

Annual Report

Tundra Frontier Africa Fund

515602-6261

2018-01-01 - 2018-12-31

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in the translation the Swedish version will prevail.

Management Report

The Fund's performance

Tundra Frontier Africa Fund decreased 4.74% during 2018, compared to the benchmark, MSCI EFM Africa ex South Africa Net, which decreased 6.04%.

The Fund's net assets development

Assets under management at December 31st, 2018 amounted to SEK 107,7 million, which represents an decrease of SEK 1,6 million compared to SEK 109,3 million at December 31st 2017.

The value of issued fund shares amounted to 480.5 million, the value of redeemed fund shares amounted to SEK 464.7 million. The value of the total change of fund shares during the period hence amounted to SEK 15.8 million.

Market

Unfortunately, the positive start of 2018 deteriorated gradually as the year went by, and the majority of African markets ended the year in negative territory. The best African markets in 2018 were Zimbabwe (+116.9%) and Malawi (+43.7%), of which the former rose sharply due to the ongoing economic crisis where investors are looking for something they hope is inflation-proof, and the latter has only 12 listed shares with extremely low turnover. The worst African markets were BRVM and South Africa, which fell 22.1% and 17.8% respectively. Egypt, Nigeria and Kenya ended at -3.3%, -8.1% and -3.9%, respectively. (all changes in SEK)

Egypt started the year strongly, but despite continued positive signals of economic recovery, the market weakened in the second half when most emerging markets were dragged into turmoil around Argentina and Turkey, whose currencies fell sharply. We visited a number of our Egyptian holdings in the autumn and found that market correction was rather due to external factors than that the Egyptian investment case had changed significantly. A certain disappointment, due to the lack of interest rate cuts since the inflation did not decrease as much as expected, can explain parts of the downturn, but for the most part it was about foreign investors' increased risk aversion. The reform agenda, basically set at the time of the devaluation in autumn 2016, continues unabated, which in the short term meant some tough measures for consumers (eg. increased electricity prices, increased bus fees, reduced food subsidies, etc.), but which in the longer term strengthens the state coffers and increases opportunities for important investments.

The Nigerian recovery does not seem to take off like investors would like to see for the market to gain momentum. The poor handling of the claim on South African telecom giant MTN to repay USD 8bn they were accused of illegally repatriating out of Nigeria ended in a "symbolic" fine of \$50m. The lack of structural investments in e.g. roads, electricity production or ports also means that economic development remains largely dependent on oil prices. Investments are continuously being made to increase domestic production and reduce the need for imports, but the country would benefit from a higher pace in the reform work. In the absence of higher economic growth, the activity of consumers remains low and the consumer companies continue to struggle and thus we avoid the sector. However, the financial sector continues to develop well as growth is driven by more factors. We also visited most of our Nigerian bank holdings in the autumn and we still feel very comfortable with the fact that our holdings continue to grow and that the values justify a large overweight (which we also have).

The activity of the Kenyan economy improved in 2018 after the 2017 election mess, after President Kenyatta and the Opposition Leader Odinga made an agreement to stop the hostilities. Both the market and the economy drew a sigh of relief, and the activity increased again after going at half speed since August 2017. We still see considerable risks in the economy, which was not least evident in the (in our view) over-optimistic budget which, among other things contained a reduced budget deficit due to heavily increased tax revenues.

In South Africa speculations about Zuma's departure at the beginning of the year gained most attention, and the market as well as the currency took a big jump when that turned true. However, optimism has cooled over time, reforms take time, and the global turmoil in May was most noticeable in the raw material heavy South Africa of the African markets, and the currency remains one of the world's most volatile. During the latter part of last year, the state-owned power producer Eskom has also increasingly attracted attention as their

problems of servicing their debt of approx. USD 30bn become more acute. The South African government has guaranteed part of the debt, and if the company were to go bankrupt, it would be a significant blow to the state as well as to the economy as a whole.

