APQ global

2017 Mid-Year Review

APQ Global (ticker: APQ LN) is a global emerging markets income company with interests across Asia, Latin America, Eastern Europe, the Middle East and Africa. The Company's objective is to steadily grow earnings to deliver attractive returns and capital growth to shareholders. This objective is achieved through a combination of revenue generating operating activities and investing in growing businesses across emerging markets. APQ Global run a well-diversified and liquid portfolio, take strategic stakes in selected businesses and plan to take operational control of companies through the acquisition of minority and majority stakes in companies with a focus on emerging markets.

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2017 Mid-Year Review

A solid first half for emerging markets… with more opportunities on the horizon.

At the turn of the year, we were preparing for potentially volatile markets as the world adapted to the watershed events of 2016. Six months in, however, these events have had less of an impact than many had anticipated. Despite rhetoric to the contrary, Trump's administration has so far failed to make good on many of his election pledges and the results of European elections post Brexit and the Italian referendum have on the whole been very sensible.

While markets globally seem to be faring quite well in the year-to-date, it is emerging markets that are once more leading the pack, both in equity and debt markets. Emerging markets have been boosted in particular by a strong performance in a number of individual economies, a weakening US dollar and strong liquidity. Of course, new challenges have now come to the fore – namely the growing risks arising from the tensions in the Gulf and the muscle-flexing displays of North Korea. However, despite these tensions and challenges, there are very specific opportunities to be had across emerging markets and at APQ, we are well positioned to identify these to deliver our shareholders stable income. In this mid-year review, our recently strengthened International Advisory Council takes the opportunity to share their views and discuss the investment opportunities they have identified from regions such as Sub-Saharan Africa to Mongolia and Nigeria.

Looking at our own performance as a company, we are pleased to confirm that our second quarterly dividend of 1.5p will be paid in the coming weeks. Our liquid portfolio is largely unchanged and our sizeable hedge on rates is serving us well. Looking forward, we remain confident of delivering a 6% yield, supported by solid capital growth. We are excited by some new strategic opportunities that we intend to pursue as we enter the second half of the year and will share more information on these in due course.

In the meantime, we hope that you enjoy the local insight into markets across the globe, and please do get in touch with us if you want to discuss any specific opportunities with the team.

