

# IIAB Sukuk & Murabaha MENA Fund

A protected cell of the IIAB PCC Ltd

Performance Report 28.02.18

## NAV PER SHARE

\$8.58

## OBJECTIVE OF THE FUND

The IIAB Sukuk & Murabaha MENA Fund is a medium to long-term, medium-risk investment vehicle with particular focus on sukuk, murabahas and sharia' compliant cash transactions, initiated out of the Middle East & North Africa region. The Fund seeks to earn the highest level of current income, while aiming to achieve a net return exceeding three month USD LIBOR on annualized basis.

## KEY FEATURES

Domicile	Guernsey Channel Islands	Valuation point	Monthly, last business day of the month
Reference currency	USD	Minimum subscription	USD 25,000 & USD 1,000 thereafter
Fund assets	USD 7,492,610	Fund Manager	AB Fund Managers (Guernsey) Ltd
		Investment Advisor	Al Arabi Investment Group Co (AB Invest)
Launch date	28 February 2008	Dealing frequency	Monthly, 7 business days prior to month end
Listing	CISX	BBG code	IIABSUK GU Equity

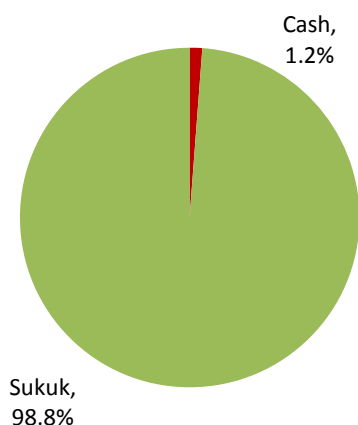
## MONTHLY PERFORMANCE (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Y.T.D.
2018	-0.23	-0.68											-0.90
Benchmark	0.14	0.15											0.29
2017	0.45	0.30	0.07	0.20	0.02	-1.04	0.60	0.21	-0.11	0.00	-0.49	0.13	0.32
2016	-1.47	1.26	0.50	0.25	0.00	0.47	0.50	0.10	-0.07	-0.12	-0.48	0.19	1.13
2015	0.39	0.37	-0.33	0.56	0.21	-0.57	0.49	-0.51	-0.10	0.04	-1.36	-0.10	-0.91
2014	0.12	0.29	-0.10	0.19	0.27	-0.17	0.12	0.21	-0.44	-0.21	0.27	-1.05	-0.51
2013	-0.15	-0.01	-0.08	0.45	-0.26	-1.03	-0.17	0.33	0.13	0.34	0.10	-0.10	-0.45

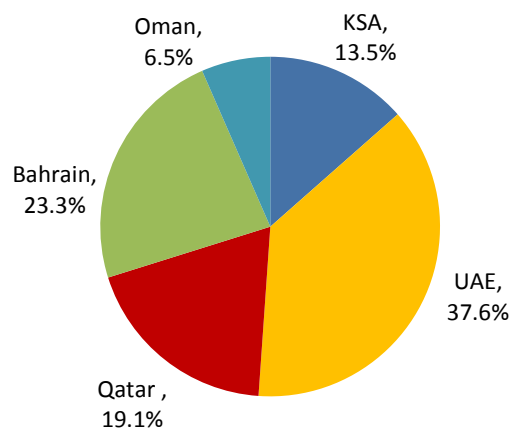
## ASSET ALLOCATION (%)

	Actual
Cash	1.2%
Sukuk	98.8%

## ASSET ALLOCATION



## GEOGRAPHIC ALLOCATION (SUKUK)

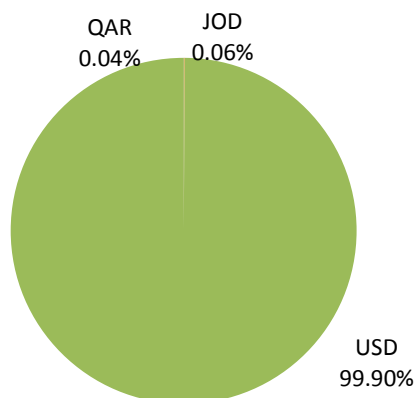


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## CURRENCY ALLOCATION



## TOP TEN HOLDINGS

Emaar Malls Group Sukuk LTD	10.23%
CBB International Sukuk Company	10.19%
Alpha Star Holding Limited ( Damac Properties)	6.69%
Ooredoo Tamweel LTD	6.68%
CBB International Sukuk Company	6.50%
Saudi Electric Co. Sukuk	6.48%
Qatar Islamic Bank Sukuk	6.47%
Mumtalakat Sukuk Holding Company	6.40%
Ezdan Sukuk Company LTD	5.75%
Dubai Islamic Bank Sukuk	5.42%