Fund management and outlook

The Fund fell by 4.74% in 2018, compared to the benchmark index which fell by 6.04%. Egypt was the foremost explanation to the excess return where we managed to create a positive return even though the market fell as a whole. The decision to be underweight in Kenya has paid off well, while our overweight in Nigeria gave a marginally negative return.

We enter 2019 with very attractive valuations, not only in the African equity markets but in many other emerging markets as well. In Nigeria, presidential elections will be held in February and the outcome is uncertain. We do not expect any major unrest in conjunction with the election, but there's always a risk, and believe that the market would look favorably on a regime change, but that even incumbent President Buhari would be acceptable. Egypt surprised the market with a interest rates cut at the February 2019 meeting, and more should come if inflation continues to fall. It would be very positive for the market. The Kenyan interest rate cap continues to hamper growth and increased competition between banks on lending to the most attractive customers continues to hurt margins, leading to lower growth than would otherwise be the case. South Africa is also due for elections in the first half of 2019, and ANC's dominant position is more threatened than ever. However, the markets have been dominated by mostly negative news for a long time and much of the downside appears to have been priced in by now.

Objectives and investment policy

The fund is an equity fund with a particular emphasis on investments in transferable securities issued by companies located in Africa or that conduct their principal operating activities in Africa. The fund company's management of the fund is intended to generate diversified financial exposure to the economic development in Africa and provide the unit holders with a better return compared to the MSCI EMF Africa excluding South Africa Net Index (SEK) with equal or lower risk.

The fund takes into account aspects such as corporate governance, environmental and social issues as part of the investment process. The principles from international guidelines are applied (UN Global Compact, Tripartite Declaration of Principles concerning Multinational Enterprises and Social Policy and OECD Guidelines for Multinational Enterprises). Companies that are involved in controversial weapons are also excluded.

The fund is managed by an investment committee but with Mathias Althoff as the lead portfolio manager.

Risks

Egypt is still in an economic transition, which increases the risk, but of course also the possibility of return, significantly. Continued cuts in subsidies in combination with price increases for basic products risk creating great popular dissatisfaction, but so far we see no greater scope for such signs. The continued layered Nigerian foreign exchange market leads to poorer credibility and poorer liquidity, but has worked well since the spring of 2017.

Derivatives

According to the fund statutes, the fund has the right to trade in options, futures and other derivatives, and the right to lend securities. The fund had no exposure to derivatives, or similar instruments during the period.

Financial overview

	AUM, SEK	NAV	No. of issued fund shares	Dividend	Total fund return, %	Benchmark return, %
2018-12-31	107 688 628	64,92	1 658 885,92	-	-4,74	-6,04
2017-12-31	109 334 269	68,15	1 604 366,10	-	26,02	18,83
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⁾

Benchmark index: S&P Africa Frontier Total Return Index (SEK) upto 2017-05-28. MSCI Africa ex ZA Total Return Index (SEK) after this date.

1) Refers to the period 2013-05-20 - 2013-12-31.

Key performance indicators

2018-12-31

Risk & return

Standard deviation, % ¹⁾	12,83
Standard deviation benchmark, % ²⁾	13,77
Tracking error, % ³⁾	11,19
Active Share, %	83,06
Average annual return last 2 years, %	9,57
Average annual return last 5 years, %	-7,40

Costs

Management fee, %	2,50
Performance fee, %	-
Transaction costs, SEK	3 964 861
Transaction costs, %	0,66
Research costs, SEK	198 045
Research costs, %	0,09
Ongoing charges, %	2,65
Subscription and redemption fees	Ingen

Turnover

Turnover	1,30
Trading with group companies	Ingen

Management fees

Single investment of SEK 10 000	266,34
Monthly investments of SEK 100 / month	15,50

1. Standard deviation is defined as the standard deviation of the fund's return including any dividends. The calculation is based on monthly data during the past 24 months.
2. Standard deviation is defined as the standard deviation of the benchmark's total return. The calculation is based on monthly data during the past 24 months.
3. Tracking error is defined as the standard deviation of the difference in return between the fund and the benchmark. The calculation is based on monthly data during the past 24 months.

