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Monthly Investment Commentary

May 2017

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Macro Commentary

Global equity markets rose again in May, with positive economic updates in many markets and sentiment buoyed by the result of the French Presidential election, with Emmanuel Macron overwhelmingly defeating Marine Le Pen in the run-off round.

In the US, the S&P 500 rose 1.4% although other indices, such as the Russell 2500, fell following disappointment from some economic indicators, particularly the Purchasing Managers Index, which declined for the second successive month. President Trump's dismissal of FBI Director James Comey and the ongoing investigation into the President's campaign and Russia also weighed on sentiment.

In the UK, the FTSE All-share index rose over 4.0% in May, primarily driven by Sterling weakness, rather than strong economic data. Sterling fell following polls which showed the Conservative Party's lead over Labour narrowing ahead of the UK general election. As in the US, larger, internationally diversified stocks performed strongly, outperforming other areas of the market.

Other European markets also gained in May, with political developments and stronger than expected earnings announcements increasing investors' risk appetite.

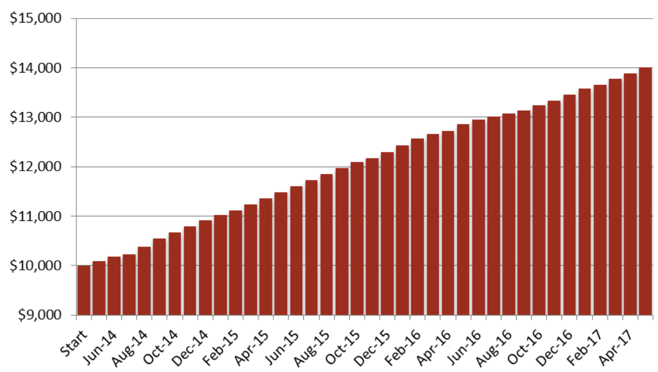
Emerging Markets enjoyed a positive month, the MSCI Emerging Markets Index outperforming the MSCI World. There were a variety reasons for this. For Central & Eastern Europe the improving outlook for European growth helped improve sentiment, while in South Korea, resolution of the country's political issues with the election of Moon Jae-In raised the prospect of stimulus measures. Markets were generally weaker in South America, dominated by Brazil's ongoing political issues, specifically the ongoing corruption investigation into President Temer.

In Sub-Saharan Africa, economic data supported the emergence of what is becoming known as a "two-speed Africa". In its annual economic outlook for the continent, the IMF said it expected several Sub-Saharan countries to grow at more than 6% in 2017, but that anaemic growth in others would reduce overall growth to 2.5%. This is an improvement on growth of 1.5% last year, although the IMF said even this improvement is down to several one-off factors, such as a stronger oil price which benefits Nigeria and Angola particularly.

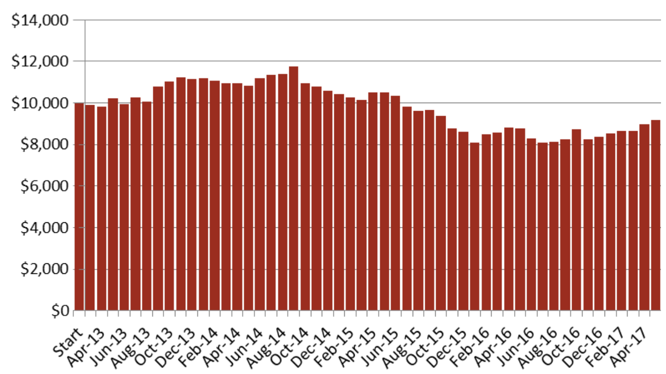
South African state energy company Eskom suffered further upheaval after Chief Executive Brian Molefe was fired only three weeks after he had been rehired. Barclays also announced that it was selling down it stake in its African business, reducing its holding by around 22% for £1.6bn.

Again in South Africa, President Zuma survived an attempt to remove him as head of state, with 50 out of 70 member of the ANC's National Executive Committee supporting him in a vote of confidence.

