"I'm not afraid of storms, for I'm learning how to sail my ship." **- Louisa May Alcott**

At the start of this year, following a confounding decision from our favourite world leader, we found ourselves at the precipice of a conflict that had the potential to turn into WWIII, with the aptly named Middle East at its epicentre. A month later, and with catastrophe averted, the world's attention shifted to Australian wildfires, bringing our struggles with the environment and the climate to the forefront of global politics. Both of these major events, as significant as they are, or could have been, in retrospect seem disproportionately distant and equally paltry given the turn most of our lives have taken over the past few weeks…and that was just Q1.

Clearly, the COVID-19 pandemic has been a global slap in the face, hurting economies globally, and bringing certain sectors to their knees. As challenging an environment as it has been thus far, the long lasting implications of decisions taken today, are likely to reverberate throughout our lives for months and years to come; and even then, the magnitude of these implications are unlikely to be fully discerned until after the fact. And only after many years in the future, will we have the hindsight to determine if our actions today were enough, correct, could have been improved upon, etc.. Until then, the onus is on all of us to do the best we can, for our families, communities, co-workers, towns, cities and beyond.

As Ajeej, we have fortunately been able to operate efficiently since day one of the virus-impacted period, with few to no disruptions. Early in March, all team members were encouraged to start working from home, which was followed by the activation of our full BCP less than a week later. We have worked hard over the past several years to ensure that our systems and processes are continuously and efficiently backed up in triplicate (onsite, offsite and cloud), this coupled with server access via VPN and Bloomberg DRS setups, have all enabled us to seamlessly integrate an offsite procedure with our day-to-day business. We always had a VC system active during all our team meetings, in order to include our Riyadh-based associates, so moving to fully based VC meetings has also been seamless, with the additional perk of exposing the bizarre morning hairdos of various Ajeej team members.

Equally as important as our ability to operate today, is our ability to continue operating through an extended negative environment. We have always been cognisant that black swans are not as rare as their name may suggest, and have consistently planned for a worst case scenario by shoring up the firm's capital during stronger performing periods. So with enough capital to meet our next two to three years of negative projections, we are in a good place to take advantage of our region's and the world's inevitable recovery, however long that may take.

And now onto our portfolio. March's aggressive drawdowns were a function of two factors primarily. The first was the overweight allocation to Egypt, which underperformed over the month due to weaker internal market dynamics, thinner trading volumes, and the absence of the marginal buyer (this has somewhat reversed in the first few days of April with the advent of a government buying programme executed via the two largest state owned banks). The second factor that directly impacted March returns is our exposure to NMC and its subsequent catastrophic fall from grace, which embarrassingly, caught us completely off-guard. In March, we wrote off our exposure to NMC as, since February, the stock hasn't traded, and enough skeletons to populate a large graveyard have emerged.

Of the two factors though, NMC was by far the biggest disappointment of a very difficult month. In reality, the NMC story turned out to be a very well-orchestrated multi-billion dollar fraud case with what appear to be multiple collusions of different parties at all levels of the organisation and beyond (from the board to management and possibly even including certain financiers). This orchestrated collusion was camouflaged even further by presenting a highly responsive management team that continuously gave the impression that they were proactively working towards improving governance standards based on our and other shareholders' inputs over time. Sadly, this too was part of the show, which one can draw more than one parallel with the infamous sagas of Enron, Madoff, VW and WorldCom.

For the purpose of some context: We had originally fully exited our position in NMC once it reached elevated prices that were no longer justifiable given the fundamentals of the operations; this was in 2018, although we had been trimming for the better part of the previous year. Subsequently, the stock price came back down following concerns over executive pay, which again management responded to well, and said/promised all the right things to investors, and followed up with changes to the pay structure. The stock price further retreated after negative research was issued on it in Q2 2019. We then re-entered the name, just in time to get caught-up in the debacle. One of the challenges that we had in trying to determine the true value of NMC, after the first skeletons started appearing, was that much of the negative press was vague, inaccurate and ultimately shooting darts in the dark. The problem was that with so much dirt hidden behind the wallpaper, the blindly flung darts were bound to hit something material.