Income statement

<i>In SEK</i>	<i>Note</i>	<i>2018-01-01- 2018-12-31</i>	<i>2017-01-01- 2017-12-31</i>
Income and change in value			
Change in value, transferable securities		-19 174 155	10 211 769
Interest		127 161	38 004
Dividends		10 503 348	1 611 176
FX gains and losses, net		782 884	803 422
Other income		39 520	73
Total		-7 721 242	12 664 444
Costs			
Management fees			
Fees to the management company		-5 515 257	-1 256 976
Interest		-60 470	-7 626
Other costs		-4 152 344	-810 171
Total		-9 728 071	-2 074 773
 Net result		 -17 449 313	 10 589 671

Balance sheet

<i>In SEK</i>	<i>Note</i>	<i>2018-12-31</i>	<i>2017-12-31</i>
Assets			
Transferable securities		98 176 977	102 645 881
Total	1	98 176 977	102 645 881
Bank accounts		11 091 783	10 647 559
Pre-paid expenses and accrued income		160 270	14 001
Other assets		-	4 413 635
Total		109 429 030	117 721 076
Liabilities			
Accrued expenses and prepaid income		242 800	198 348
Other liabilities	2	1 497 602	8 188 459
Total		1 740 402	8 386 807
Total net asset	1,3	107 688 628	109 334 269

Memorandum items

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Accounting principles and valuation of financial instruments

Amounts stated are in number of SEK if nothing else stated.

Tundra Fonder AB is a member of the Swedish Investment Fund Association and strives to comply with the Association's guidelines. During 2018, Tundra Fonder AB was compliant with all guidelines with the exception of the recommendation that at least half of an asset manager's members of the Board of Directors should be independent directors as three of seven Board members were considered to be independent at the end of 2018.

Accounting principles

The fund applies the Mutual Funds Act, 2004:46 and the Financial Supervisory Authority's regulation of mutual funds (FFFS 2013:9) and applies the Swedish Investment Fund Association's guidelines.

Valuation of financial instruments

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

1. Financial instruments traded on an active market will be valued on the closing price at December 31st 2017. If this is a bank holiday, the most recent trading day prior to the bank holiday will be used.
2. If the financial instrument is not traded on 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 are misleading, the market value is determined by a well-established valuation model.

Key performance indicators

The fund follows the Swedish Investment Fund Association's guidelines on key performance indicators.

Notes

Note 1 Financial Instruments

The following financial instruments were held as of 2018-12-31.

