Cloud Atlas S&P African Sovereign Bond

Earn 7% USD yield on long-dated Sovereign Bonds.

+

Cloud Atlas
INVESTING

S&P Global

Cloud Atlas
INVESTING

Cloud Atlas S&P African Sovereign Bond ETF

Ticker: ASBIJ.J; ISIN: ZAE000297354

A portfolio by Cloud Atlas tracking the S&P Africa Hard Currency Sovereign Bond Select Index which is listing in 2021.

Cloud Atlas (RF) Pty is a registered CISCA manager (no. 1043) with the FSCA and runs the Cloud Atlas Scheme, a Collective Investment Scheme in Securities.
Email: client@cloudatlasinvesting.com | Tel: +2710-203-9157 | Disclaimer: www.cloudatlasinvesting.com/disclaimer
1st floor Victoria Gate West, Hyde Park Lane, Corner Jan Smuts and William Nicol, Hyde Park, 2196

Cloud Atlas INVESTING

AFRICAN SOVEREIGN BOND SALIENT DETAILS

Staying true to our vision of creating the best African investment products we have, in conjunction with S&P Global, set-up an the Cloud Atlas S&P African Sovereign Bond ETF Which will be tracking Hard Currency Bonds (USD and EUR) issued by African countries offering long-term attractive yields.

The offering is via a primary JSE listed ETF with planned secondary listings on other Stock exchanges. The portfolio consists of African Sovereign Bonds traded and cleared on the London and Luxemburg Stock exchanges and issued by the Governments of Egypt, Ghana, Kenya, Morocco, Namibia, Nigeria, and South Africa.

	Data as at 30 June 2021
Index Name	S&P Africa Hard Currency Sovereign Bond Select Index (USD)
Effective Date	Nov 20, 2020
Currency Code	USD
Market Value Outstanding (USD)	US$ 26,386.51Million
No Of Constituents	22
Countries represented	Egypt, Ghana, Kenya, Morocco, Namibia, Nigeria, South Africa
Weighted Average Maturity	18.19
Weighted Average Coupon	7.66%
Weighted Average Price	106.88
Yield To Maturity	6.65%
Effective Duration	8.49
Convexity	1.18
Option Adjusted Spread	516.87
Risk profile	Low
Share code and ISIN	RIC: ASBI J.J and ISIN: ZAE000297354
Fund classification	Regional Interest Bearing Variable Term
Distribution frequency	Quarterly
Annual fee	50bps management fee

*Subject to regulatory approval and pending outcome of the ballot.

THE STORY OF A RISING ASSET CLASS

Cloud Atlas INVESTING

S&P Global

Cloud Atlas
INVESTING

THE **STORY** OF A RISING ASSET CLASS

African Sovereign countries have enjoyed success with the recent uptake of their African Sovereign Bonds (bonds priced in USD but traded in European markets) by international investors. Twenty-one (21) African countries have created an investable asset class which has amassed over $100 billion since the launch of the first ever Eurobond over a decade ago. The global economic environment has left many markets in a seemingly perpetual low-interest rate cycle causing these high-yielding Eurobond issuances by African Sovereigns to be consistently oversubscribed by a combination of global banks, institutions, trade partners, and investors alike. This investor mix is a far cry from the previous preferred lender to African states being the "IMF" (International Monetary Fund) and the "WB" (World Bank).

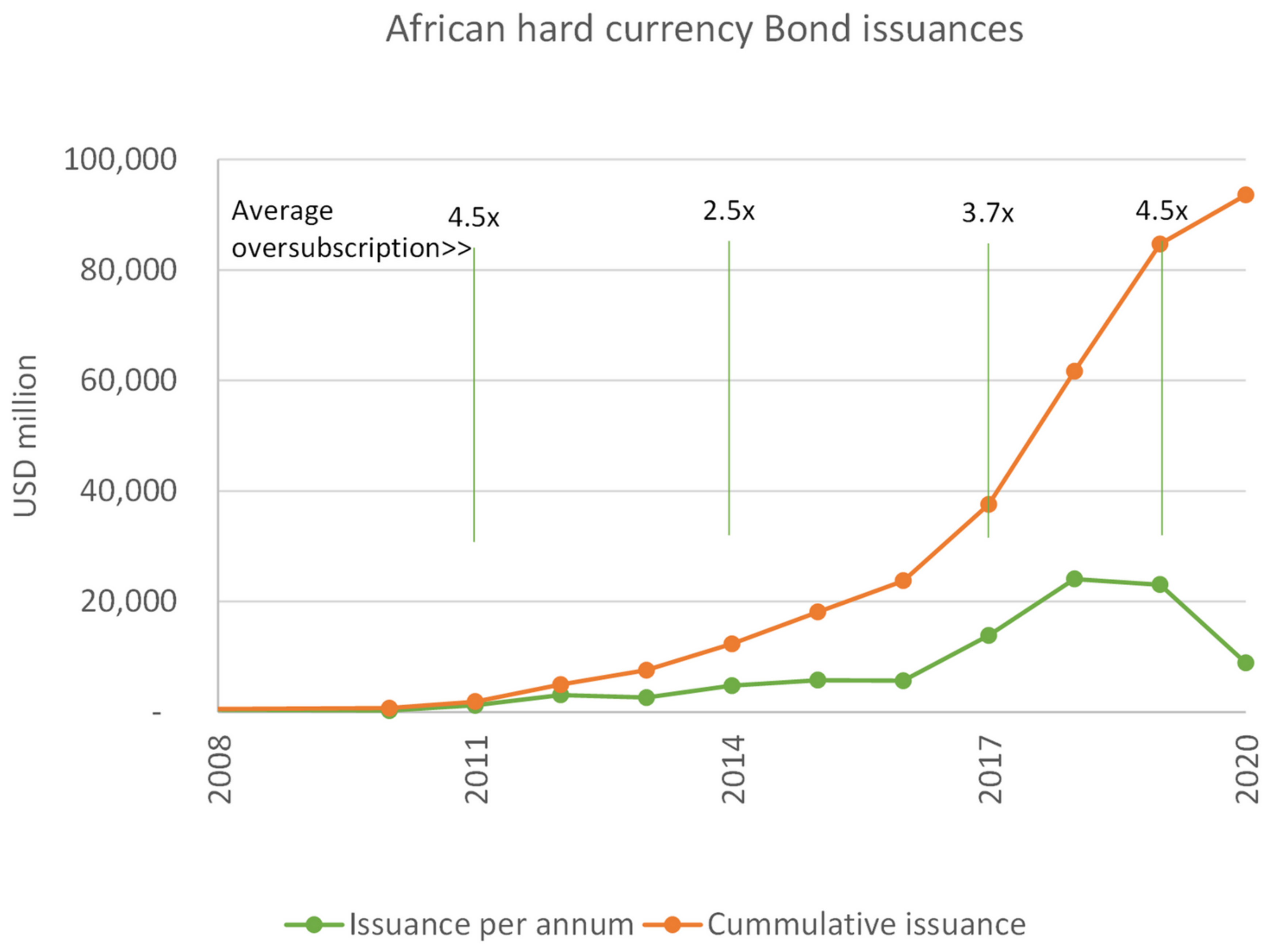
The launch of the "ACFTA" (African Continental Free Trade Area) is going to propel intra-regional trade to new heights and usher in a level of industrialisation which Africa has never seen before. The importance of this development is that it creates an enabling economic environment that will drive growth and increase the capacity of the Sovereign countries to support the higher yields offered by this asset class. This will in turn mitigate the Push factors for investors looking to African assets, such as:

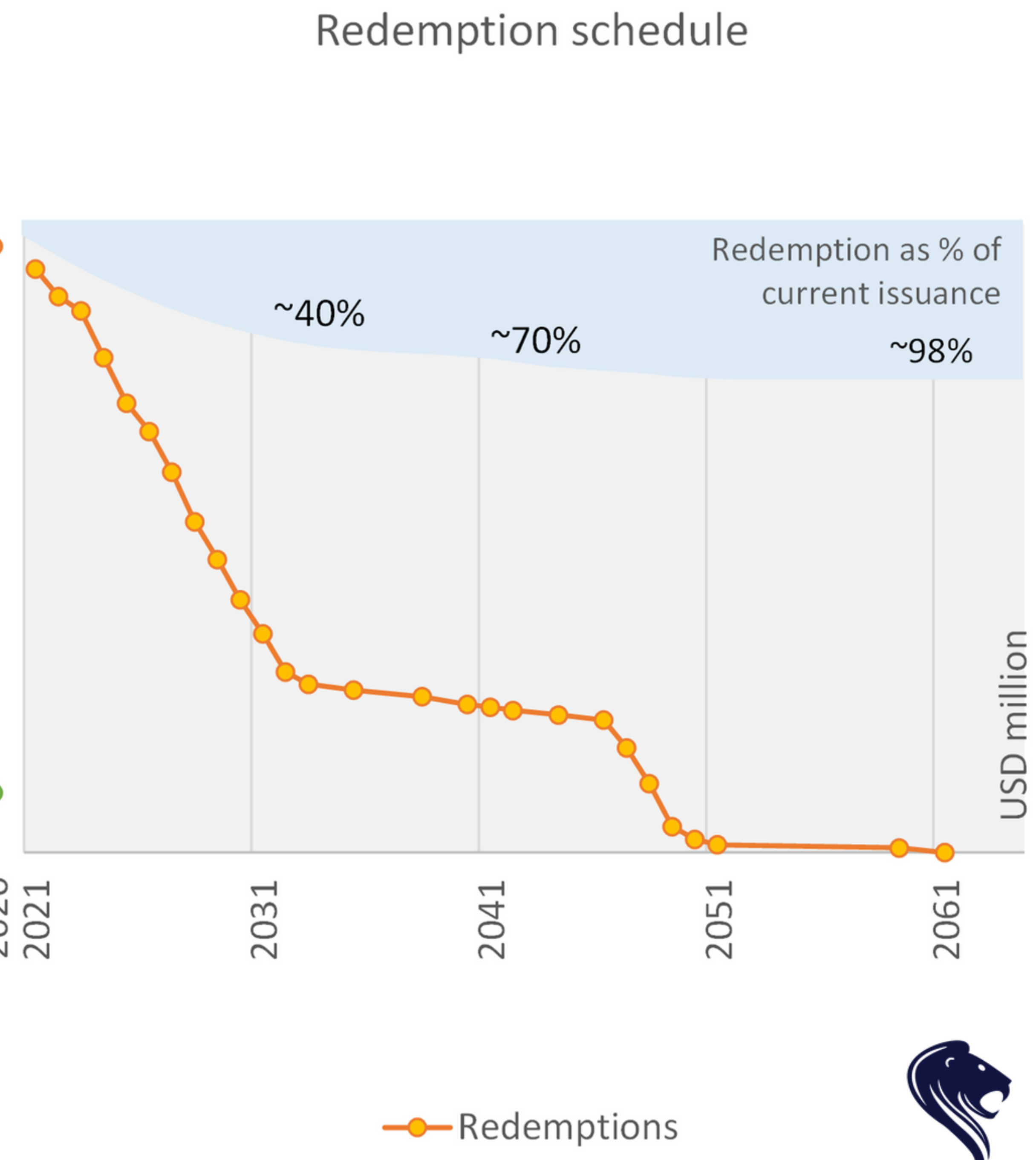
- Political risk – By having Pan-African exposure investors are not concentrated to a single country's political risk or having to traverse the diverse political landscape of the region in search of sizable investment opportunities.
- Economic risk – The fact that the bonds are issued and redeemed in hard currency eliminates the foreign exchange risk akin to investing in African markets while still providing an attractive enough interest rate for a carry-trade. To meet the redemption of their African Sovereign Bonds most African Governments would either establish a sinking fund or issue new African Sovereign Bonds with the latter being more pronounced. However, Sovereign countries hold a significant number of economic assets, such as state-owned enterprises, which form a kind of security on the borrowings in the unlikely event of a default.
- Social risk – Africa is positioned to have the youngest population in the world by 2050, creating ample opportunity for the demographic dividend. The level of consumption and industrialisation will determine the payoff of this dividend; and with most African Sovereign Bonds mainly funding the former a shift to fund the latter is starting to emerge as Sovereigns participate in bankable infrastructure projects and seek to create a more inclusive economy.

Africa has been on a mission to close the estimated infrastructure funding gap of $130 billion per year. Although in recent history China has increased its funding towards African infrastructure to nearly the same levels as the African Sovereign countries, there remains an opening for the private sector to meaningfully contribute to this funding gap. We anticipate that more African Sovereign countries will continue looking at African Sovereign Bonds to fund new, big, and Green projects.

WHICH INVESTORS HAVE SOUGHT WITH **ENTHUSIASM**

The chart below shows the rise in issuances of Hard Currency Bonds by African Sovereign countries since the 2008 Global Financial Crisis, that created a decade long low-interest rate environment and muted global growth. These factors have only served to bolster the demand by international investors for these high-yielding Africa Hard Currency Bond issuances, creating an asset class in the last decade that is already one-third (1/3) of the African listed equity universe.





Source: Cloud Atlas research, Refinitiv, The internet articles. (3) The market value of African listed equity excluding JSE listing is valued at around U$ 2.8 billion. Notes: The debt issuance was taken by using Refinitiv Eikon data on issued Debt in USD or EUR into international markets by African countries as borrowers over a 50-year period.