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 0.84% for the month of May, bringing its rolling twelve-month return to 8.90% and a return since inception of 40.04%.

This month at the World Economic Forum in Durban, newly appointed South African Finance Minister Malusi Gigaba stated that "African roads and railways were mainly designed and built to facilitate transportation of raw minerals and resources to markets outside the continent." Whilst he singled out South Africa as 'needing infrastructure that supports industrialisation, the beneficiation of minerals and the delivery of basic services to its people', the sentiment is echoed throughout Sub Saharan Africa.

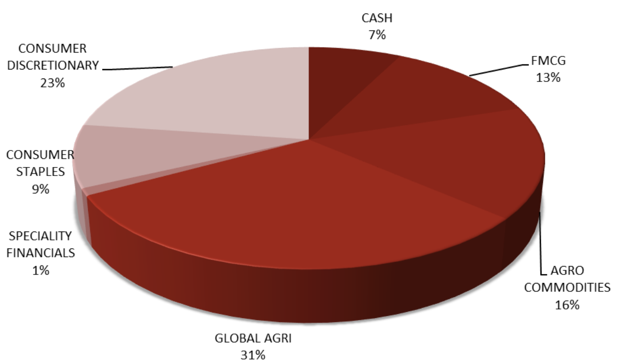
International trade infrastructure, often referred to as hard (physical infrastructure like ports, road, rail and other transportation infrastructure), and soft (border and transport efficiency, customs and export procedures, regulation and efficiency) has been designed to reduce international trade costs to the detriment of domestic infrastructure. The Global Competitiveness Infrastructure Index is often quoted and in 2013 ranked Hong Kong, China, Republic of Korea, and Singapore as among the best-performing economies in the world due to their quality of roads, rail, and other transport infrastructure.

In 2015, speaking at the Infrastructure Africa Conference in Johannesburg, Kgomotso Modise, Deputy Director-General of the South African Department of Public Enterprises, stated that inter-country trade is only around 12% between African countries due to the absence of an integrated transport infrastructure (The Economist November 2015). An integrated transport infrastructure is only possible when there is significant investment in domestic infrastructure that connects people and goods in a reliable and efficient manner allowing for better trade flow.

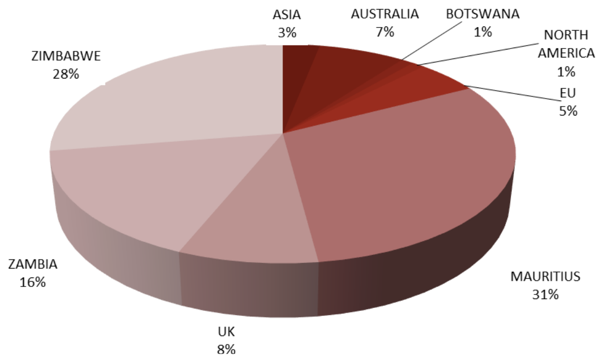
This was most evident in our last field visit to farmers readying their peas for export to EU markets. Access to the fields with optimal climatic and soil conditions for increased yields still remains difficult. Not just for collection of produce but also access that allows quality assurance companies like Global GAP to provide the certification that make the products global acceptable. Often there is less emphasis on the investment in trade infrastructure between the producer and the pack-house and yet when one looks at Singapore, China, Hong Kong and Republic of Korea as cited in the Global Competitive Infrastructure index, their domestic infrastructure plays as significant a role as seaports and airports.

In our experience, as we do our part to bridge the gap between hard-to-reach locations and international markets, the need for strategically located infrastructure, warehouses and storage facilities, and the internal infrastructure like roads and rail is greater in Africa as it emerges as a global competitor. We now understand the logistics needed to streamline and simplify transportation and market requirements to deliver on time and on-spec goods.