Sincerely,

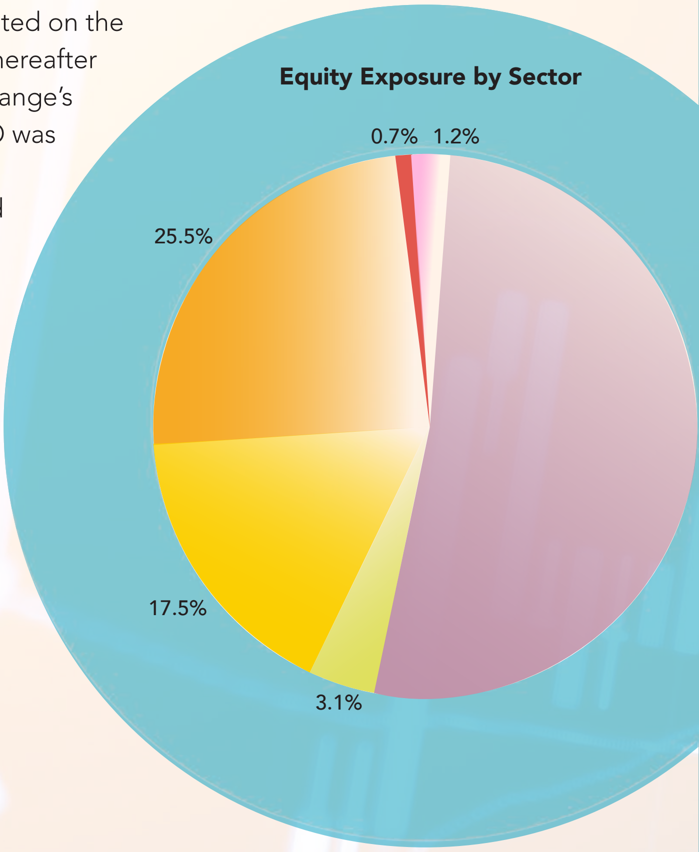
Bart Turtelboom

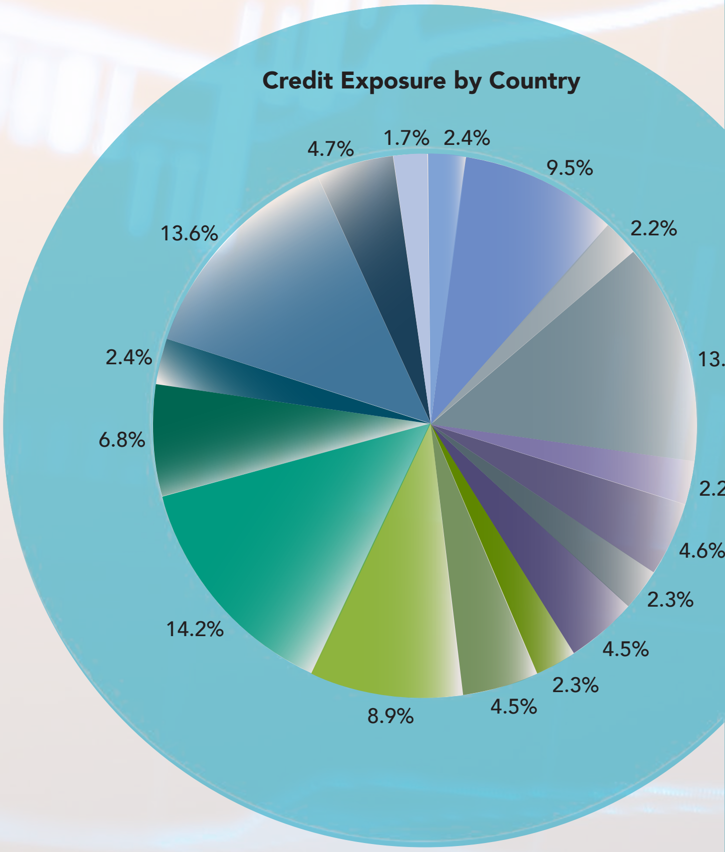
Chief Executive Officer, APQ Global Limited

OUR FIRST YEAR AS A LISTED COMPANY

On 11 August 2016, APQ Global Limited was listed on the International Stock Exchange and was shortly thereafter admitted for trading on the London Stock Exchange's AiM Market. The mid-summer timing of the IPO was itself a reflection of market conditions in 2016: the BREXIT referendum was still being digested and investors were looking opportunities outside the UK. Furthermore, the Trump bandwagon was gathering speed but overall income per annum returns the consensus remained that he would lose the Presidential election in November.

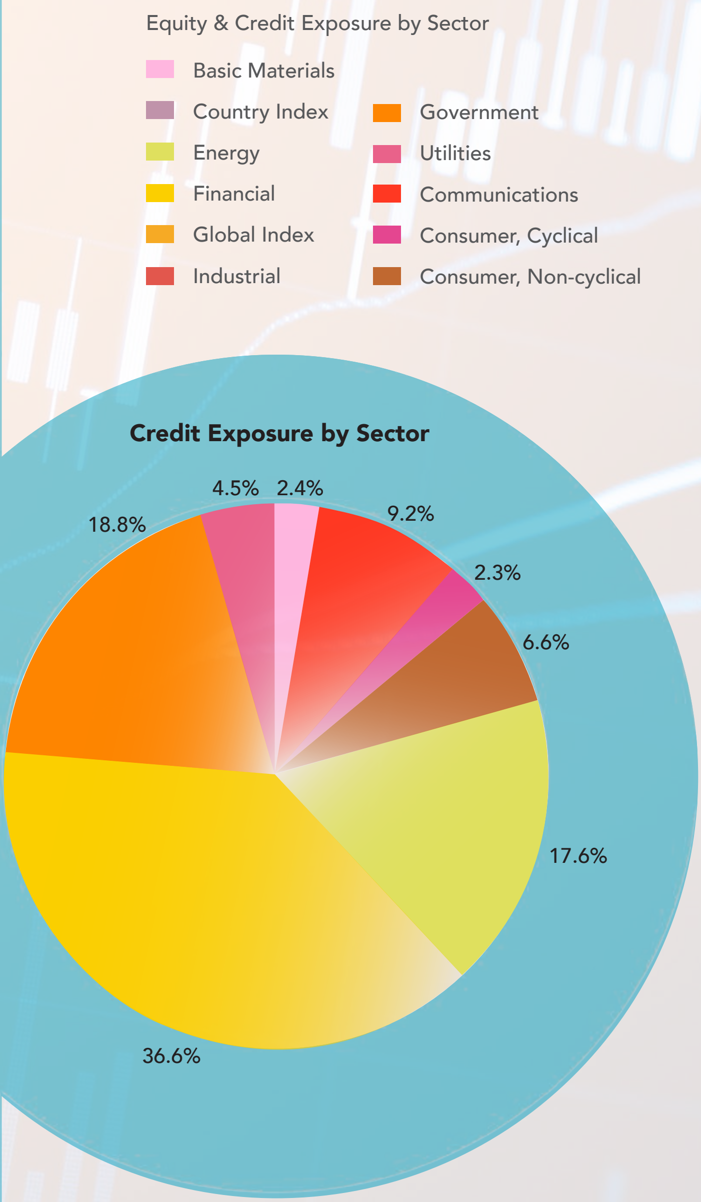
Our key objective from the start was to generate sufficient income in the portfolio to retain a healthy dividend yield, and that objective remains to that day (with APQ maintaining its current target of 6%). This focus on income is not just a reflection of the current state of the investment universe but reflects our fundamental view that investors in emerging markets tend to overpay for the 'dream' of long-term growth and underpay for the cash flows readily coming from the asset class. Our approach is the exact opposite: We believe Emerging Markets ('EM') offer tremendous income opportunities regardless of index performance, asset class. If public or private bonds offer the best opportunities, we will pursue them. If we can find decent long-dated cash flows in hedging instruments or royalties, we will pursue those as well.