Cloud Atlas
INVESTING

FANNED BY A **GROWING** GLOBAL PHENOMENON THAT IS DEBT

- Since 2008 the World has been changing and debt has become a more pronounced tool for dealing with global recessions.
- With this change has come the transforming nature of debt as a tool for change and expanding economic potential. Many central banks have borrowed tremendous amounts of money leaving some economic commentators asking if a debt problem is looming or if there is room to borrow further?
- More borrowing is no longer viewed in a silo e.g. the more indebted the worse off you are; but rather in a low interest rate and low inflationary environment along with increased pace, debt is being viewed as a sign of countries with plans to grow.
- The metrics of a healthy economy have changed and are changing all the time and credit agencies in some circles could be viewed as practitioners trying to fit square pegs into round holes.
- The potential to put credit to good use to achieve sustainable growth focused outcomes is becoming a reality.
- For African economies this can be seen as moving from consumption to industrialization with debt funding directed toward bankable Green infrastructure projects that will create more inclusive economies.
- The view on Debt, as we knew it before, has changed. A more widespread adoption of good Debt has been accelerated by two things: the Covid-19 pandemic and the view of what a post pandemic recovery actually looks like.

Cloud Atlas
INVESTING

Source: Cloud Atlas research, Hassan Adam, Public Debt: how much is too much? | The Economist. https://www.economist.com/finance-and-economics/2020/08/27/the fed-makes-its-biggest-inflation-policy-change-in-decades utm_source=YouTube&utm_medium=Economist_Films&utm_campaign=Link_Description&utm_term=Business_and_Finance&utm_content=Correspondent&linkId=10000 014874827
https://www.economist.com/leaders/2020/07/11/as-the-economy-recovers-fiscal-policy-has-to-shift?utm_source=YouTube&utm_medium=Economist_Films&utm_campaign=Link_Description&utm_term=Business_and_Finance&utm_content=Correspondent&linkId=100000013689380

- Africa is unique in its social fabric and offers investors an opportunity to participate in the dividend demographic pay-off. Technology also plays a critical role as the majority of population remains unbanked, under insured and in rural/peri-urban settings.
- Our children need to inherit an Africa at Peace with itself disposed to it potential and fully able to appreciate, maximise and profit from opportunities available to it and its peoples.
- In 2015, 226 million youth aged 15-24 lived in Africa representing nearly 20% of Africa's population who becoming the bedrock of the U$2.6trillion consumer market, will make up one fifth of the world's youth population. If one includes all people aged below 35 this number increases to a staggering three quarters of Africa's population.
- A youthful population presents a powerful opportunity for accelerated economic growth and innovation while other World regions face an aging populations with subsequent issues such as high health costs for elderly care.
- Investing, via the portfolio offering, in a growing continent with a large youthful population is planting the seeds now for a strong payoff in the short-to-medium term.

OPENING THE DOOR FOR **RESPONSIBLE** INVESTORS

Cloud Atlas
INVESTING

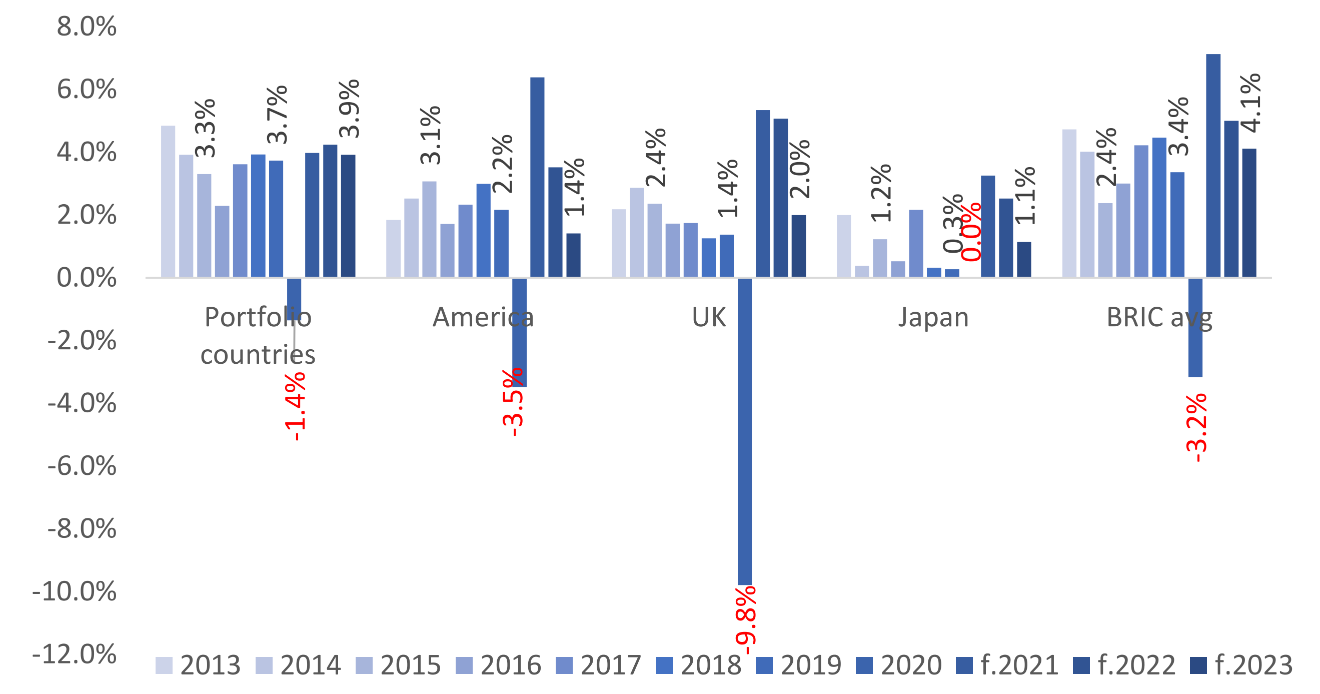
FROM A **MACROECONOMIC** ENVIRONMENT OVER THE PAST DECADE

Key Notes:

