

Annual report

# **Tundra Nigeria and Sub-Sahara Fund**

**2016-01-01 - 2016-12-31**

### **Management Report**

This is a translated copy from the Swedish original. If any conflict occurs in the translation the Swedish will prevail. The Board of Directors and the CEO of Tundra Fonder AB, 556838-6303, hereby submit the Annual Report for the period 2016-01-01 - 2016-12-31 on Tundra Nigeria and Sub-Sahara Fund, 515602-6261.

### **The Fund's performance**

Tundra Nigeria & Sub-Sahara Fund declined 19.94 percent during 2016, while the benchmark, S&P Africa Frontier Total Return Index (SEK) declined 15.59 percent.

### **The fund's net assets development**

Assets under management at December 31, 2016 amounted to SEK 26 million, which represents an increase of SEK 12 million, compared with SEK 14 million at December 31, 2015. Value of issued fund shares amounted to SEK 55 million and redemptions amounted to SEK 38 million. Net flows to the fund during the period amounted to SEK 17 million.

### **Market development**

2016 was difficult in general for equity markets in Sub-Sahara and the majority ended in negative territory. Nigeria was the worst performer falling 33 percent, after devaluing the currency in June, followed by Ghana and Uganda falling more than 15 percent. The best performers were Namibia and Zimbabwe rising 55 percent and 41 percent respectively. Kenya rose 4.5 percent.

Nigeria's unwillingness to devalue and liberalize the foreign exchange market has led to severe economic consequences. The devaluation in June has unfortunately not given the economy a necessary boost since US-dollar access is still very much limited. The recovery in oil prices helps, but more is needed to reinstate balance. Any recovery in the equity market requires a significant improvement in the currency situation. The outlook for Kenya has been revised down partly as an effect by the interest rate cap introduced last summer. After two years of falling markets in Nigeria as well as Ghana for known reasons (fall in oil price) we enter 2017 with continued headwind. Most of them are known by now, and should be reflected in current valuations, with i.e. Nigerian banks trading at 3-5x profits and around 50 percent of book value. A turnaround looks far away, but when it comes markets will recovery rapidly.

### **Fund management and outlook**

The prospects for SSA have taken a hit during 2016, mainly due to the fall/low commodity prices which has led to increased currency volatility and decreased risk appetite. The Nigeria focus of the fund lead to outlook being very dependent on recovery signs on the Nigerian economy. The protracted devaluation process has had serious effects on the economy and GDP decreased during the three first quarters as a result. IMF has revised its outlook for 2016 -1 percent, with a small recovery in 2017 to +1 percent. The gross external debt is still very low (around 2.2 percent of GDP) so financing the expansionary budget should not be a problem.

### **Objectives and Investment Policy**

The fund is actively managed to create a financial exposure to the economic developments on Nigeria and sub-Sahara markets ex. South Africa and to deliver as high return to unitholders as possible with respect to the fund's risk level.

### **Risks in the fund on the balance day**

The fund has a large exposure to Nigeria. The currency market is still very regulated by the central bank. The use of the black market has increased as a result, and the gap between the official rate and the black market rate is at record levels. The current situation is not sustainable in the long run and there is a need for a larger adjustment of the FX rate in order to restore international investors' confidence. Such an adjustment will lead to large swings. The double deficits in Kenya (budget and current account) combined with dependence in external financing can cause problems if access to international capital markets deteriorates.

### **Derivatives**

According to the Fund rules The Fund have the possibility to trade options, futures and similar financial instruments, as well as the possibility to lend securities. The Fund may also, in accordance with current regulations, use other techniques and instruments in the fund management of the Fund. The Fund has not used any of these possibilities during the period. To calculate the total exposure of the Fund applies a risk assessment method, the so-called commitment approach on derivative instruments. This means that any

derivative position is converted into the equivalent position in the underlying asset. This asset has the similar value as if the derivative position was owned directly.

## Financial overview

	AUM SEK	NAV	No. of issued fund shares	Dividend	Total - Performance %	Performance index, %
2016-12-31	26 225 459	54.08	484 964.65	-	-19.94	-15.59
2015-12-31	14 009 323	67.55	207 392.87	-	-22.46	-13.22
2014-12-31	28 942 159	87.12	332 212.06	-	-8.64	0.85
2013-12-31	12 301 824	95.36	129 005.95	-	-4.64 1)	1.96 1)

Index: S&P Africa Frontier Total Return Index (SEK)

1) Period 2013-05-20 - 2013-12-31

## Key performance indicators

2016-12-31

### Risk & Return

Standard Deviation %, 24 month	20.72
Standard Deviation Index %, 24 month	17.09
Tracking Error %, 24 month	7.01
Average Annual Return last 2 years %	-21.21
Average Annual Return since start %	-20.92