Credit Exposure by Country

- Angola
- Argentina
- Azerbaijan
- Brazil
- China / Hong Kong
- Colombia
- Egypt
- Kazakhstan
- Kenya
- Mexico
- Nigeria
- Russia
- South Africa
- Sri Lanka
- Turkey
- Ukraine
- Venezuela



(Exposure data correct as of 30 June 2017)

Our edge as team, in our view, is a deep and long-standing expertise in scanning the EM universe for these opportunities and embedding them on our balance sheet to achieve the income target we have set ourselves and achieve modest book value growth in the medium term.

This approach has served us well in our first year of operation. We paid our first dividend in January, and subsequent 1.5p dividends in April and August. We have stuck to liquid exposure because we see a distinct lack of value and income potential in illiquid opportunities across EM. The latter is a reflection of a glut of liquidity compressing risk premia in global markets. For a detailed look at these trends, we refer you to our quarterly fact sheets on our website:

(http://apqglobal.com/investors/ rns-announcements-regulatory-news/).

Our focus on income protects our shareholders from these large market swings. Immediately after the US Presidential elections, our approach insulated our shareholders from an aggressive EM market selloff; this year's rally has more than offset the selloff in Q4 last year. There is no doubt, we will see many more such gyrations and our approach is to stay the course and focus on the income potential in EM.