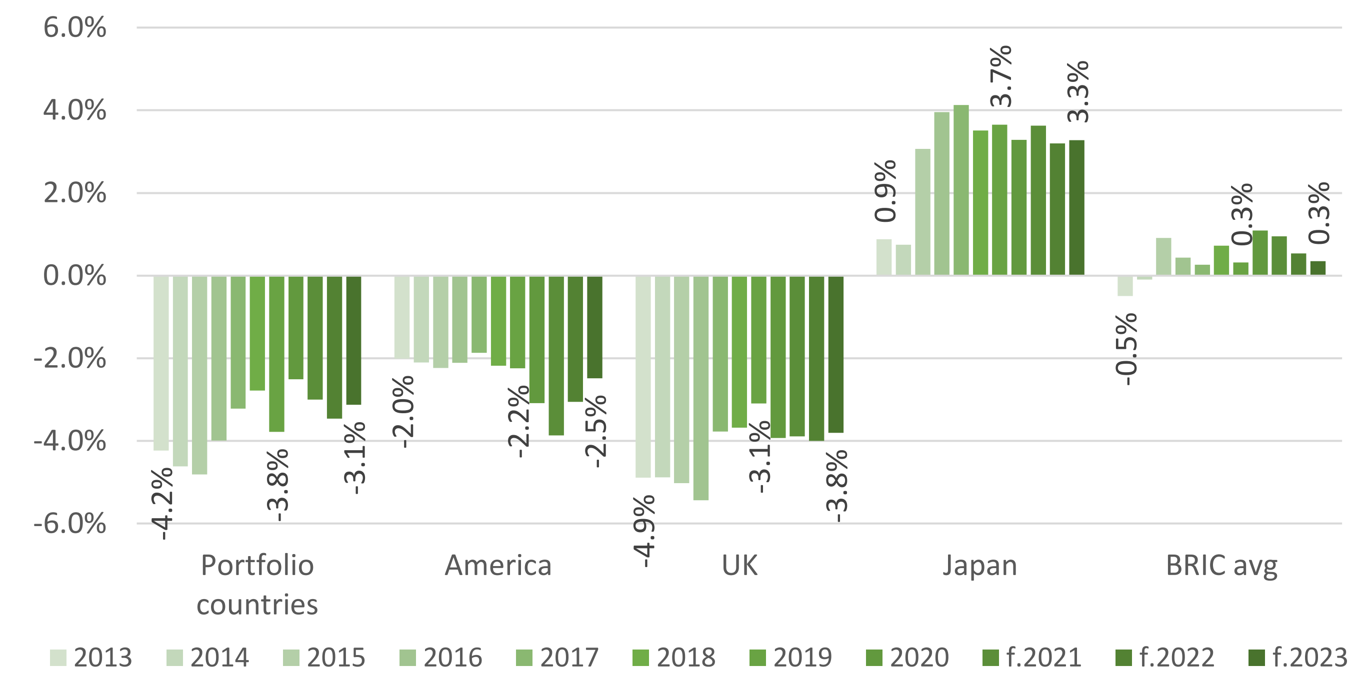
The GDP growth rate following the 2012 EU debt crisis has been relatively high for Africa and Emerging markets while that of Developed markets has been particularly sluggish. A trend likely to be repeated with the Covid-19 recession.

The Portfolio countries have had a narrowing Current Account deficit over the last decade, with a healthy Debt-to-GDP ratio. In 2019 Portfolio countries spent on-average of 17.5% of their budgets on interest servicing.