We continue to believe that core operating assets for NMC hold tremendous value as standalone businesses. And with that, we have been busy trying to actively protect the remaining potential value of the company, namely the good business assets it holds, cooperating and coordinating with other NMC shareholders caught up in the NMC storm. Unfortunately though, the picture is not a positive one, and the chances of recovering significant value are slim at best given the current situation.

Crucially, we are also aware of the negative impact this saga will have on our markets. The repercussions are vast for the governance model in MENA in general and the UAE in particular. It is flabbergasting how these senior officers of the company were able to secure and drawdown on all these facilities from over 80 banks and financial institutions without the explicit knowledge of the board and their auditors. The value chain of this saga seems to include many actors whose roles ranged from negligence to possible complicity. Further bewilderment is driven by the fact that the shareholder base, which includes asset managers and institutions that manage in excess of $5 trillion in assets globally, were not even able to get a voice to look at any form of re-capitalisation of the good assets. Sadly, inside of 12 months, with the Abraaj fallout affecting private equity and NMC public equity, it is clear that the region needs to intensify its governance frameworks and regulations. Further to that, and as an independent asset manager, we will be playing our role, as best we can, to push for proper governance from a principle perspective. While this section reads like a mea culpa, it is a winding passion to take these learnings and use them to our advantage to ensure we never again face a loss of permanent capital in the way that we did. As the great Nelson Mandela always said "I never lose. I either win or learn."

As for the rest of our portfolio, with the overweight allocation in Egypt it has been difficult to keep up with the benchmark. That being said, the current volatility and drawdowns are presenting interesting opportunities to return to certain markets and positions which we have avoided or been significantly underweight for the past year or so. We are referring to namely Saudi Arabia. This is not to say that we are exiting Egypt, in fact we are rebalancing our Egyptian exposure towards quality names that have been equally depressed over this period, and have moved back to investible levels for us.

We are focusing on rebalancing our portfolio to take advantage of the market drawdowns through companies with strong balance sheets which may be somewhat protected or even, in certain cases, benefit from the COVID-19 pandemic. An example is EFG Hermes which is the leading Egyptian investment bank and brokerage firm and is now also a leader in leasing and micro finance. Post drawdowns, EFG Hermes market value reached the significant net USD cash balance the company has in its accounts positioning very well to fully take advantage of this period! Another example is SADAFCO being the market leader in UHT milk, which is increasing in market share over fresh milk given the limitations in free movement we find ourselves under. Other examples include insurance companies benefiting from the lockdown and resulting very low insurance claims, or staples companies that are able to pivot and continue supplying their customers via online sales. Our internal models are being honed to reflect the various scenarios of aggregate demand under different recovery models. Our current base case view is that the GCC will have a phased approach by city, country then selective region. So the build out will be slow with Saudi being the strongest recovery model based on indigenous demand and least reliance on internal tourism. The post COVID-19 new normal may take some time on defining behaviour, but there are opportunities which fall nicely in this risk reward matrix. Egypt also benefits from indigenous demand, but has greater concerns related to two primary factors, the first being tourism and the second being global activity through the Suez Canal, both of which are key sources of FX for the country. The valuation gap certainly disproportionately displays this on cross country valuations making Egypt compelling. However we have and will continue to make some changes across the Egyptian portfolio to manage its risk reward pay-out.

Notably, we as Ajeej Capital have recently decided to invest a significant amount of our own capital in the Ajeej Capital funds to take advantage of this juncture while keeping sufficient cash that would allow us to survive 2 to 3 years cloudy scenarios, as we mentioned earlier in this letter. While we realise that the pandemic and its after effects are likely not over, and that more downside is a viable scenario, we strongly believe that these times present very compelling opportunities over a 3 year horizon and therefore want to benefit from this juncture.

We look forward to staying in contact with you over the coming period, and please feel free to reach out if you would like to discuss anything in particular in greater detail.