FIM EM Frontier Fund

Monthly Newsletter August 2023

FIM Partners

Strategy Description

The FIM EM Frontier Fund is an open-ended fund incorporated in the Cayman Islands. The Fund seeks to provide long-term capital appreciation by monetizing domestically driven secular themes in Frontier markets via investments in listed equity securities of companies operating in these markets. ESG factors are taken into consideration in the Fund's investment decisions.

The Fund is managed by an experienced investment team with over 150+ years combined experience, having worked across the institutional spectrum (private equity, investment banking, sell-side and DFIs) in Frontier and Emerging Markets. The core investment team have been together for over 7 years and possess deep personal and professional roots to the frontier region.

Portfolio Description & Fund Terms

Managers	Hedi Ben Mlouka Sandeep Srinivas	**Mgmt Fees**	1.5% p.a.
Inception	January 2013	**Perf Fees**	15%
Domicile	Cayman	**High water mark**	Yes
Structure	Open-ended	**Prime Broker**	HSBC
Liquidity	Quarterly	**Administrator**	BNY Mellon
BBG Ticker	FIMEMFB KY Equity	**ISIN**	KYG3430X1043

Net Performance vs. Benchmark (annualized with the exception of MTD & YTD)

Period Performance	MTD	YTD	1 Year	3 Year	5 Year	ITD
FIM EM Frontier Fund	-0.9%	8.8%	3.7%	12.4%	7.0%	7.2%
Benchmark (MSCI FEM)	-4.6%	3.4%	-0.4%	-1.1%	-3.9%	-2.7%
Excess Return	3.7%	5.4%	4.1%	13.5%	10.9%	9.9%

Calendar Year Performance	2017	2018	2019	2020	2021	2022
FIM EM Frontier Fund	8.3%	-15.9%	12.7%	14.2%	24.8%	-14.1%
Benchmark (MSCI FEM)	23.6%	-16.8%	10.6%	-5.8%	2.2%	-20.8%
Excess Return	-15.3%	0.9%	2.1%	20.0%	22.6%	6.7%

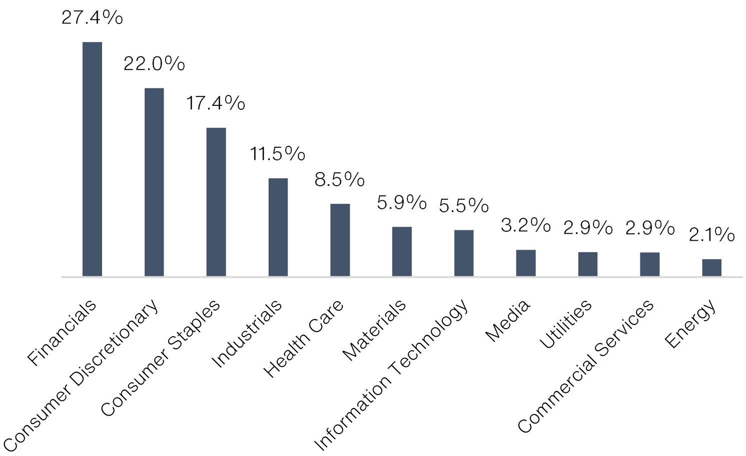
Key Statistics (as of 31 August 2023)

Statistic	EM Frontier Fund	MSCI Frontier EM
ITD Total Return	109.6%	-25.1%
Sharpe	0.27	-0.40
Standard Deviation	13.4%	15.3%
Max Drawdown	-28.7%	-45.0%
Up Capture	86.1%	
Down Capture	40.2%	

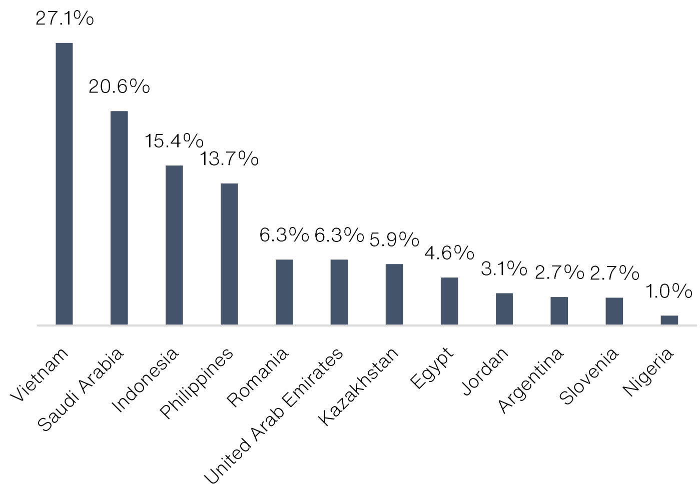
Portfolio Characteristics (as of Q2 2023)