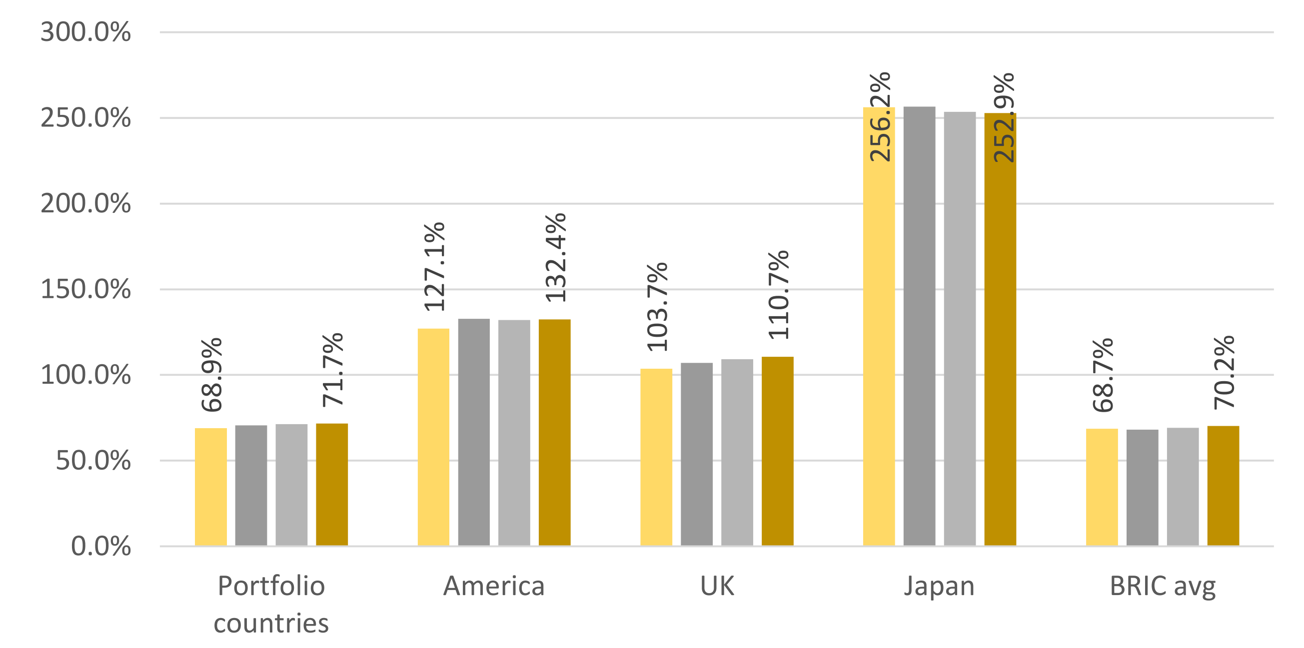
Annual GDP growth rate



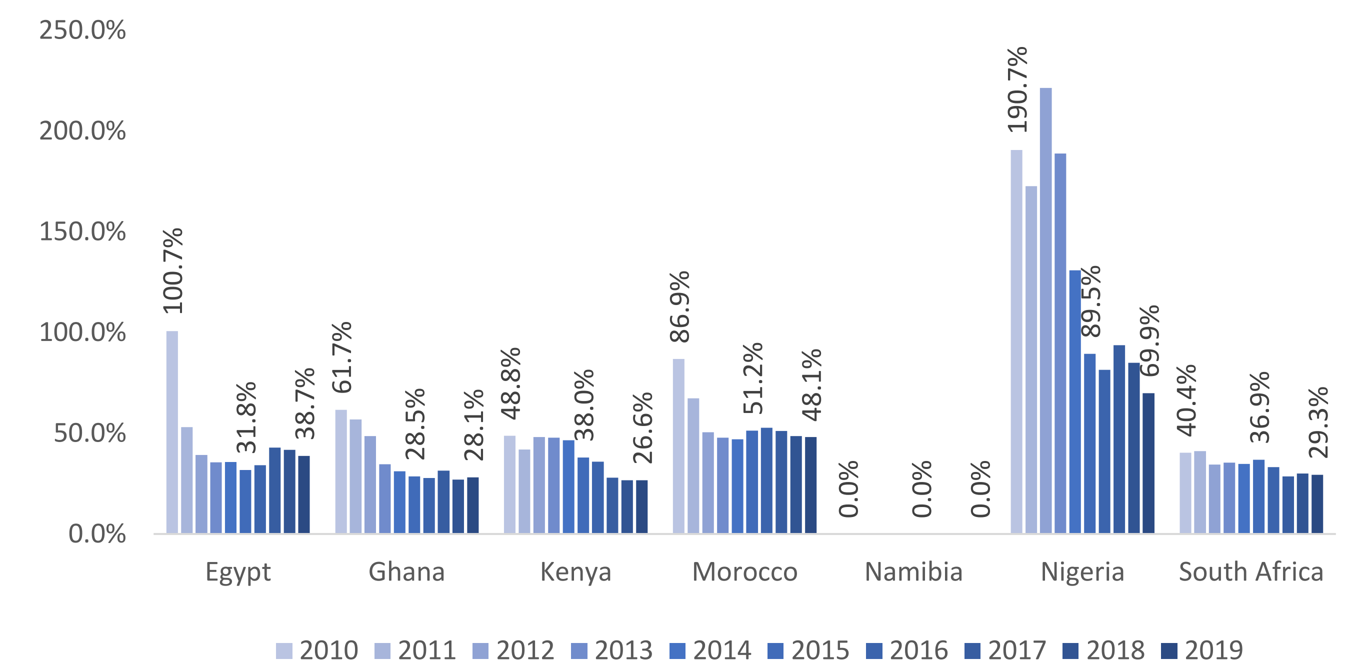
Current account as % of GDP



Debt to GDP



Total reserves as % of external debt 2019



Cloud Atlas
INVESTING

Source: Cloud Atlas research, World Bank, TradingEconomics. (1) The data for Dec-18 for Ghana and Kenya, and Dec-19 for the rest. (2) This number excludes Special Drawing Rights issued to African Governments by the IMF.
Notes: Portfolio countries is a weighted figure based on the country weightings of Egypt, Ghana, Kenya, Morocco, Namibia, Nigeria and South Africa in the index as at 30-Sep-2020. BRIC avg. is the average of data from Brazil, Russia, India, and China

COMPARING COUNTRIES WITH EACH OTHER

	Economic sectors	Credit rating (Fitch)	Credit outlook	Cloud Atlas S&P African Sovereign Bond ETF weighting	Standard Bank African Sovereign Bond ex-South Africa weighting
Angola	Oil, diamonds, minerals, coffee	CCC	No outlook		7.9%
Cameroon	Crude oil, cocoa, aluminium	B	No outlook		1.3%
Cote D'Ivoire	Cocoa, coffee, palm oil	BB-	Positive		8.6%
Egypt	Petroleum	B+	Stable	19.6%	17.2%
Ethiopia	Coffee	CCC	NA		1.7%
Gabon	Crude oil, manganese, uranium	CCC	Highly Vulnerable		4.5%
Ghana	Gold, cocoa, bauxite, aluminium, manganese ore, diamonds	B	Negative	16.4%	14.9%
Kenya	Tea, coffee, petroleum products	B+	Negative	18.9%	10.6%
Morocco	Minerals	BB+	Stable	3.5%	4.5%
Mozambique		CCC	Highly Vulnerable		1.2%
Namibia	Uranium, copper, gold, zinc, lead	BB	Negative	2.1%	2.2%
Nigeria	Oil, Petroleum, cocoa	B	Stable	20.6%	15.3%
Republic of Congo	Diamonds, copper, coffee, cobalt, crude oil	CCC	NA		0.4%
Rwanda	Coffee, tin ore	B+	Stable		0.7%
Senegal	Phosphates	-	No outlook		5.1%
Seychelles		B	Stable		0.1%
South Africa	Gold, financial services, metals, minerals	BB-	Negative	18.3%	
Tunisia	Oil	B	Negative		1.8%
Zambia	Copper, minerals	RD	Default		2.1%

Heavily Indebted Poor Countries (IMF definition, 1996)

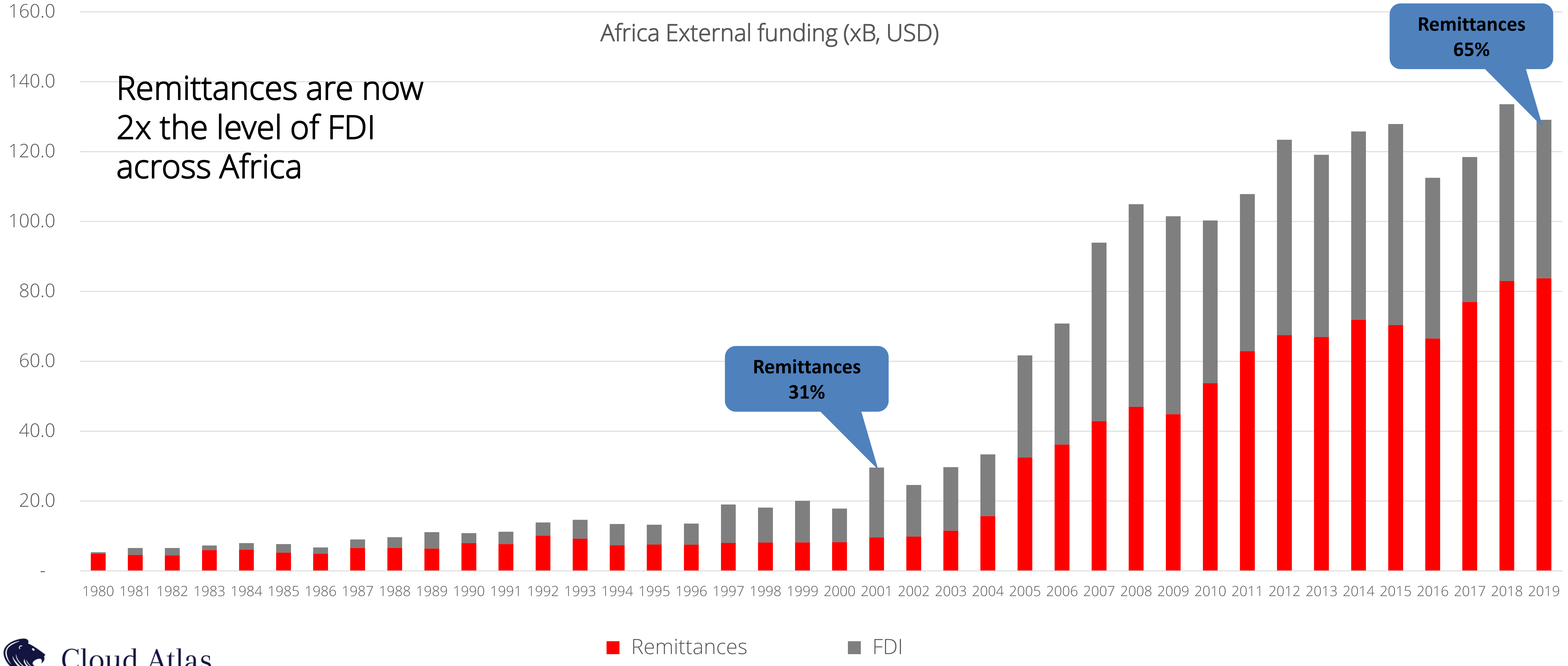
Cloud Atlas
INVESTING

Data as at FY 2020 for SBAFSOZ and June 2021 for ASBI..