### Costs

Management fee %	2.50
Performance fee %	-
Transaction costs SEK	228 837
Transaction costs %	0.49
Research costs SEK	24 745
Research costs %	0.12
Ongoing Charges %	2.79
Subscription & Redemption fees	0

### Turnover

Turnover ratio	0.75
Trading within the group	0

## Income Statement

*In SEK*

	<i>Note</i>	<i>2016-01-01- 2016-12-31</i>	<i>2015-01-01- 2015-12-31</i>
<b>Income and change in the value</b>			
Change in value, transferable securities		-5 149 187	-3 187 129
Interest		3 083	1 842
Dividends		851 636	1 055 471
FX gains and losses, net		213 710	-60 629
Other income		87	1
<b>Total</b>		<b>-4 080 671</b>	<b>-2 190 444</b>
<b>Costs</b>			
Management fees			
Fee charged by the fund		-525 449	-590 658
Interest		-2 614	-9 156
Other costs		-253 764	-496 305
<b>Total</b>		<b>-781 827</b>	<b>-1 096 120</b>
<b>Net result</b>		<b>-4 862 498</b>	<b>-3 286 563</b>

## Balance Sheet

<i>In SEK</i>	<i>Note</i>	<i>2016-12-31</i>	<i>2015-12-31</i>
<b>Assets</b>			
Transferable securities		22 933 326	12 605 168
<b>Total</b>	<b>1</b>	<b>22 933 326</b>	<b>12 605 168</b>
Bank accounts		3 237 408	1 638 757
Accrued expenses and pre-paid income		74 442	-
Other liabilities		815 123	-
<b>Total</b>		<b>27 060 299</b>	<b>14 243 925</b>
<b>Liabilities</b>			
Accrued expenses accrued income		67 239	30 088
Other Liabilities		767 601	204 514
<b>Total</b>		<b>834 840</b>	<b>234 602</b>
<b>Total Net Asset</b>	<b>1,2</b>	<b>26 225 459</b>	<b>14 009 323</b>

## **Accounting principles and valuation of financial instruments**

### **Accounting principles**

The fund applies the Mutual Funds Act, 2004: 46 and the Financial Supervisory Authority of accounting for mutual funds 2013:9 and follows the Swedish Investment Fund Associations guidelines.

### **Valuation of financial instruments**

The financial instruments are valued at market value according to the following order.

1. The financial instruments traded in an active market will be valued on the closing price at the balance sheet date if it is not a trading day, the most recent trading day prior to the closing date.
2. If the financial instrument is not traded in an active market, the market value is derived from information from similar transactions that have taken place under market conditions.
3. Unless method 1 or 2 can be used, or misleading the market value determined by an established market valuation.

### **Key Figures**

The fund follows the Swedish Investment Fund Associations guidelines of key performance indicators.