This approach does not mean that we hold a bearish view on emerging markets. As a whole, we believe the long-term structural arguments for EM growth are very compelling (for instance, demographics, trade and capital market liberalisation, technological leapfrogging). However, we want to remind investors that those same arguments were true in 2009, when the global EM equity index actually underperformed the S&P Index in the subsequent five years by well over 100% (the S&P rallied 83.3% during 2010-2015 while the EM equity index dropped 19.7%). Investors not only underperformed in EM equities, they actually lost money during a formidable bull market in US equities.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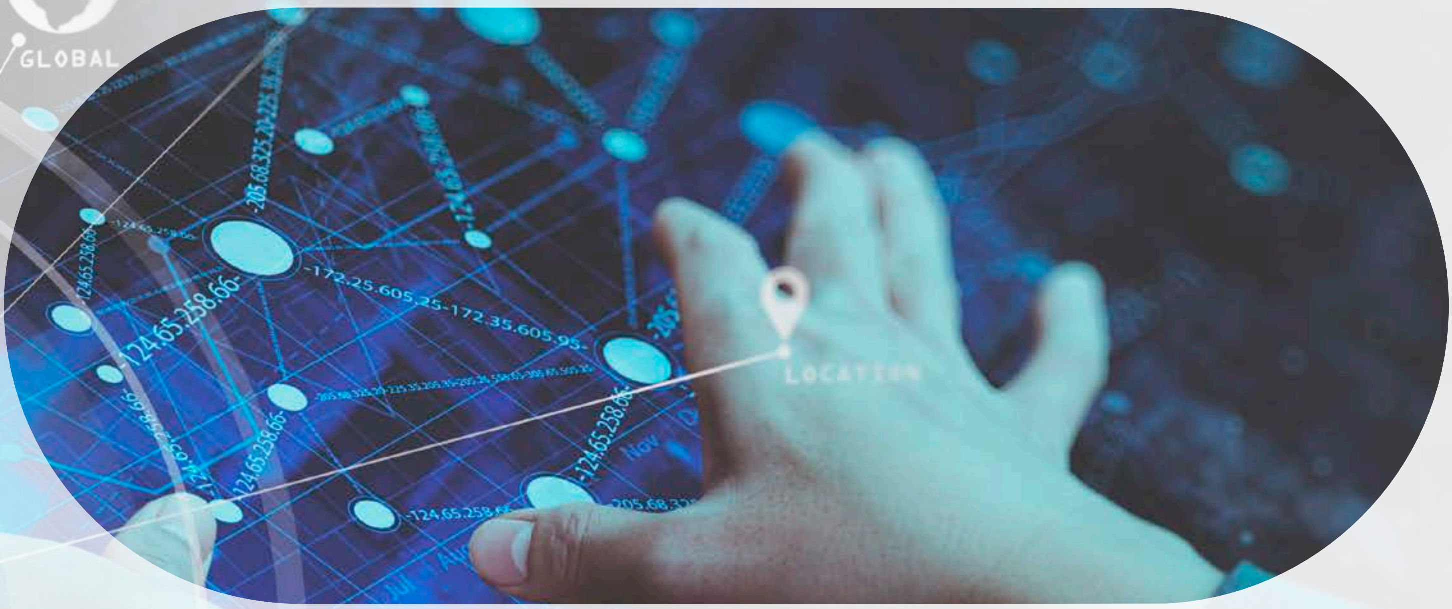
GLOBAL MARKETS BACKDROP

An exceptional globally synchronised macroeconomic cycle has taken hold, supported by hope of fiscal reform in the US, improving conditions in the European periphery and continuing support from favourable monetary policies in Europe, the US and Japan.

Six months into the Trump administration, the single most important driver of markets over the past year, we take a look back at how the US economy has performed over 2017-to-date, how US investor sentiment has changed and finally, whether this is impacting investors' appetite for emerging markets.



The US economy continues to be the growth story for the world. While President Trump's ambitious goals to sharply boost economic growth are yet to be achieved, the truth is that the economy has not slowed as much as some analysts anticipated and corporate finance activity is in fact reaching fever pitch. What this likely tells us is that there is a willingness on behalf of US investors to give this administration the benefit of the doubt and they believe that the markets are offering them the certainty and stability that they so desperately crave.

The monetary policy story supports this belief, with the Federal Reserve sending the signals they have and by gradually raising rates. However fiscal policy tells a different story, with a bill on tax reform yet to be drafted and healthcare on such shaky ground. While monetary policy is likely to have a greater impact for US businesses and institutional investors right now, it is hard to ignore the potential ramifications for the economy (and investor sentiment) resulting from ineffective fiscal policy. It will be interesting to see how long investors continue to give this administration the benefit of the doubt.

US investors have, on the whole, stayed away from emerging markets exposure for some years, and many are now considering how to get back into emerging markets in a risk-adjusted and liquid way. There is now a realisation that emerging markets are not as remote or as adversarial as people thought after the financial crisis, and while they may have taken on a marginal commitment, they are now seeking out strong investment stories that they can be confident investing in. These investors need a safe and smart way to invest large pools of capital with people who have broad knowledge and experience of emerging markets, which is why APQ is well positioned to help them achieve this balance.

Please see below some headline thoughts from our Advisory Board on specific markets of interest.

A new crisis in the Middle East?

Saudi Arabia has shocked observers, setting off a new wave of instability in the Gulf region by cutting diplomatic ties with Qatar. But how did things escalate so quickly, and what does this mean for investors in the region?

Most of those with an eye on the Middle East were unsurprised that Qatar was targeted for isolation, however almost everyone has been surprised at the intensity the diplomatic conflict has taken. The demands being made of the Qataris are impossible for any country that wants to call itself sovereign to accept.