Sector Allocation



Country Allocation



Franchise Fund Monthly Report

investment advisors and fund managers

The fund closed the month with a gain of 2.18% against its benchmark which clawed back a healthy portion of historic losses with a gain of 8.53%. This brings the year to date performance to 9.58% and 9% respectively.

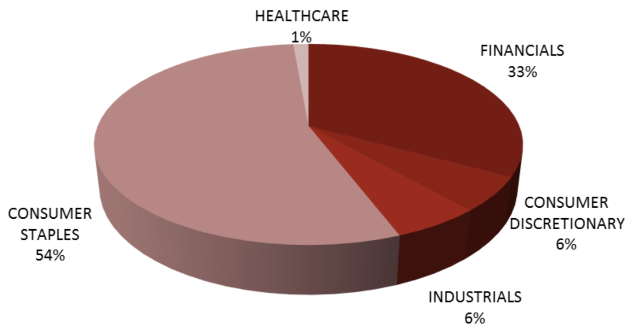
With the exception of Rwanda (-4.7%), Tanzania (-1.8%) and Ghana (-0.4%) all constituent markets, within our universe of sixteen African markets, registered positive gains. Leading the pack was the Nairobi Stock Exchange, up 14.6%.

Nigeria was once again headlining during the month, following the passing of the long awaited Petroleum Industry Governance Bill by the Senate. Whilst this still needs further approvals in The House of Representatives, we believe that progress on this front will be a positive harbinger for Nigeria's economy. This bill has evolved through five sessions of the National Assembly, dating back to 1999 under the Presidency of Olusegun Obasanjo. The Bill seeks to improve transparency and counter rampant corruption in the sector through the decentralisation of operations and the establishment of independent petroleum companies charged with focused responsibility and objectives.

Activity in the Zimbabwean market has also alerted investors, despite the mood being blurred by the economic circumstances apparent in the country. This makes it difficult to distinguish the value gains from the positive performance. Zimbabwe's large fiscal imbalances continue to be financed by domestic borrowings, which we estimate to have increased to levels above 50% of GDP. A notable corollary of such activities has been demonstrated by the pressures within the banking sector where liquidity shortages have resulted in long queues outside the banking halls. Whilst this scenario is reminiscent of Zimbabwe's hyperinflation era, the contributors to such fiscal hardships are remarkably different. During the month, an IMF team led by Ana Lucia Coronel concluded discussions in Zimbabwe citing the importance of curbing such activities to reduce the negative side effects of using internal funding to finance local discretionary consumption. The answers for Zimbabwe are not too difficult. However, in the run up to elections, the political agenda is skewed towards social policy and it is unrealistic to expect a deflection from the current status quo.

Financial results from Zimbabwean companies have been positive relative to the circumstances explained above. Delta Beverages, a heavyweight amongst stocks listed on the local bourse, released year end results where turnover and profits decreased by 10% and 12% respectively. This was largely expected in such a harsh environment and we commend management for its ability to continue to operate profitably. In our view, earnings growth is largely transitory and of greater importance is the net result of Delta's ability to maintain value within its balance sheet. A healthy balance sheet can be likened to an army's artillery in war which can be used to defend itself from adverse environments whilst providing an opportunistic imperative to claim significant wealth at the right moment in time. A rare trait, retained only by businesses with an impeccable pedigree.

Sector Allocation



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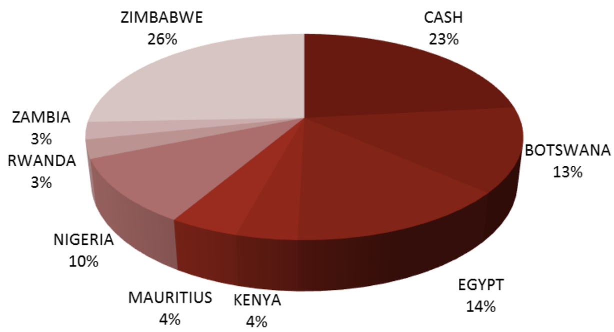

The Background

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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