Sources: https://data.imf.org/regular.aspx?key=62805740; https://www.nationmaster.com/country-info/stats/Economy/Exports/Main-exports; https://data.worldbank.org/country/XE; https://www.imf.org/external/pubs/ft/eds/Eng/Guide/index.htm; https://www.boeckler.de/pdf/v_2019_10_25_loescher.pdf

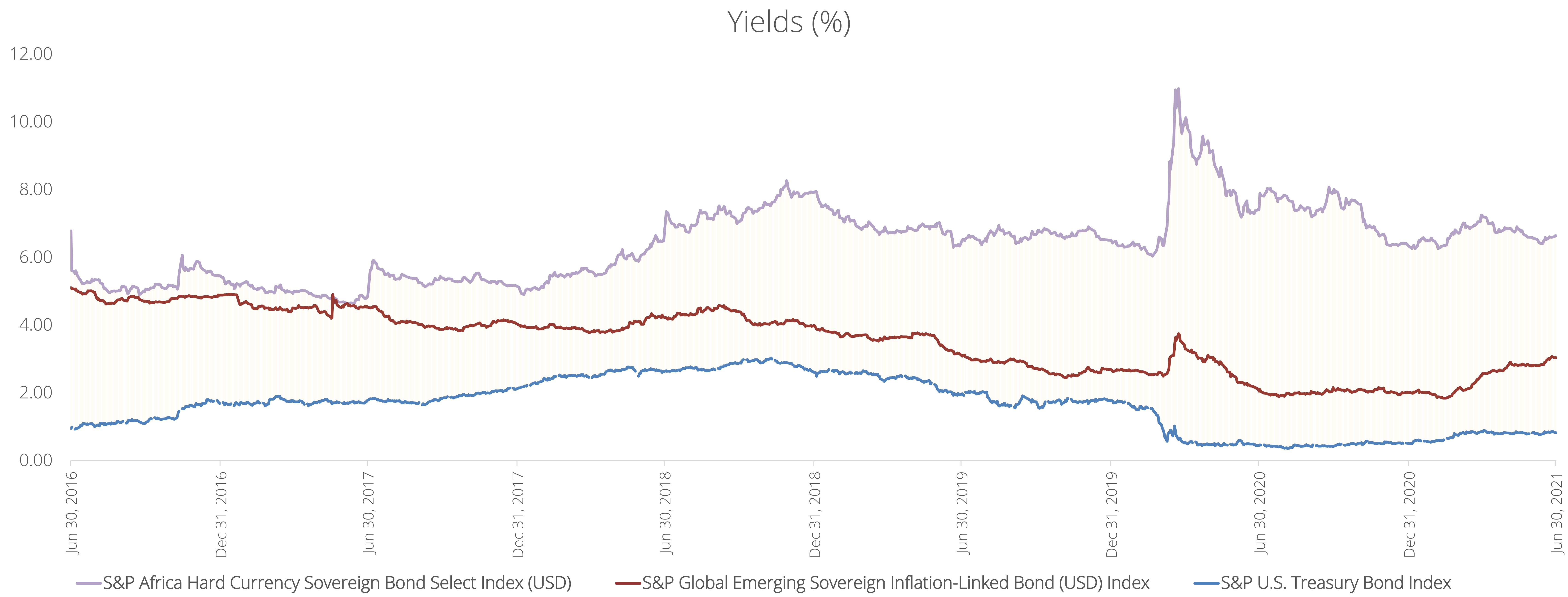
AN **EMERGING** SOURCE OF FOREIGN CURRENCIES

Remittances are now 2x the level of FDI across Africa



Source: Silk Invest; UN; IMF; World Bank

TRADING AT **HIGH SPREADS VS EM**



- Investors are compensated richly for holding these bonds with a spread to US 10Y Treasuries and EM debt as high as 2%-4%.
- Inflation scenario – Inflation could be triggered by high commodity prices and salaries. Both should help Africa as many countries are commodity exporters and/or big recipients of remittances. Lower spreads could cancel any potentially higher interest rates.
- Deflation scenario – Lower US interest rates which should mean lower overall African HC yields even without lower spreads. A combination of the two is feasible as demand for higher yielding assets will increase.

Source: Silk Invest; UN; IMF; World Bank; Bloomberg

CREATING AN **ATTRACTIVE AND SUSTAINABLE** USD YIELD CURVE

Key Notes:

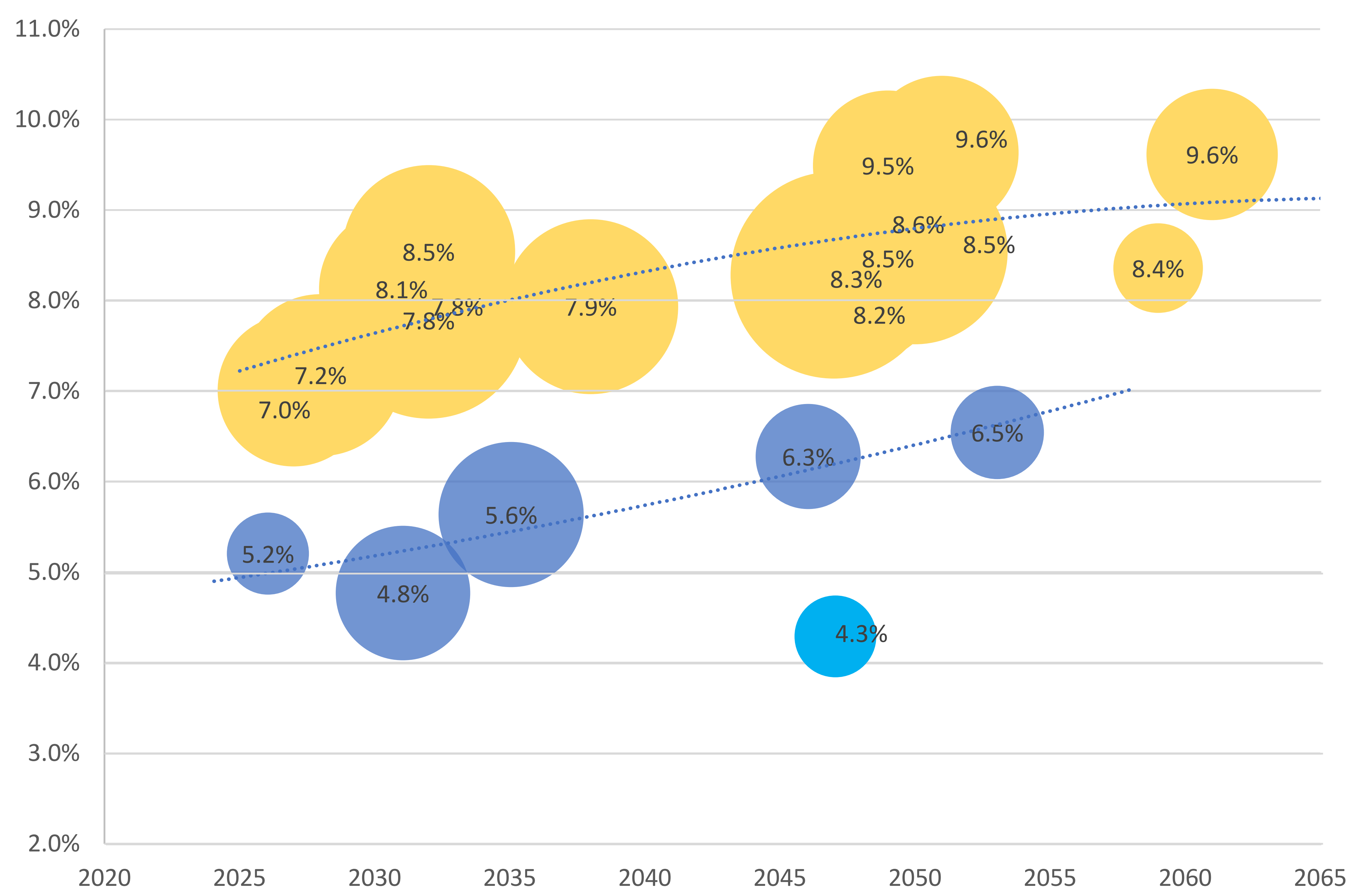
The yield curve of the hard currency African bonds indicates an expected period of growth. At present the yield curve for developed markets is inverted, reflective of the low interest rate environment and the dovish outlook for interest rate hikes through to 2023.

The African Sovereign Bonds have an average life at issue of 20 years and the current portfolio constituents have a weighted remaining life of 8.49 years.

We anticipate further Eurobond issuances by African Governments prior to redemption of existing issuances, due to the level of Reserves versus the outstanding debt issuance. The trend however is tilting toward refinancing external debt with Green/SDG/ESG focused African Sovereign Bonds.

	Country	Rating	Description
	Morocco	BB+	Lower medium grade - Adequate resources
	Namibia	BB	Less speculative - Adequate resources
	South Africa	BB-	Less speculative - Adequate resources
	Egypt	B+	Speculative - Lower adequate resources
	Kenya	B+	Speculative - Lower adequate resources
	Ghana	B	Speculative - Lower adequate resources
	Nigeria	B	Speculative - Lower adequate resources

Yield Curve

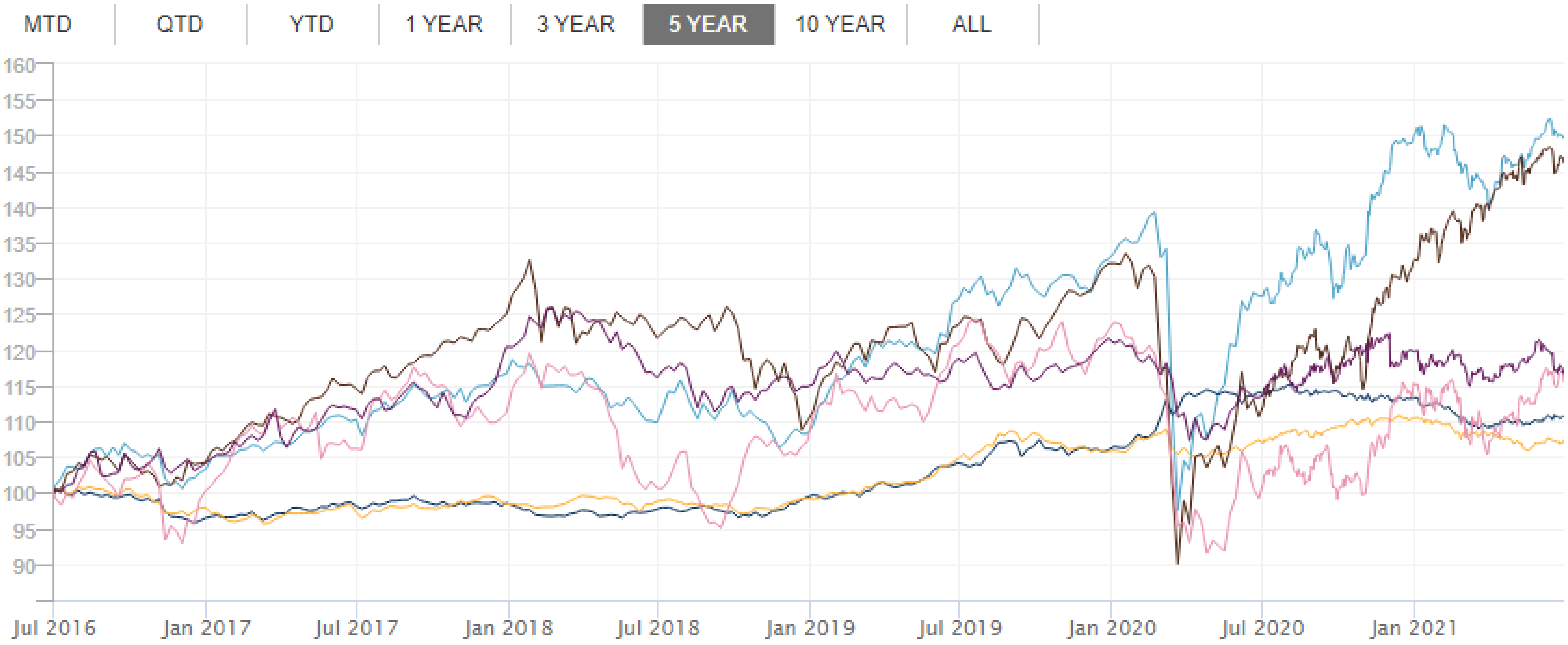


Cloud Atlas INVESTING

Source: Data as at 30Jun20 Cloud Atlas research, Tradingeconomics, Refinitiv. (4) Ratings as per Fitch and subsequent classifications were determined by using a combination of sources. (5) https://africanbusinessmagazine.com/african-banker/green-bonds-revolution-for-africas-exchanges/
Notes: The yields of bonds issued by Portfolio countries are clustered by credit rating and the trend line on the yield curve is a polynomial trend line over 5 prior periods and 2 future periods.