While the UAE and Egypt have their own reasons to punish Qatar, Saudi Arabia is clearly governing this conflict. Indeed, it seems that one person in particular is trying to make a strong political statement – that person being the recently appointed crown prince of Saudi Arabia and effectively the person running the show, Prince Mohammed bin Salman. This transitional period of a new, young regional leader with a very complex set of strategic and economic challenges is not an easy backdrop for investors. It is more difficult for regional politicians: how do you deal with your political and economic sponsor demanding greater loyalty for riskier regional enterprises, precisely when its resources are dwindling? The stakes are also higher because tail risks increase in other regional conflicts as a result. For example, in Syria, the chances increase of an accident involving two or more of Iran, Israel, Russia, US, Saudi Arabia or Turkey, although it is reassuring to note that the G20 conference bought some comforting headings reasserting Russian-US coordination.

Another interesting transition is perhaps revealed by the Qatar crisis, being the vacuum created by US foreign policy under President Trump, exacerbated by the eroding political authority of the White House. This invariably entices (or compels) regional powers to take more unusual, riskier actions to pursue their interests. In any event, politicians and investors are trying to get used to a new world where the most important power in the region, the US, behaves with a new, less predictable style. Contradictory signals emanating from the White House and the State Department are not viewed as nuanced and coordinated signals, but rather flip-flopping policy improvisations.

As for Qatar, all this means it is difficult to predict how the crisis will be resolved. If we see sanctions increasing to such a point that the Qataris have little choice but to meet the harsh criteria set out, or Saudi Arabia threatening military action, the outlook would be pretty bleak for the Qatari leadership as it stands. Needless to say, the Qataris are fighting for their survival to find a deal to diffuse the situation. However, even such a peaceful outcome degrades the political landscape, for unprecedentedly loud ultimatums would have to be quietly forgotten. This is the new normal: the opposite of the "speak softly and carry a big stick." It reminds us not only of the peculiarity of the Trump presidency, but also of the volatility and stresses confronting Gulf ruling families in a world of persistently lower energy prices and multiple regional wars.

The "big picture" outlook for investors in the region is therefore difficult. Political stresses and military exigencies mean that economic growth and development cannot be prioritised, something challenging enough with the very depressed oil prices. Moreover, the policy track record from better times is not stellar. Back in April, our hunch was to avoid anything with a Gulf component to it, and that view seems to have played out. Qatar's equity market recorded double-digit losses in the first six months of 2017 for obvious reasons, but other Gulf countries dependent on oil or on Saudi largesse have also performed badly (Bahrain and Kuwait are exceptions). But countries outside the Gulf conflict such as Tunisia and Morocco have performed well. Egypt, though closer to the Gulf conflict, has itself fared reasonably, no doubt largely due to revaluation effects after last year's massive currency devaluations. As it is impossible to foresee what will happen next in the Gulf, we believe as a top-down rule it is best to continue to focus on markets in the region that are smaller and less exciting.

Green shoots for South Africa?

As Jacob Zuma shows signs of weakness in the run up to December's presidential candidacy elections, will party deputy Cyril Ramaphosa fight for control? And what does this mean for the long-suffering Rand?

South Africa has been in political and economic turmoil for some time, and 2017 has been no exception to date. Following eight years of weak economic growth in real terms under Zuma's leadership, S&P downgraded the country to junk status in April and the Rand continues to be oversold ever since. But with the country going to the polls in 2019, could we be about to see a change in the South African political landscape? And could the impact of this spill over into economic markets?

Our optimism that we could be on the brink of change is driven by the recent African National Congress ("ANC") policy conference. While the policy conference has little to no bearing on the South African political landscape, it does give us an inside view on what is happening within the party. And potentially a hint at who will have the party's support in December when the ANC chooses its candidate for the next president.

Of course, Jacob Zuma has publically endorsed his ex-wife Nkosazana Dlamini-Zuma as the next leader, for the simple reason that he is facing continued allegations of fraud and racketeering. Accusations are so heightened that is he likely to be put in jail once his presidential immunity expires after the 2019 elections. His only options to avoid that fate are either escaping to a non-extradition country or to protect himself under his ex-wife's presidency. His prospects are bleak and that is why he is on the road trip of his lifetime to position his ex-wife into power.

