

The impact of currency on Epack and how you should react

The recent fall in Databank Epack Investment Fund (Epack's) share price has left some investors unsure about the Fund's strength and what to do with their investments. We'd like to offer some insights into what's happening.

The appreciating (rising) Ghanaian Cedi

The successive sharp falls in Epack's share price in recent weeks is attributable to the rise of the Ghana Cedi against the U.S. dollar over the same period, as the Ghana Cedi begins a slow recovery from its year-to-date fall of 26% (as at June 29). As a Pan-African Fund, Epack actively invests in other African countries in order to realize significant returns for its shareholders. As at the end of June 2015, more than 50% of its assets were invested outside Ghana.

Purchasing stocks in other African countries

As you know, Epack invests in stocks listed on exchanges in Mauritius, Malawi, Egypt, Nigeria, South Africa, Tanzania, Kenya, Uganda and the BRVM (regional exchange). These Investments are purchased at prices denominated in the local currencies of their respective countries (e.g., Nigerian stocks will be purchased in Naira, Kenya stocks will be purchased using Kenyan Shillings, and Mauritius stocks will be purchased with Mauritius Rupees.) Owing to the fact that Epack is a Ghanaian mutual fund, it is denominated in Ghanaian cedis (GHS). Therefore, during our daily valuation process (the process we use to determine the daily share price), the investments that the fund holds outside Ghana are converted from the local currencies of those countries back to the Ghanaian Cedi.

To accomplish this, we convert the value of those investments from their local currencies to a common currency that is internationally recognized and easy to convert to Ghana Cedis. The common currency we use is the United States Dollar (US\$). Once the foreign investments are quoted in U.S. dollars, we then convert it to Ghana Cedis at the prevailing GHS/US\$ exchange rate.

An example in action (for illustrative purposes only)

- Let's assume that on June 30, Epack's Assets Under Management (AUM) is GHS 100 million and Epack has 50 million shares. Epack's share price (per share) would therefore be GHS 2.00.
- The AUM of GHS 100 million is a combination of the value of the Fund's stocks we've purchased on the Ghana Stock Exchange (GSE), which are already denominated in Cedis, and the Fund's foreign holdings on the other African stock exchanges, which is the cedi equivalent of the U.S. dollars we used to buy those shares
- Let's say that of the GHS 100 million in AUM, Epack's foreign holdings are worth US\$10 million
- If, for example, the exchange rate on June 30 is GHS 4.5 to US\$1. This means that GHS 45 million of the Fund's AUM is directly related to its foreign investments
- If, by July 8, the Cedi *appreciates* to GHC 3.5 to US\$1, it now means that the Fund's foreign holdings, which are still valued at US\$10 million, would now be worth GHS 35 million
- The impact on Epack is that the Fund's AUM would now fall to GHS 90 million from GHS 100m
- If the number of shares remain constant (i.e., 50 million), the new share price would be GHS 1.80 (GHS 90 million ÷ 50 million shares) – that equates to a drop in return of 10%

How we determine a fund's share price

- In very simple terms, here's how it works:
The return of Epack is based on the rise or fall of Epack's share price from a particular start date (e.g., January 1, 2015) to a selected end date (e.g., June 30, 2015)
- The fund's share price is determined daily by dividing the assets under management of the fund by the number of shares in the fund

What you should do

It's not easy to see a drop in return on your investment and stay calm. But here are a few tips for you in these uncertain times:

- **Remember investing is for the long term.** Epack has never been about giving you quick returns, although that may happen from time to time. Epack is a long term investment, which is why we recommend that you plan to hold your investment for at least three to five years. Since the Fund's inception, the Fund has never realized a loss over any three-year period.
- **Don't panic.** In Epack's 18-year history, the Fund has recorded only 6 years of negative returns (see chart to the right). Many investors, to their detriment, panicked and withdrew their funds, thereby locking in their losses, only to see the Fund's share price climb even higher. Many have returned to continue with their Epack investments, but it means that these individuals are now buying shares at a higher price
- **You only lose when you redeem.** Using the example above, the drop in Epack's return is only a loss on paper and will not be an actual loss to your individual investment unless you redeem the funds. At the point of redemption, if your share price is less than when you purchased the shares, you will then realize a loss. If you hold on to your funds, and the share price goes up – as it has done for the past 18 years – you will never experience a loss to your investment.
- **Invest more, if you can.** You buy shares in a mutual fund invest today because at a future date, you intend to sell those shares for a profit so you can have more money than you started with. As an individual, the time you will likely do most of your shopping is when a particular product is on sale. Why? Because even though the price has changed, the value of the product hasn't. In the same token, we encourage you to take advantage of Epack's lower share price (or temporary sale price, as we like to say), so that when it rises you will enjoy even greater gains.

What we will do

This is not the first time we've seen the Cedi recover from a sharp decline, and it won't be the last. One of Epack's biggest benefits, however, is the fund management team that is constantly monitoring the Fund's holdings and their impact on the Fund's share price. The team remains committed to managing your fund, and with more than 20 years of managing investments for Ghanaians, at home and abroad, we have a toolbox of options we can use to help offset the impact of the currency on the Fund's long-term performance. While we may make some strategic adjustments in response to the currency fluctuations, we will maintain the Fund's pan-African strategy which has been instrumental in Epack outperforming the Ghana Stock Exchange by more than 5 times since its inception. We're happy to say that as at December 31, 2014, Epack's cumulative return since it began in October 1996 was 27,731% compared to the Ghana Stock Exchange's return of 5,157%. It pays to be Pan-African.

We thank you for your continued support and investment in Databank Epack Investment Fund.

Sincerely,

Nii Ampa-Sowa

Chief Investment Officer

Databank Asset Management Services Limited

EpacK's Annual Return

(As at Dec 31 of each year listed)

1996	-2.00%
1997	82.00%
1998	123.00%
1999	-3.00%
2000	20.00%
2001	50.91%
2002	69.90%
2003	137.00%
2004	60.75%
2005	-4.35%
2006	32.22%
2007	51.00%
2008	-3.68%
2009	-5.11%
2010	33.36%
2011	-12.21%
2012	17.37%
2013	83.95%
2014	39.58%
EpacK's average annual return since inception:	
40.56%	

Past performance does not guarantee future performance.



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