closed the month and quarter up 0.57% and down -1.99% respectively.

In numbers, twelve out of the sixteen markets in our universe of investable African markets closed in positive territory, with comparatively smaller markets (Malawi, Ghana and Zambia) up more than 8% in US Dollar terms. Whilst many markets have shown signs of positive trajectory, most are still reeling from the currency carnage of 2016 and are catching-up or reclaiming US Dollar value lost from one year earlier.

The Egyptian pound lost almost thirteen percent to the US Dollar in March, as a blanket of prudence and austerity remains tightly wrapped around the economy as it transitions through a sensitive period of economic transformation following the IMF deal in November 2016.

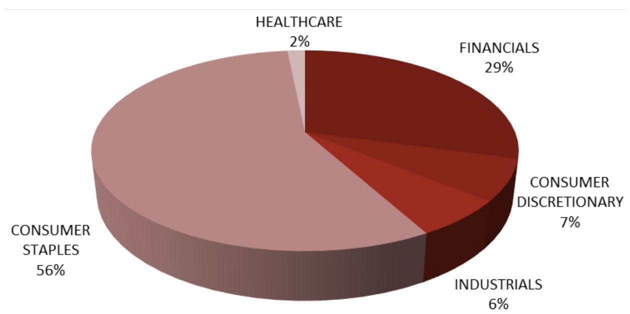
The IMF continues to work with the Egyptian government in a bid to curb inflationary pressures that have continued post the currency float. In March, monthly headline inflation dropped to 2.63%, after averaging 4.01% a month between November 2016 and January 2017.

The Central Bank of Egypt (CBE) has further maintained its rates policy in its last Monetary Policy Committee meeting despite the high inflation figures, suggesting price stabilisation will materialise in the shorter term.

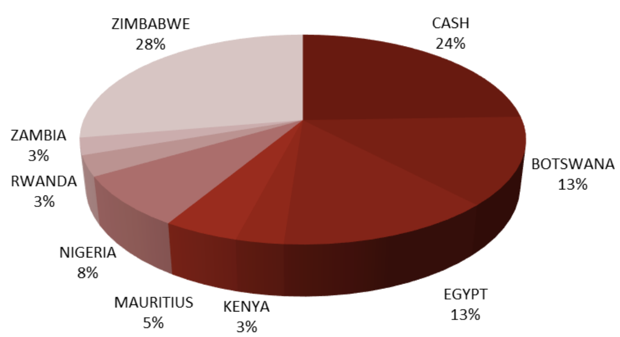
Annual inflation increased from 15.3% in December 2016 to 17.1% in January and estimates received from local analysts show annual average inflation for 2017 peaking at around 22% before falling. Whilst the numbers might have seemed contradictory at the end of March, (as we write) the recent attacks on Coptic Christian churches will certainly have a negative impact on the positive momentum built into the economy this year. This attack, claimed by ISIS, was made following a triumphant visit to the US by President Abdel Fattah el-Sisi, where he met with US President Donald Trump, as an ally in the war on global terror.

Egypt has been an important constituent of the fund and whilst we maintain our hold on deep rooted value in a few businesses we prefer to hedge against local blow-outs which continue unabated. Whilst divergence is an important component of any portfolio, we have come to learn of the importance of drilling down into diverse value pools, often found in revenue streams generated from exports or foreign subsidiaries and which bolster the balance sheets of companies that would otherwise have limited control against unforeseen circumstances.

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.

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