However, the thorn in his side is his current deputy, Ramaphosa, who is gaining support to become the next president instead of Dlamini-Zuma. Ramaphosa has articulated a short tolerance for corruption, and has made no secret of his support for anti-Zuma protestors. The anticipated battle for power between the two candidates is literally tearing the ANC apart. The ANC is a conglomeration of three parties, including the South African Communist Party ("SACP"), who have already said they will not let Zuma's ex-wife into power and have given an ultimatum that they will break away from the ANC if that is the case. The Congress of South African Trade Unions (Cosatu) is also a massive backer of Ramaphosa, a former trade union leader.

It was not until at the policy conference where we really started to see the balance of power shift away from Zuma. Zuma put forward eleven policies for the ANC going into the next election, ten of which were rejected outright. Even though the policy conference cannot result in any change of law, Zuma has clearly come out of this with a bloody nose and Ramaphosa seems the stronger candidate.

The Rand suffered in the aftermath of the conference, driven mostly by the ANC proposals for uncompensated land expropriation. The fact of the matter is that without a change of constitution or referendum this cannot happen, so is nothing more than a benign attempt to appeal to the uneducated masses to try and win votes before the next election.

Our view is that the Rand has now been weakened to the point where it offers interesting buying opportunities in the country. You need a strong constitution if you are going to follow the Rand, but that is exactly what our instinct is telling us right now. From now until December, we are likely to see huge volatility, but ultimately we see more risk that the Rand will strengthen rather than weaken from its current levels.

Mongolia: Virtuous recovery underway.

In our 2017 Outlook at the beginning of the year, we predicted a virtuous recovery for Mongolia, following a very troubled 2016. Year-to-date it looks like our thesis is holding and the economy has turned, driven in part by some very significant mining projects that have already started. Noted, the newly elected president, known for his pro-Kremlin stance, is a risk, however it is broadly thought that the election outcome will not have much impact on the recovery that is underway.

Nigeria: Presidential succession issues, but economy on a better trajectory.

After currency controls caused significant issues earlier in the year, we are starting to see some more liquidity in the parallel market and even the start of some convergence with the official market. Overall, the economy is on an upward trajectory as oil production is up substantially and foreign capital is flowing into the market. The presidential succession issues are weighing on people's minds, given no one has seen President Buhari following two months of undisclosed medical treatment. While we will likely see some sectarian violence and disruption to capital markets if Buhari does not make it back, this could potentially be a buying opportunity for investors. In the short term, local bills, bonds and selective equities are our focus. In the medium to longer term, we turn our attention to power, as Nigeria has a significant power deficit and any improvement in this sector will have a very substantial follow on effect for the broader economy.

Sub-Saharan Africa: Volatile markets, but there are still opportunities for investors.

The overarching theme across Sub-Saharan Africa is political instability. Mozambique is having problems with the International Monetary Fund on the back of some dubious deals. Zambia declared a state of emergency just a few weeks ago. South African political woes continue as highlighted above. These are difficult markets to navigate and the volatility is expected to persist, certainly for the next twelve months. However, that does not mean there are not opportunities to be had in this region. South Africa seems to be the most fertile hunting ground for investment ideas given the liquidity in currency and credits.

Turkey: Unlikely to sustain growth from first half of 2017.

Following the Justice and Development Party's referendum success earlier in the year, the government has introduced various measures to stimulate growth, resulting in the largest increases in Turkish GDP in almost two years (5.0% in the first quarter, and 3.5% in the second quarter of 2017). But in our view, this is not sustainable and we remain bearish on Turkey. For example, one measure they have established to boost growth is the credit guarantee fund, allowing tradespeople and craftspeople easier access to financing. Already standing at 100 billion Turkish Lira, this measure appears to be more about helping Erdogan's political fate than his country's future stability.

The Turkish real estate market is a particularly challenging sector, and is most definitely a story of two halves. While the mid and lower sectors are holding up due to government controls in this area, there are definite problems in the higher end of the market. Bodrum, the summer holiday spot for wealthy residents, is showing signs of a 40% discount compared to a few years ago, and buyers are very scarce. Our current focus is on helping foreign investors who are facing difficulties collecting money from creditors in the region.

India – China: Standoff over Bhutan border dispute.

Bhutan is at the centre of escalating tensions between these Asian giants over a scrap of remote but strategically important territory. The current deadlock started in mid-June, as China started work to expand a road in east Bhutan. The Indian government responded by sending troops, following a request for assistance from Bhutan. While it is hard to imagine a sustained conflict in such a remote area, the more assertive stance from the Indian government combined with the scale of the mobilisation means that this is one to watch looking forward.

