"The entrepreneur always searches for change, responds to it, and exploits it as an opportunity."
- **Peter Drucker**

Dear Investors and Friends,

Several allocators who have been monitoring the MENA investment opportunity have requested that we reinstate our periodical commentaries, which have been on hiatus since the start of this year. Although we have always enjoyed pontificating and commenting on regional dynamics and markets in a manner which we hope is unique, entertaining and informative, we had opted to shift to providing bespoke communique to our current investor vs. sustaining our monthly write-ups to a broader audience. So with broader requests in mind and with an eye to a more in depth discussion, this reincarnation of our metaphorically mixed thoughts is being reintroduced on a quarterly basis, hopefully giving us, and you, more to chew on in terms of relevant content.

However, before we get onto our take on recent regional developments, we wanted to take the opportunity to air some grievances with investing public at large. Suffice to say, in a world where allocators are hunting for alpha and being frustrated by twitter, trade wars, EU recessionary fears, negative real interest rates and general global economic malaise, we find ourselves once again jumping up and down, waving our arms like raving lunatics, imploring you all to take a more serious look at this part of the world. Our own frustration, is that other than being a source of political headlines (but let's face it we no longer stand alone in this regard) the Middle East has primarily been used as a source of export capital for investing in Silicon Valley, New York and central London, and continues to be overlooked by most of the long term value allocators in the world (with the exception of about a handful), whom we always thought were supposed to be the ones leading the charge into new markets, rather than following the herd ex-post.

Notably, we reopened our strategy earlier this year, following a 3 year close to new capital; and as such we have been actively on the road again, meeting with investors and trying to shine a spotlight on the investment opportunity in the Middle East. This particular point in the investment cycle that we find ourselves in today (specifically given our current portfolio leaning) is one of the most attractive junctures for our strategy's investment cycle over the past 12 years. Our average cash position in 2019 has been approximately 5% throughout the year (as low as <2% at certain points) with the most recent comparable period being as far back as 2013/4, which coincided with the strongest period of returns for the AMF. The lower cash position is ultimately a reflection of the convictions we have in our underlying investments, with Egypt taking centre stage on providing the backdrop for our bottom-up concentrations. Although, we have regularly carried large active risk in terms of stock selection, allocation risk from a country perspective has been more muted (coincidentally rather than strategically, as our concentrations have been, and always will be, bottom-up driven). Today, however, our country allocation has changed significantly, with Egypt moving from 0% to over 40% since re-entering the market in 2017; for those of you who recall, we had exited the market back in 2010. Conversely, our Saudi allocation has moved to as little as 12% given the conflation of macro-headwinds and positive market flows (non-fundamental), ultimately exacerbating value and the investment proposition. With current overall exposures in mind, we have been able to build out a portfolio where half the names are forecast to experience 5 years net income CAGRs of 20% to 30%, on the back of 5 year weighted average ROICs of +20% for the Ajeej MENA Fund as a whole (as high as +60% of certain names). We have been able to build out these exposures at very reasonable prices, with most names trading at high single digits and low teens. We have an attractive portfolio that we believe will comfortably perform well as fundamental sanity slowly returns to our markets, while the impact of flow based trading tapers. We discuss the specific fundamental profile later in the letter.

Anyway, and without further ado, we move onto our thoughts of the past quarter, which certainly has been a busy one! The two highlights, or lowlights as one may prefer to label them, were the attack on Saudi's largest oil production facility and increased protest cacophony emanating from Egypt (well Spain actually, but we'll discuss that in a minute). Notably, and this is what many people have missed, is that these stories have come with their glaring silver linings.

The former, the Houthi drone attack, came as a shock to everyone on the ground, primarily because no one thought that such an attack would be physically possible; and how there weren't sufficient defences at the world's largest oil production site that could thwart such an effort, is something that beggars belief. In fact, the seeming willingness for the Houthi's to simply think outside the box in terms of attack origination, geographically speaking, meant that it has exposed a major weakness in the security of Saudi oil production facilities, highlighting how woefully underprepared they may be to prevent such actions in the future. Which brings us to the glaring silver linings, of which there are two. Firstly, the speed whereby production returned to full swing, after effectively half of the country's capacity (5% of global) was taken offline, is nothing to be scoffed at, and should be reassuring for consumers of oil globally. The second silver lining, which is playing neatly, is the idea that exposing real vulnerability has prompted dialogue between the Saudis and the Houthis, bringing the parties to the negotiating table for the first time in two years. This is a critical development in the region's proxy war of attrition, which if sustained will only produce losers; thankfully, the UAE already announced a more limited presence in Yemen in July. If and when a sense of normalcy returns south of the Empty Quarter and to Yemen at large, there will be an immediate and direct impact on the spending capacity of the region's most important market, Saudi Arabia. The exact cost of the fighting in Yemen, on Saudi Arabia is unknown, but it is clearly not insignificant; moreover, the opportunity cost in terms of reallocated capital only serves to magnify the economic impact and importance of concluding this less than pristine chapter in our region's history.