## Note

### Note 1 Financial instruments

#### Securities

Branch	Quantity	Value	%
<b>Transferable securities</b>			
<b>Category 1</b>			
SEPLAT PETROLEUM DEVELOPMENT, Nigeria, GBP	125 000	1 034 666	3.95
<b>Energy</b>		<b>1 034 666</b>	<b>3.95</b>
GLOBAL X MSCI NIGERIA ETF, USA, USD	61 566	2 389 080	9.11
<b>Fund</b>		<b>2 389 080</b>	<b>9.11</b>
DANGOTE CEMENT ORD, Nigeria, NGN	133 800	695 228	2.65
LAFARGE CEMENT, Nigeria, NGN	48 950	56 949	0.22
<b>Material</b>		<b>752 177</b>	<b>2.87</b>
U A C NIGERIA ORD, Nigeria, NGN	500 000	251 309	0.96
<b>Industry</b>		<b>251 309</b>	<b>0.96</b>
NEW MTIUS HOTEL ORD, Mauritius, MUR	39 000	185 993	0.71
NEW MTIUS HOTEL PREF, Mauritius, MUR	13 000	37 495	0.14
<b>Durable goods</b>		<b>223 488</b>	<b>0.85</b>
FLOUR MILLS ORD, Nigeria, NGN	462 000	255 555	0.97
NIGERIAN BREW ORD, Nigeria, NGN	100 000	442 490	1.69
PRESCO PLC, Nigeria, NGN	1 070 000	1 282 919	4.89
PZ CUSSONS GHANA, Ghana, GHS	750 000	349 230	1.33
UNILEVER ORD, Ghana, GHS	2 400	43 228	0.16
<b>Staples</b>		<b>2 373 424</b>	<b>9.05</b>
ACC BANK OF NIG ORD, Nigeria, NGN	5 750 000	992 007	3.78
Co-operative Bank of Kenya Ltd, Kenya, KES	500 000	591 185	2.25
DIAMOND BANK ORD, Nigeria, NGN	11 000 000	289 432	1.10
ECONBANK TR INC ORD, TOGO, NGN	600 000	184 244	0.70
EQUITY BANK ORD, Kenya, KES	250 000	672 306	2.56
FBN HOLDINGS ORD, Nigeria, NGN	6 800 000	681 122	2.60
GHANA COMM BANK ORD, Ghana, GHS	179 000	1 352 538	5.16
GUARANTY TRT BNK ORD, Nigeria, NGN	3 500 000	2 580 669	9.84
KENYA COMM BK ORD, Kenya, KES	122 842	316 699	1.21
LETSHEGO, Botswana, BWP	550 000	1 073 346	4.09
MCB GROUP LTD ORD, Mauritius, MUR	11 000	598 345	2.28
STANBIC IBTC HOLDING, Nigeria, NGN	1 500 000	672 750	2.57
STANDARD CHARTED ORD, Ghana, GHS	17 200	444 136	1.69
UNITED BANK FOR AFRICA ORD, Nigeria, NGN	13 000 000	1 749 150	6.67
WEST AF PROV INS ORD, Nigeria, NGN	121 633	1 818	0.01
ZENITH INTL BANK ORD, Nigeria, NGN	4 660 000	2 021 736	7.71
<b>Financials</b>		<b>14 221 484</b>	<b>54.23</b>
MTN GROUP LTD, South Africa, ZAR	13 000	1 087 623	4.15
<b>Telecom</b>		<b>1 087 623</b>	<b>4.15</b>



UMEME LTD, Uganda, KES	500 000	600 075	2.29
<b>Power utilities</b>		<b>600 075</b>	<b>2.29</b>
<b>Total Category 1</b>		<b>22 933 326</b>	<b>87.45</b>
<b>Total transferable securities</b>		<b>22 933 326</b>	<b>87.45</b>
<b>Other assets and liabilities</b>		<b>3 292 132</b>	<b>12.55</b>
<b>Total Net Asset</b>		<b>26 225 459</b>	<b>100.00</b>

The fund's holdings of securities have been classified into the following categories:

1. Transferable securities admitted on a regulated market or an equivalent market outside the EEA.
2. Other financial instruments trading on a regulated market or an equivalent market outside the EEA.
3. Transferable securities that are the subject of regular trading in other markets that are regulated and open to the public.
4. Other financial instruments that are regularly traded on any other market that is regulated and open to the public.
5. Transferable securities within one year from the issue are being admitted to trading on a regulated market or an equivalent market outside the EEA.
6. Transferable securities within one year from the issue will become subject to regular trading on any other market.
7. Other financial instruments.

## Note 2 Changes in Net Asset

	<i>2016-01-01- 2016-12-31</i>	<i>2015-01-01- 2015-12-31</i>
Net asset, start of the year	14 009 323	28 942 159
No. of issued fund shares	54 622 224	68 491 686
No. of redeemed fund shares	-37 543 590	-80 137 959
Net result according to income statement	-4 862 498	-3 286 563
<b>Net asset, year end</b>	<b>26 225 459</b>	<b>14 009 323</b>

### Remuneration

Remuneration and benefits to employees has been calculated based on the Company's principles which has been approved by the Board of Directors. During the financial year the Company applied a calculation based on that 20 percent of the Company's profit before tax is deposited as variable remuneration to employees.

In addition, the Company may make exceptions for individuals who contributed positive from a risk adjusted perspective as long as the Company does not run the risk of violating regulatory capital requirements or otherwise threaten to put the Company at a disadvantage situation.

Each year the Board of Directors revises the Company's remuneration policy. During the year minor linguistic adjustments has been made as well as adding reference to new law. These changes have not resulted in any substantial changes of the remuneration policy.

For current remuneration policy, see website; <http://www.tundrafonder.se/welcome/>

Benefits paid to all employees in 2016	Amount in SEK	Number of employees
Fixed salary	6 121 715	15
Variable remuneration to employees who are included in the number of employees and which have not been classified as special regulated staff	51 813	2
Total: Fixed salary and number of employees	6 173 528	15
Benefits paid to particular regulated staff 2016		
a) employees in senior strategic positions	1 764 625	2,5
b) employees with responsibility for control functions. Outsourced functions	0	0
c) risk takers	1 574 332	3,5
d) employees whose total compensation is equal to, or greater than, the total remuneration to someone in senior management	0	0