Security

Sector	No. of shares	Market value	Portion %
Transferable securities			
Category 1			
EGYPT KUWAIT HOLDING CO SAE, Egypten, USD	500 000	4 754 544	4,42
ELSEWEDY ELECTRIC CO, Egypten, EGP	500 000	4 473 914	4,15
Materials		9 228 458	8,57
CAIRO INVESTMENT & REAL ESTA, Egypten, EGP	300 000	1 290 267	1,20
DICE SPORT & CASUAL WEAR, Egypten, EGP	655 949	4 374 426	4,06
GB AUTO, Egypten, EGP	1 600 000	4 097 215	3,80
MM GROUP FOR INDUSTR, Egypten, EGP	437 500	1 892 453	1,76
ORIENTAL WEAVERS, Egypten, EGP	600 000	3 084 776	2,86
Industrials		14 739 137	13,69
JUHAYNA FOOD INDUSTRIES, Egypten, EGP	850 000	4 727 271	4,39
OBOUR LAND FOR FOOD INDUSTRIES, Egypten, EGP	600 000	2 372 905	2,20
PZ CUSSONS GHANA, Ghana, GHS	750 000	564 264	0,52
UNILEVER ORD, Ghana, GHS	2 400	78 303	0,07
Consumer discretionary		7 742 743	7,19
CLEOPATRA HOSPIT, Egypten, EGP	2 200 000	4 991 998	4,64
EGYPTIAN INTERNATIONAL PHARM, Egypten, EGP	55 000	2 901 395	2,69
INTEGRATED DIAG, Jersey, USD	100 000	3 629 736	3,37
Healthcare		11 523 129	10,70
ACC BANK OF NIG ORD, Nigeria, NGN	9 664 593	1 597 766	1,48
COMMERCIAL INTL GDR, Egypten, USD	100 000	3 732 379	3,47
COMMERCIAL INTL, Egypten, EGP	35 000	1 297 509	1,20
CREDIT AGRICOLE, Egypten, EGP	410 000	8 312 136	7,72
FBN HOLDINGS ORD, Nigeria, NGN	16 000 000	3 034 138	2,82
GHANA COMM BANK ORD, Ghana, GHS	179 000	1 510 943	1,40
GUARANTY TRT BNK ORD, Nigeria, NGN	10 000 000	8 375 484	7,78
LETSHEGO, Botswana, BWP	2 500 000	3 347 528	3,11
MCB GROUP LTD ORD, Mauritius, MUR	11 000	775 224	0,72
STANBIC IBTC HOLDING, Nigeria, NGN	4 500 000	5 245 922	4,87
STANDARD CHARTED ORD, Ghana, GHS	20 067	773 284	0,72
UNITED BANK FOR AFRICA ORD, Nigeria, NGN	44 000 000	8 183 419	7,60
ZENITH INTL BANK ORD, Nigeria, NGN	15 000 000	8 405 874	7,81
Financials		54 591 606	50,69
UMEME LTD, Uganda, KES	500 000	351 904	0,33
Utilities		351 904	0,33
Total category 1		98 176 977	91,17
Total transferable securities		98 176 977	91,17

Total securities	98 176 977	91,17
Other assets and liabilities	9 511 651	8,83
Total net asset value	107 688 628	100,00

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 Other liabilities

	<i>2018-12-31</i>	<i>2017-12-31</i>
Accrued redemptions	1 323 758	8 084 303
Unregistered subscriptions	47 992	104 156
Other	125 852	-
Total	1 497 602	8 188 459

Note 3 Changes in net assets

	<i>2018-01-01- 2018-12-31</i>	<i>2017-01-01- 2017-12-31</i>
Net assets at the start of the year	109 334 269	26 225 459
Issued fund units	480 513 034	230 149 819
Redeemed fund units	-464 709 362	-157 630 680
Net result according to the income statement	-17 449 313	10 589 671
Net assets at year end	107 688 628	109 334 269

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.

Please refer to the Company's website for the current remuneration policy:

<http://www.tundrafonder.se/en/compliance-2/>

Benefits paid to all employees in 2018	Amount in SEK	Number of employees
Fixed salary	8 897 940	18
Variable remuneration to employees who are included in the number of employees and which have not been classified as special regulated staff	0	
Total: Fixed salary and number of employees	8 897 940	18
Benefits paid to particular regulated staff 2017		
a) employees in senior strategic positions	2 362 518	2.5
b) employees with responsibility for control functions. Outsourced functions	0	0
c) risk takers	2 936 851	4.5
d) employees whose total compensation is equal to, or greater than, the total remuneration to someone in senior management	0	0

The risk function has been outsourced to ISEC Services (org.no 556542-2853), which the Company refers to regarding remuneration to risk function employees.