North Korea: Rising tensions from the West.

No round up of global markets would be complete without mention of North Korea, and global reactions to its escalating nuclear program. While it is unlikely the North Koreans are ready to launch a nuclear missile capable of striking North America just yet (there is no evidence they have miniaturised a nuclear warhead or developed a missile that can survive the pressure of re-entry), the speed at which they are ready to do so could be sooner than US intelligence previously anticipated, meaning leaders are under intense pressure to resolve the issues.

Trump's call for a UN Security Council Resolution following the successful ICBM test on 4 July 2017 was vetoed by Russia and China. Instead, President Trump deployed troops in South Korea in a show of force and announced efforts to seize North Korean assets held in western banks. Russia and China subsequently joined forces to call on the Koreans and the US to sign up to a de-escalation plan designed to defuse tensions, including a request to the US to remove their missile defensive systems from the Korean peninsula. All eyes are now on the Trump administration to see how this progresses.

Final thoughts

As we reflect on both our performance and the performance of the markets more generally over the past year, there are many reasons to be cheerful. Our first year as a listed company saw us deliver our objective of stable income against an ever-changing market backdrop and emerging markets generally have performed well. As we look forward to our second year, we are confident that our approach and focus on income continues to hold us in good stead.

Despite some clear challenges on the horizon, our Advisory Board has identified some very compelling opportunities in specific markets. To re-iterate, we are not bearish across emerging markets and in fact, we firmly believe in the long-term structural arguments for emerging markets growth and expect the bull run to continue for the remainder of the year. However, we are mindful of the risks and therefore taking a very considered view on selecting the right opportunities to deliver our objectives and achieve stable income.

APQ global A relentless focus on income

APQ Global Management team

The APQ management team brings considerable emerging markets experience and have worked together for a number of years. They all joined the company through the acquisition of APQ Partners LLP, of which they were all co-founders in 2013, and which was acquired by APQ Global in January 2017. Before jointly founding APQ Partners LLP, they worked together at GLG. The key members of the team are:

Bart Turtelboom (CEO). Bart was chief investment officer of APQ Partners LLP and was previously co-head of the emerging markets business at GLG and co-portfolio manager of the GLG emerging markets funds. Prior to that, he was the Global co-head of emerging markets at Morgan Stanley, where he ran a multi-billion US dollar business spanning Asia, Latin America, the Middle East and Africa, and headed its Global Capital Markets Group. Before that Bart was a portfolio manager at Vega Asset Management and a director at Deutsche Bank, where he held several roles culminating in coverage of the bank's largest European clients. Bart began his career as an economist for the International Monetary Fund in Washington DC from 1994 until 1997.

Lennart Kaltenbach. Lennart was a senior portfolio manager at APQ Partners LLP and was previously an asset manager at GLG Partners, specialising in emerging market credit and currency markets. He joined GLG in December 2007 as a risk manager for the emerging market and macro fund range, becoming an emerging markets asset manager in July 2011. Prior to joining GLG he worked at Dresdner Kleinwort in several risk management roles.

Maria O'Connor. Maria served as legal counsel and chief compliance officer for APQ Partners LLP and was previously in the legal department of GLG Partners LP from 2011 to 2013. Before joining GLG, she was a director of product development at BlackRock from 2006 to 2010 where she was head of the team and managed all legal matters related to offshore funds. Maria also worked at Merrill Lynch from 2006-07 as legal counsel for the MAP Platform. Maria started her career at Barclays Bank PLC in 2004-06 where she was legal counsel to the wealth management department. Maria was admitted as a barrister and solicitor of the New Zealand High Court in 2002.

Tal Sandhu. Tal served as a senior portfolio manager at APQ Partners LLP and was previously an asset manager at GLG Partners, specialising in emerging market interest rate and currency markets. He joined GLG in December 2008 from Morgan Stanley where he was an executive director and head of complex products in emerging markets. Before joining Morgan Stanley, Tal was co-head of equity structured product trading at Banca Intesa in London. Prior to this, he traded interest rate derivatives at Sanpaolo IMI Bank.

