



Investment Newsletter November 2021



"Samburu Sunset", Samburu National Park, 18th July 2021 - Courtesy, V. Wroe

Dear Investor,

Global Economy

In a word, the global economy is on course to continue its rapid expansion. Investing prospects are promising in most parts of the world although it is an uneven recovery.

The World Bank and the International Monetary Fund (IMF) estimate global growth at 5.6% and 5.9% respectively for 2021. That is a phenomenal rate of global expansion.

The advanced economies are coming out of this almost 2-year Covid pandemic faster than emerging markets. This is generally attributed to their higher rates of vaccination and

fiscal/monetary stimulus. The US economy, for example, is expected to expand by 7% in 2021. Africa, on the other hand, is expected to rebound 3.4% according to the African Development Bank. Latin America should grow at 5.8% and Asia at 6.5% according to the IMF.

US Economy

The US economy represents 25% of the world's economy at \$21 trillion (followed incidentally by China at \$15 trillion) so exposure to the US economy is in an investor's best interest.

For the past year, the US Federal Reserve injected liquidity into the US economy by purchasing \$120 billion of US Treasury and mortgage-backed bonds every month. On November 3, 2021, the Fed announced that beginning this month, it would scale back those purchases by \$15 billion per month. The Fed has been very transparent in its actions. As a result, most economists view this tapering as a strong signal by the Fed that it has confidence in the future of the US economy.

This is in spite of the fact that US inflation has risen to 6% in recent months. There is debate on whether this inflation is transitory – reflecting short term labour shortages and supply chain bottlenecks – or whether it will be long term. The Fed's target inflation rate is 2% per year. We believe that, on balance, the Fed is correct that inflation will reduce once labour and supply catch up with demand in 2022. If this is indeed correct, there may be no need to raise interest rates which would support a continuing bull market.

US Stock Markets

There has been a continuing battle between value and growth stocks in US markets. Both value and growth stocks continue to appreciate. Value stocks represent more traditional stocks which are reflatting after the pandemic. Growth stocks represent fast growing companies like Facebook, Amazon, Netflix, and Google.

Exposure to Value & Growth Stocks through Index Funds and Mutual Funds

One way to get exposure to these stocks without purchasing individual stocks is to buy an Exchange Traded Fund or "ETF" which represents a pool of similar stocks. ETF's can be very similar to unit trusts or mutual funds. For example, the ETF with the ticker symbol QQQ represents the largest 100 stocks traded on the Nasdaq exchange where most of these tech stocks trade. The ETF with ticker symbol RZV, on the other hand, represents 600 small value stocks.

If you look at the charts below of these two stocks over the past one year, RZV is up 75% and QQQ is up 42%. Both have been excellent investments. We believe exposure to both segments of the US market make sense.



Franklin Templeton

Franklin Templeton, as a mutual fund, acts in a similar way to the ETF's described above. The difference is that Franklin Templeton charges a larger management fee than ETFs. The reason is because Franklin Templeton actively manages the funds under its control – adding some stocks and selling others. ETF's are not managed because once the underlying stocks are purchased in a portfolio, often in the same proportion as an index, there is no