On to brighter notes, and in case you missed it, Saudi Arabia has finally opened its doors to foreign tourists in a very real way. This is a HUGE development for a country which has infamously been difficult to access, and has historically discouraged even religious pilgrims from anything beyond point to point visits. As it stands 47 different nationalities can apply for a simplified e-visa online (https://www.visitsaudi.com/en/). Even if your passport exists outside the pre-approved shortlist, you can still apply for a simplified visa process if you happen to have a valid visa for the Schengen area, the UK or the US (this is quite fantastic as the process seems to have shifted from being one of the most longwinded and arduous bureaucracies, to efficiently piggy-backing off pre-approved structures to facilitate access to all…and this seemingly happened overnight). For us, beyond the obvious and direct benefits from increased tourism, vis-à-vis tourism spend, the main gain is the increasing global top of mind awareness, and for once it is in a mostly positive light. Around the world, people have been awed at the diversity and beauty of the Saudi landscapes (see visa link above for examples), which have been brilliantly leveraged in the recent and pervasive mass media marketing onslaught. Further complementing the new visa rules, Saudi officials have formally addressed foreign women's dress code, stating that visitors need not adhere to the traditional 'abaya, but rather simply maintain modest attire during their travels. Finally, there was also a detail that surprised even the most open minded prognosticators, which is that unmarried foreign couples, visiting Saudi can now check-in to hotels together; this is in addition to all women being able to check into hotels without a male guardian. These developments may have simply brought Saudi up to par with the status quo throughout most of the world, but please do not underestimate of how seismic these shifts indeed are to society opening up.

In summary, here is our general view on Saudi. It is true that the AMF's exposure is currently the lowest it has ever been in the history of the fund, but that is in no means a reflection of the long term potential of this market. We reiterate, that our exposure is more truthfully a reflection of the disconnect of the past two years which saw a market supported by flows and intervention, while the structural foundation of the private sector and economy at large was being rejigged; as well as, in part, our apprehension around the upcoming Aramco IPO given the inevitable pressure it would put on the market. In spite of our current underweight, we are keen on the next phase in Saudi, as we see the market turning from being a flow-trade driven to a stock picker's playground; in other words an environment which should bode well for the Ajeej strategy being able to pick out the winners in the new Saudi economy.

Speaking of stock picker's playgrounds and new economies, we now shift our attention to the other side of the Red Sea, to Egypt, where there was briefly increased concern of a resurging wave of protests, instigated mainly by the ironically named Mohamed Ali. The short of it (at least on the surface) is that a disgruntled contractor who had his receivables extended by his military linked clients, thought he would air his grievances publicly on YouTube while in self-exile in Spain and subsisting on his millions previously earned from the same clients and a seemingly endless supply of cigarettes. At one point a little hype grew over his increasingly and systematically professional productions; however, they gained greatest momentum with Egyptians in their late teens and early twenties (basically those who were too young to have been directly involved with the Arab Spring in 2011), as well as serving as catnip for international media. When speaking with anyone on the ground in Cairo or Alexandria throughout September, people were mostly unaware or dismissive, and rightly so it seems, given the paltry level of actual action that took place earlier this month, which came to little or no impact. This brings us to the silver lining, which is that the Egypt continues chugging neatly along its path of reform, and if anything, we expect that there will be more careful consideration going forward of army involvement in different sectors of the economy historically preserved for the private sector. From a macro standpoint, most numbers continue to improve: tourism receipts have surpassed 2010 record levels in dollar terms, arrivals (notwithstanding the absence of Russians) have nearly matched previous record highs, foreign reserves are 25% to 30% higher than pre-revolution levels, inflation has dropped from over 30% down to single digits, and real growth forecasts for Egypt are now hovering just below the 6% mark. Yet, with the exception of a special few, no one seems to be giving the market serious consideration! One would think that when underlying companies are growing at 20%-30% per year, coupled with strong macro tailwinds, and trading at historical discounts it would perk the interests of investors in this world where hunting for alpha is increasingly an out of the box thought exercise.