Global International Advisory Council

In February 2017, APQ launched its International Advisory Council, comprising a geographically spread group of emerging markets specialists. The purpose of this advisory body is to assist the management of APQ by providing valuable insights and market intelligence from around the world. The members are remunerated by a mix of retainers and discretionary payments awarded for making positive contributions to APQ's global business strategy. APQ also anticipates that the creation of the council and the deep industry contacts that its members bring will help to raise the market profile of the company. In addition to Bart Turtelboom, the initial members of the APQ International Advisory Council, announced in February, were:

Tania Rotherwick – Chair. Tania has 16 years of experience in financial markets gained as an equity derivative broker (in London with Hoare Govett and in Paris with Meeschaert Rouselle, and ODB), followed by five years with a Swedish derivative trading software firm (Orc Software), where she headed its UK operations. Most recently, Tania has played an active role in running the family estate in Oxfordshire, which includes focusing on the marketing and management of the commercial and residential property portfolio.

Wesley Davis (Russia, CIS, Nigeria). Wesley has over two decades' experience in credit trading and private equity investing in emerging markets. He has held a wide range of positions at Chase/JPM, Deutsche Bank, Merrill Lynch, HSBC and Renaissance Capital, and has covered some of the largest hedge funds and institutional investors in emerging markets.

Sait Erda (Central Europe, Turkey, Middle East). Sait's investment career spans research, advisory and principal investing in emerging markets with a focus on Central Europe, Turkey and the Middle East. He has over 20 years of experience in emerging market corporate finance and equity research at large and established Turkish and global banks, including Morgan Stanley, JP Morgan, Bear Stearns and CreditAnstalt IB. He is currently managing partner and co-founder of NAR Partners, a specialised emerging markets advisory boutique.

Stefano Marani (Africa). Over his career, Stefano has executed a large number of benchmark structured finance transactions in Africa. He started out in the debt capital markets team at Deutsche Bank in Johannesburg where he worked on the first ever foreign issue bond in South Africa for DaimlerChrysler as well as the Development Bank of Southern Africa's long-dated bond program. In 2004, he joined Morgan Stanley with responsibility for developing the firm's South African fixed income capital markets business, and where his remit expanded to Israel and all of Sub-Saharan Africa. Stefano is currently the chief executive officer of Renergen Limited and is a partner at Kigeni Holdings, where he is originating and structuring debt and equity transactions for African clients.

Mazen Nomura (CIS, Middle East). Mazen is a Jordanian-Japanese national with 20 years of experience in global emerging markets including as an active venture capital and angel investor in the Middle East. Mazen will assist the company in his advisory capacity with managing its exposure in the CIS and the Middle East. He was most recently managing director and head of global markets at Sberbank CIB, where he managed a trading desk in London and Moscow specialised in Russian and CEE hard and local currency bonds. Prior to Sberbank, Mazen was a portfolio manager at GLG Partners and Head of emerging credit rating at Morgan Stanley.

Jared Carney (Global markets). Jared brings more than 25 years' experience as an international expert in private investment. He was chief strategy and marketing officer at the financial think-tank, and spent nearly 10 years at the Milken Institute, before founding Lightdale LLC, a global holding and strategic advisory firm in 2012 where he is CEO. He is also currently on the board of directors of Brandenburg Realty, and is a senior advisor to RMR Industrials, Inc., Houlihan Lokey, and McKinley Capital.

Udayan Gupta (Global markets). Udayan is a former senior special writer for the Wall Street Journal and author of numerous business books. He works with small and entrepreneurial businesses and business groups and organisations to help them better understand their financial information needs and develop financial and investor profiles. He is a graduate of Harvard College and a Walter Bagehot Fellow in Business and Economics Journalism at Columbia University, New York.

Yan Naung Lynn (Myanmar, Southeast Asia). Yan is currently an Emerging Markets investments advisor for a Myanmar-Cambodia-Laos focused private equity firm, with a role originating and analysing investment opportunities across all sectors. Prior to this, Yan held positions evaluating and executing investments for Myanmar Investments Limited, a Myanmar-focused AIM listed investment holding Company, in addition to CitiGroup and BMO Capital Markets in New York. Yan holds a BA in Economics from Eckerd College, St. Petersberg, USA and a Masters in Finance from the London Business School.

The International Advisory Council is already assisting the management team of APQ Global with the provision of local insights across emerging markets and is helping to shape the global business strategy.

APQ Global is an international emerging markets company which aims to deliver a stable and growing dividend and capital growth for shareholders by focusing on generating significant income from business opportunities with good value and long-term growth potential.

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