Chart & **Performance** Numbers from S&P

Total returns



The chart below shows the performance of the index vs others, mainly: All numbers are rebased to 100 with the underlying index valuations being in US$ and only Total Return indices are represented. Data as at 30 June 2021.

NOTE: The index we will be tracking is a Total return index that assumes the coupons received are reinvested. The Cloud Atlas S&P Africa Sovereign Bond ETF, however it is more tax efficient and less administrative to have the portfolio pay out coupons in quarterly intervals and track a price return version. The gross returns above show a combination of the price return movement and coupons return which an investor will receive (excl. fees).

Cloud Atlas INVESTING

S&P Global

WITH AN **INDEX** CONSTRUCTION PROCESS BACKED BY THE BEST

The index is a sub-index of the S&P Africa Hard Currency Sovereign 1+ Year Bond Index with the goal of selecting tradable, high income securities. Constituents must have a maturity of at least one year from the rebalancing reference date and be rated B- or above from all of S&P Global Ratings (SPGR), Moody's, and Fitch.

The S&P Hard Currency African Sovereign Bond Select Index is comprised of bonds issued by African Sovereign Governments denominated in Euros, Japanese Yen, and U.S. Dollars from the African countries with a credit rating above B-, currently: Egypt, Ghana, Kenya, Morocco, Namibia, Nigeria, and South Africa. The index construction is as follows:

- Calculate a ratio of the yield-to-worst divided by the coupon rate for each bond.
- For each country the securities with a ratio between 0.95 and 1.15, inclusive, are eligible.
- For any country rated BBB- or higher that has no eligible securities in Step 2, the securities with a ratio between 0.7 and 1.3, inclusive, are eligible.
- Of the eligible bonds from the above steps, the highest-coupon bonds from each country, up to a maximum of four bonds per country, are selected and included in the index.
- If fewer than four bonds from a country are eligible, all that country's eligible bonds are included in the index. In the event of a tie, the bond with the longer maturity is selected.
- A country cap of 20% is applied, with uncapped bonds reweighted proportionally. If fewer than five countries are eligible no capping is applied.

Annualised returns

			Returns		Annualized Returns	
Index Name	Date	Index Level	3 Year	5 Year	10 Year
S&P Africa Hard Currency Sovereign Bond Select Index (USD) Currency: USD Return Type: Total Return	Jun 30, 2021	151.13	10.86%	8.39%	N/A
S&P U.S. Treasury Bond Index Currency: USD Return Type: Total Return	Jun 30, 2021	473.14	4.28%	2.07%	2.41%
S&P Eurozone Sovereign Bond Index Currency: EUR Return Type: Total Return	Jun 30, 2021	241.37	2.81%	1.44%	3.92%
S&P GIVI Global Index (US Dollar) Currency: USD Return Type: Price Return	Jun 30, 2021	319.80	6.32%	7.89%	6.03%
S&P Global Emerging Sovereign Inflation-Linked Bond (USD) Index Currency: USD Return Type: Total Return	Jun 30, 2021	672.02	4.72%	2.93%	0.25%
S&P Botswana Sovereign Bond Index USD Currency: USD Return Type: Total Return	Jun 30, 2021	119.19	0.21%	3.15%	N/A

Cloud Atlas INVESTING

S&P Global

WITH AN **EXPERIENCED** INVESTMENT TEAM AND MANAGEMENT

Tawuya Nhongo (CFA)

M.Sc Maths Stats (Rhodes)

CFA Charter holder

Tawuya started his career as a junior quantitative analyst at Namibia Equity Brokers in Windhoek, Namibia. In 2011 he joined the Nedbank Group, working as a quantitative analyst at Nedbank Capital Global Markets then in Business Development & Facilitation within Nedbank CIB. His exposure has granted him extensive experience dealing across geographical borders in multiple asset classes and instruments.

Has worked at:
Nedbank CIB
AnBro Capital
Phoenix Wealth Management
Brawne Capital
Sibiya Financial Services (Current)

Adele joined Silk Invest as a portfolio analyst. She oversees Sub-Saharan African equity investments. She develops and works on ESG analysis for listed companies across the continent and serves as the Portfolio Manager of the Emerging Africa Bond Fund. She is a Kenyan national and is based in Nairobi.

Has worked at:
Credit Suisse Investment Banking
Renaissance Capital
Silk Invest (Current)

Adele Gikonyo (CFA)

B.Eng (McGill); M.Sc Eng (Birmingham), CFA

Arnold is a partner and Head of Asset Management for Sibiya Financial services, Multi-Strategy Emerging and Frontier Capital Markets professional with over 12 years of experience. He has experience managing and trading both Equity and Fixed Income markets across Nigeria, Ghana, Egypt, Kenya, Côte d'Ivoire etc.

Has worked at:
Nubuke Investments
African Alliance
Ecobank Asset Management (EDC)
Apakan Securities (Current)

Arnold Dublin-Green

Member of the UK Chartered Institute of Securities and Investments (CISI)

Dr Mawethu Zuka (PhD)

PhD Economics (Nelson Mandela University)

Dr Zuka started his career at a commodity broker & plant hire, where he was a manager. In 2008, he co-founded a junior gold and diamond mining empowerment vehicle with Australian listed miner. His responsibility included initiating and managing company's relationships, deal origination, valuations, drafting pitch books & capital raising.

Has worked at:
Nelson Mandela University
Chumani Capital Management
Grey Valley Company
Impendulo Mining SA
Unisa (Current)

WITH AN **EXPERIENCED** INVESTMENT TEAM AND MANAGEMENT (cont.)

Maurice Madiba

B.Comm (Wits);

Accounting Hons (Unisa)

Maurice started his career in financial services in 2005 as an intern and went on to work in the markets at Deutsche Bank looking at SA equities on behalf of the London office, and local pension funds running trackers. He later founded Cloud Atlas Investing and started listing trackers on the JSE in 2017.

Has worked at:
Nedbank
Convergence Partners
Deutsche Bank
Cloud Atlas (Current)

Zin co-founded Silk Invest in 2008 and brings 16 years of diversified financial experience to the firm. Zin has held executive positions at ING, Bain & Company and Fortis Investments. He is also a CFA charter holder and completed his executive MBA at London Business School. Zin is both a Dutch and Moroccan national and is based in London.

Has worked at:
Aphold
ING Investment Management
Bain and Company
Fortis Investment
Silk Invest (Current)

Zin Bekkali (MBA), (CFA)

M.Sc (Amsterdam); MBA (London) Business School); CFA

Headquarters – South Africa

(Established in 2015)

1st floor Victoria Gate West,

Hyde Park Lane

Hyde Park, 2196

Website: www.cloudatlasinvesting.com

Tel: +2710-203-9157

Email: client@cloudatlasinvesting.com

THANK YOU