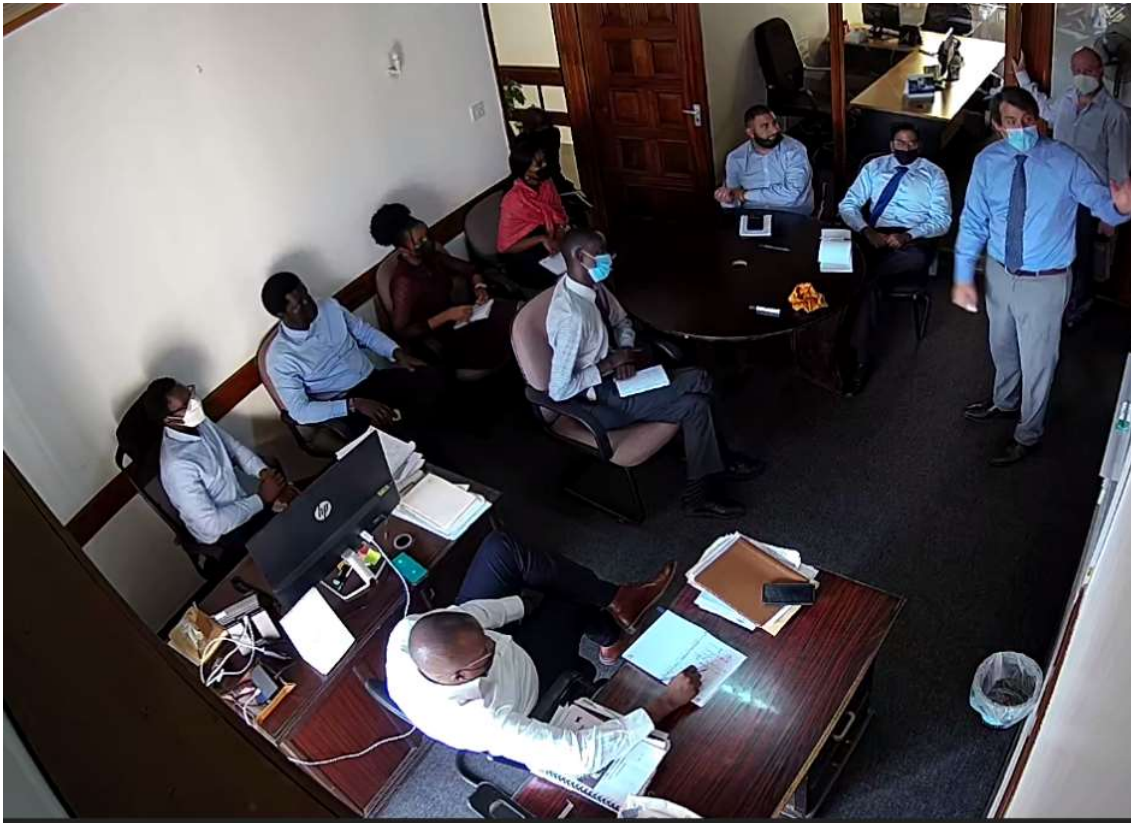
continuing management of the fund.

The best performing Franklin Templeton funds are as follows:

Fund Name	Year-to-Date Return (%)	3 Year Return (%)
Eastern European	39.76	66.86
Natural Resources	37.66	(1.73)
Middle East & North Africa (MENA)	30.34	44.14
Templeton Frontier Markets	28.22	35.89
Franklin Technology Fund	27.85	171.26
Franklin India Fund	27.47	72.61
Templeton Asian Smaller Companies	25.61	48.85
Franklin Global Real Estate Fund	21.71	33.44
Templeton European Small & Mid-Cap Fund*	20.95	10.84
Templeton Emerging Market Smaller Companies Fund	20.25	44.10

*This funds' base currency is in Euros, but in the Fact Sheet it indicates the USD dominated returns.

On first glance, it may appear that there is simply appreciation across the entire spectrum. If you look closer, however, you'll notice that the top three funds – Eastern Europe, Natural Resources and the MENA fund are all related to oil. Eastern Europe is heavily weighted with Russian exposure which has benefitted from a rise in oil prices. Oil is also the key commodity in the other two funds. While we appreciate that oil is exceptionally high at \$78/barrel, there are forces at work to bring the price of oil down. The US is considering tapping its strategic oil reserves, US shale producers are beginning to come back online, there are nascent peace discussions with Iran. So, while we believe oil has upside potential in the short term, we believe oil prices will subside over the next 12 months. As such, we are more focused on the technology and value funds including smaller company funds across the globe.



"Continuous Training" DAL Offices, 17th September 2021

China – Missteps on the Road to Prosperity?

China requires a special note here. Until recently, China was leading the Asian markets economically. Recently, however, China seems to be out of step. China was poised to expand a robust 8% this year but these forecasts are being revised downward as we write. Some of this is a result of supply chain problems with energy like the rest of the world. But there seems to be some sort of underlying identity crisis, for lack of a better word, in China.

There appears to be a growing clash between freewheeling capitalism and China's underlying communist philosophy. Entrepreneurship first came under attack last year when the Chinese Politburo squashed Jack Ma's \$37 billion Ant Financial Initial Public Offering (IPO). Now, China has begun implementing regulations on the behavior of companies operating in China. These regulations range from a ban on vendors of public education to forcing companies like Alibaba and TikTok to abandon use of algorithms to provide targeted services to clients.