So with all the above in mind, we wanted to give you a bit of flavour of how the bottom-up fundamentals of the Ajeej strategy have played out in terms of the current portfolio construction for the Ajeej MENA Fund. We predicate these numbers with the reminder that we are long term fundamental allocators of capital, and that our concentrations reflect both absolute fundamental values, as well as the respective paths to intrinsic values that we have built conviction in.

REAL ESATE IN EGYPT: We begin with our real estate exposure in Egypt, which is the largest component of the AMF in terms of a sector/country cross-sectional exposure; RE in Egypt accounts for a little under 20% of the AMF split across 4 different names. The overall thematic is backed by an attractive intersection of limited supply relative to demand, which in turn is driven by favourable demographics and a supportive cultural nuance. In numbers: there are over 100 million people currently living in Egypt, and growing at 2.4% per year; couple the expanding and young population with the socially pervasive requirement to own a property prior to, or at the moment of, marriage (the cultural nuance) and we estimate there to be 20k to 25k of annual demand for new homes in gated communities in Cairo alone, which dwarfs the 5k to 7k the annual supply figure. Specifically for the companies the AMF is exposed to, our average scenario adjusted **weighted upside is 120.2%**, with forward looking 5-yr weighted average **EPS CAGR of 27.2%**. Moreover, the exposures are relatively cheap, with the weighted average trailing P/E coming in at 9.5 times, and the 5-yr forward looking weighted average **P/E of 2.8 times** for the sector!

HEALTHCARE: As for the AMF's allocation to the healthcare sector, today the portfolio has little over 11% exposure split between Egypt and the UAE. The commonality of the business models invested behind in healthcare, is that our investments tend to represent the most institutionalised players, disrupting the status quo of their respective growing market segments, and grabbing market share to a relatively meaningful degree by being the best in class operators. Candidly, the relative valuations for the sector are not as jarringly dislocated as those for real estate; however, the paths to intrinsic values are much more clearly defined, while still presenting attractive upside optionality on a best case scenario basis on the back of highly profitable growth models. On a base case scenario, we forecast a 5-yr net income weighted CAGR of 26.4%, resulting in an average P/E ratio that is under 10 times by 2023. The weighted average upside, on a scenario adjusted basis, for the sector is 33.0% with optionality for a best case scenario which doubles the upside figure to over 60%. The **ROIC** for the AMF's healthcare exposure, on a weighted average 5-yr basis, **is 28% annually**.

NON-BANKING FINANCIALS: One of the most attractive sectors that we have been building exposure to is non -banking financials, which fits in well with the middle class growth story, and backed by a strong push to formalise a large portion of the grey economy in Egypt. The exposure to non-banking financials in Egypt (micro-lending and payment solutions), is a case of buying fantastic upside optionality, with a healthy base case scenario on the back of incredible profitability and growth rates in line with the rest of our Egyptian exposure. The **ROICs on these businesses range from 23.3% to 62.7%**, which drive scenario adjusted upsides of over 50% on average. The upside optionality on the best case scenarios, however, is what make these exposures really exciting, with **upsides ranging from 91.4% to 299.2%**; all the while, we are buying these companies at trailing **P/E ratios of 12 times and forward ratios of 4.8 times**.

UAE EXPOSURE: Finally, we come to our UAE exposure, which certainly does not boast the same growth and fundamental profiles of exposures we have uncovered and are investing behind across Egypt, but rather, is representative of one of the **most dislocated value plays in the EM space at large**. The portfolio's exposure to the Abu Dhabi and Dubai markets reflects a **TRAILING P/E ratio 7.1 times (5.9 times for the three largest exposures)**. We expect that all of our UAE investments will continue to grow over the next 5 years (albeit marginally) with the macro status quo intact; therefore implying even further upside if there is macro improvement. Ultimately, these are all operationally sound companies that are being bought at distressed prices, and in a world where investors are looking under rocks for attractive relative value opportunities, the UAE is market which should be given more attention…

…as is Egypt; as is Kuwait; as is Saudi Arabia.