Sustainability information

Sustainability information	Tundra Frontier Africa Fund
Sustainability aspects are considered in the management of the fund	<input checked="" type="checkbox"/>
Sustainability aspects are not considered in the management of the fund	<input type="checkbox"/>
Sustainability aspects considered in the management of the fund	
Environmental aspects (e.g. the companies' impact on the environment and climate)	<input checked="" type="checkbox"/>
Social aspects (e.g. human rights, labour rights and equality)	<input checked="" type="checkbox"/>
Corporate governance (e.g. stockholders' rights, management compensation and anti-corruption activities)	<input checked="" type="checkbox"/>
Other sustainability aspects	<input type="checkbox"/>
Methods used in the sustainability work	
The fund includes	<input checked="" type="checkbox"/>
<p>Sustainability is a determining factor in choosing which companies to invest in.</p> <p><i>The fund has specific and defined criteria for investing in companies based on environmental, social and corporate governance aspects. Sustainability is a determining factor in choosing which companies to invest in.</i></p>	<input type="checkbox"/>
Sustainability is considered when choosing which companies to invest in.	<input checked="" type="checkbox"/>
<p>Other</p> <p><i>Other methods used when choosing which companies to invest in.</i></p>	<input type="checkbox"/>
The fund excludes	
<i>The fund does not invest in companies involved in the following products and services. At the most five% of a company's turnover may stem from these products or services.</i>	
Products and services	
Cluster bombs, landmines	<input checked="" type="checkbox"/>
Chemical and biological weapons	<input checked="" type="checkbox"/>
Nuclear weapons	<input checked="" type="checkbox"/>
Weapons and/or munitions	<input type="checkbox"/>
Alcohol	<input type="checkbox"/>
Tobacco	<input type="checkbox"/>
Commercial gambling	<input type="checkbox"/>
Pornography	<input type="checkbox"/>
Fossil fuel (oil, gas, coal)	<input type="checkbox"/>

Coal	<input type="checkbox"/>
GMO	<input type="checkbox"/>
Uranium	<input type="checkbox"/>
Other	
International conventions	
<i>The fund does not invest in companies involved in breaches of international norms and conventions regarding the environment, human rights, labour rights and corporate governance, e.g. UN Global Compact and OECD's Guiding Principles For Multinational Companies.</i>	
The fund excludes all companies breaching international norms.	<input type="checkbox"/>
Companies where the fund does not see an intention to change or where the fund does not believe that the company will comply in an acceptable period of time are excluded.	<input checked="" type="checkbox"/>
Countries	
For sustainability reasons, the fund does not invest in companies involved in certain countries/ fixed income instruments issued by certain countries.	<input type="checkbox"/>
Other	<input type="checkbox"/>
The manager contacts companies in order to influence them to adopt a more sustainable business approach.	
In its own power	<input checked="" type="checkbox"/>
Collaboration with other investors	<input checked="" type="checkbox"/>
Voting at AGMs	<input checked="" type="checkbox"/>

The fund includes

Sustainability and ESG (environmental, social responsibility and governance) is considered in economic company analysis and investment decisions. More information on a holding in the Tundra Frontier Africa Fund can be found at:

http://www.tundrafonder.se/wp-content/uploads/2018/07/Tundra-Case_Access-Bank-PLC-Nigeria.pdf

The fund excludes

The fund does not invest in cluster bombs, landmines, chemical/biological weapons or nuclear weapons.

The Fund company has influenced

- On March 5th 2018 Tundra Fonder AB held a sustainability forum in Colombo, Sri Lanka. The forum's participants included representatives from the top 100 listed companies, heads of brokerage houses and media representatives. The forum highlighted the growing global importance of incorporating ESG factors in companies which also attracts foreign investment. The forum offered discussion panels and workshops.
- In June Tundra presented a report on e-health in Kenya, which was produced in collaboration with Karolinska Institutet. The report is available at <https://bit.ly/2NwD9J4>.
- In March 2018, Tundra signed the CEO Statement of Support for the Women's Empowerment Principles (WEPS).

Comments on the sustainability work within Tundra Fonder AB

The ESG team consists of a head of ESG and an ESG analyst in Stockholm, ESG analysts in Karachi and in Ho Chi Minh City. In 2018 Tundra Fonder AB hired an additional ESG analyst to work in the Ho Chi Minh City office.

More information on Tundra Fonder AB's sustainability work can be found at <http://www.tundrafonder.se/en/sustainable-2/>.