Characteristic	EM Frontier Fund	MSCI Frontier EM
Number of Securities	34	121
Active Share	70.7%	-
P/E Forward 12 months	12.3	11.5
ROE	20.5%	19.4%
Earnings Growth	14.6%	14.2%
Weighted Avg Market cap	5,093	9,085

Sector Breakdown (ex-cash, as of 31 August 2023)



Country Breakdown (ex-cash, as of 31 August 2023)



* All performance figures for FIM EM Frontier Fund are net of fees. The fees applied to the gross performance for this newsletter are representative of the Class B USD share class with management fees of 1.5% and performance fees of 15.00%. The Class B USD share class was launched on 1st April 2018. Therefore the net performance stated in this newsletter up to 31st March 2018, is internally calculated on the actual gross performance of the fund, applying the fee structure of the Class B USD share class. January 2013 performance starts on the 8th (inception date of the fund). The fund statistics are calculated vs. the MSCI FEM as an indicative benchmark. Source for all indices and market data is Bloomberg.

Manager Commentary

In August, the fund experienced a decline of -0.9%. Although Kazakhstan and Vietnam made positive contributions, these gains were outweighed by the less favorable performance of The Philippines and Saudi Arabia.

We believe that consolidation of retail sector is an imminent long-term theme across our investee countries. Factors such as urbanization, rising disposable income, and the continuous improvement of infrastructure facilitating efficient logistics are driving this shift. While companies in our regions are still refining their business models, the experience of retailers in developed markets underscores the potential for rapid scaling and capturing substantial market share once the model is perfected.

This month, the fund strategically increased its exposure to the Indonesian grocery retail sector, a market where annual spending on groceries exceeds USD90bn, and was growing at a steady 5-6% annually prior to the pandemic. The sector remains fragmented, with nearly three-quarters of it served by general trade, including mom-and-pop shops. However, this landscape is swiftly evolving, with the market share of organized minimarkets and convenience stores increasing from 9% in 2017 to 16% in 2022. We anticipate this trend will gather momentum as consumers embrace higher-frequency, smaller-basket shopping, aided by improving rural infrastructure that promises more efficient and cost-effective logistics for organized retailers.

The grocery business operates on slim margins and demands meticulous working capital and rental management. Our portfolio company excels in both areas, maintaining a tight cash cycle of less than two weeks and occupancy costs of less than 3%. Historically, the company has demonstrated impressive earnings growth, with a 30% CAGR, attributable to store expansion and operational efficiency enhancements. Looking forward, the management's strategy includes expanding the store network by over 15% annually while reducing financial leverage. These actions should further boost net margins, positioning the company for an expected annual earnings growth of over 25% for the next 3-4 years.

On the macro level, August witnessed dominant global themes, including rising US Treasury yields, bolstered by the expectation of prolonged higher US rates. This, coupled with weak European PMI figures and China's slowdown, contributed to a stronger US dollar. In the emerging markets we invest in, this translated into modestly weaker currencies such as VND, PHP, IDR, and KZT. We expect these trends to persist until there are notable shifts in the US, EU, and China narratives. China's hesitant recovery also impacted global trade, with exports and imports down in many countries due, in part, to cheaper oil compared to 1H22.

On the positive side for equities, weakening global and domestic growth is reshaping central bank policies. The Philippines has paused its hiking cycle, while Vietnam is witnessing more easing measures, most recently with the State Bank of Vietnam removing three restrictions on credit growth. We favor markets like Vietnam, where the central bank prioritizes boosting economic growth. Kazakhstan, with a 25bp rate cut, has embarked on what we anticipate to be a significant easing cycle, that could last for the next 2 years.

It appears that OPEC+ is holding firm on its aim to stabilize oil prices within the USD 80-90 per barrel range. This range strikes a balance that our portfolio countries find manageable, as it doesn't unduly disrupt their current accounts or inflation rates.

A short-term concern in the coming months is the potential impact of El Niño, which could drive up food prices, partly through restrictions on the global rice trade. However, we assume central banks will recognize its temporary effect and will refrain from overreacting. Overall, Frontier and Emerging Markets (FEM) remain long-term beneficiaries of both the double demographic dividend and the China + 1 strategy.

We maintain a positive outlook on Vietnam, Indonesia, Kazakhstan, and Saudi Arabia. We are closely monitoring developments in Pakistan, Kenya, and Peru, where we have identified businesses of interest and will re-engage when we gain greater macroeconomic and political confidence.

We construct our portfolios as a conglomerate of quality businesses with the ability to consistently earn return on capital that is significantly higher than their cost of capital across cycles; this is possible only when these businesses are offering unique products and services that are in high demand and are difficult to replicate by the competition. We strongly believe that this investment philosophy will reap high returns across business cycles.

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