Apart from these assaults on free market capitalism, China has a real estate problem. A real estate bubble has been building up in China for many years now. Some estimates place 80-90% of Chinese household wealth is in real estate. The real estate behemoth Evergrande narrowly missed defaulting on a \$83 million coupon payment several weeks ago and it is uncertain whether it can meet future payments. Other real estate developers are

experiencing similar cash flow problems. Real estate defaults would seriously erode wealth in China and could have a domino effect on other sectors. As such, China is not currently on our recommended list.

Kenyan Fixed Income

Kenya's fixed income market continues to offer attractive returns. Kenyan investors have access to a broad array of government and corporate paper that is the envy of international investors. The following is a representative list of debt securities in Kenya today:

Issue	Interest Rate	Source
Commercial Paper – 12 months	14%	Dry Associates
Commercial Paper - 6 months	13%	Dry Associates
Kenya Treasury (Tax Free) 8-yr Bond	12.35%	Market Determined
Dry Associates KES Money Market Unit Trust	8.5 – 9%	Dry Associates
Kenya Treasury Bill – 12 months	8.74%	Central Bank of Kenya
Kenya Treasury Bill – 6 months	7.68%	Central Bank of Kenya
Kenya Treasury Bill – 3 months	7.07%	Central Bank of Kenya
<i>Inflation</i>	6.45%	<i>Central Bank of Kenya</i>
Commercial Bank Fixed Deposit Receipt	6.34%	Central Bank of Kenya
Commercial Bank Savings Rate	2.57%	Central Bank of Kenya

New 5 Year Note Programme



Dry Associates is currently the Arranger for a new GardaWorld (Kenya)/KK Security KES 1.8 billion 5-year dual currency tranching note programme. The programme opens late-November 2021 and closes mid-December. The notes will principally refinance maturing 5-year notes. The first tranche carries a Kenya Shilling coupon of 15% and a US Dollar coupon of 7.5%. The issue is guaranteed by GardaWorld's parent company, the world's

largest privately owned security company with a US\$ 3.3 billion in annual turnover in fiscal 2021. The issue is a private issue and only open to institutional and qualified investors.



"Mzima Springs" Tsavo West National Park - Courtesy J. Dry

Kenyan Stock Market

The Nairobi Securities Exchange is down almost 10% since late August 2021 per the following chart. The All-Share Index has fallen below its 50 and 100 day moving average. Hope of a post pandemic resurgence seems to be fading.



In fact, Dry Associates' Weekly Commentary recommended list of NSE counters has dwindled over the past two months to a single counter – Safaricom. And even Safaricom's price is wilting. Nevertheless, it must be remembered that Safaricom represents 60% of the NSE's total market capitalization. As such, this may be a case of Safaricom leading the market down rather than the market leading Safaricom down. Ironically, Safaricom's half year results were up 12% which is very comforting. Nevertheless, ethnic tensions in Ethiopia are spoiling Safaricom's latest move to expand into that country. This appears to be having a disproportionate impact on the stock's price. Notice how Safaricom's price action practically mirrors the All-Share Index above.



Nevertheless, there are some green shoots that defy the trend. Car & General, TPS Serena and Equity Bank, for example, are showing strength.

Forestry Project - Corporate Social Responsibility



Climate change is now a global concern and Kenya's recent drought appears to be just one more example. In order to show solidarity with the COP26 concerns, Dry Associates is now a Planet Positive company. This means that Dry Associates is sponsoring a 3-year tree planting project physically located in the Soysambu Estate through Planet Positive (<http://www.african-forest.net/>). Within a one hectare plot, Dry Associates has sponsored the planting of 1,150 tree seedlings and the number will increase to over 3,000 within the next several months. Planet Positive is a Kenyan organization licensed by the Kenya Forest Service to collect tree seeds in the wild, propagate the seedlings and transform open savanna to forests.



Mr. Kenya Mutiso (Head of African Forest & Planet Positive) with DALs Certificate, Soysambu Estate, Elementaita, 18th November 2021

Holiday Schedule

As a reminder to our investors, Dry Associates offices will close on December 17th and re-open in the new year on January 3rd 2022. As such, we'd like to send our investors, and friends an early wish for a safe and joyful holiday season.

Sincerely,

Dry Associates Investment Bank

“Invest Today for a Better Tomorrow”



Dry Associates is an Investment Group in Kenya and offers a wide range of products and services:

**Private Wealth Management | Unit Trusts | Commercial Paper | Investment Advisory Services |
Pension Fund Management | Offshore Funds | Consulting | Corporate Finance | Treasury
Management | Portfolio Management**

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