## COMMENTARY

February saw a further retreat in regional and global Sukuk market performance. The S&P MENA Sukuk Index fell by 0.85% to bring its year-to-date losses to 1.08%, and the wider-scale Dow Jones Sukuk Index shed 1.17% (YTD -1.86%). Meanwhile, the IIAB Sukuk & Murabaha MENA Fund lost 0.68% (YTD -0.90%).

S&P Global Ratings said in its report titled "Sovereign Debt 2018" that it expects sovereign borrowing in the MENA region to shrink by 6%, following a 30% drop in 2017. The report states that fiscal consolidation and higher oil prices will likely reduce GCC sovereign funding needs. S&P predicts borrowing in the MENA region to fall to USD181 billion and, in any case, Egypt is expected to be the largest borrower with USD46.4 billion or 26% of gross long-term borrowing. The second largest borrower will likely be Iraq with USD35 billion (19% of total), followed by Saudi Arabia with USD31 billion (17% of total).

There were a number of sovereign Sukuk sales this month. In Bahrain, the Central Bank's issue of Sukuk Ijarah in addition to its Sukuk Salam were fully subscribed. Meanwhile in Saudi Arabia, the Finance Ministry sold SAR7.22 billion (USD1.92 billion) in its monthly offering of domestic Sukuk. The Ministry re-opened January's Sukuk sale to raise the total size to SAR13.07 billion (USD3.48 billion). The sale included five-year Sukuk worth SAR5.37bn (USD1.4bn), seven-year Sukuk worth SAR1.7bn (USD453mn), and 10-year Sukuk worth SAR150mn (USD40mn). Moreover, the Central Bank of Kuwait issued three-month Tawarruq instruments related to the latest KWD240 million (USD799 million) conventional bond issue. Furthermore, the Central Bank of Iran issued maiden foreign currency Shariah securities. The issue included three Islamic treasury bills with a total of IRR41 trillion (USD1.1 billion).

In corporate issues, First Abu Dhabi Bank, the UAE's largest bank by assets, announced an IPT for a new five-year Dollar-denominated Sukuk at around 110 bps above mid swaps. The bank is rated Aa3 by Moody's. In addition, Oman's Golden Group, which set up a OMR200 million (USD518.7 million) Sukuk programme last year, issued its first tranche; a five-year paper worth OMR50 million (USD129.7 million). The Sukuk pays a profit rate of 6.5%.

In Saudi Arabia, Maaden completed a SAR3.5 billion (USD933 million) private placement of Sukuk. The proceeds will replace a portion of Maaden Phosphate Company (MPC)'s existing debt. The company is 70% owned by Maaden and 30% owned by Saudi Basic Industries Corporation (SABIC). The Sukuk has an expected return of 135 bps above the Saudi Interbank Offered Rate (SAIBOR) and carries a maturity of 7 years.

Elsewhere in the world, Indonesia launched the world's first USD green Sukuk. The country sold a USD3 billion dual-tranche issue, which included the five-year benchmark green Sukuk in addition to a 10-year benchmark Sukuk. The green Sukuk, worth USD1.25 billion, received an order book of about USD3 billion and was priced at 3.75%. The USD1.75 billion 10-year Sukuk received USD4.2 billion of orders and its price was set at 4.40%. The Republic of Indonesia is rated Baa3 by Moody's.

In ratings news, S&P Global Ratings affirmed Kuwait's AA/A-1+ rating owing to an expected return to GDP growth of approximately 2.5% in 2018 and around 3% over the 2019-2021 period on the back of rising oil prices, rising oil production and a number of investment projects. The ratings agency also affirmed the country's outlook as stable, which reflects its expectation that Kuwait's public and external balance sheets will remain strong over the forecast period. S&P also affirmed Qatar's rating at AA-/A-1+, keeping outlook as negative. The negative outlook primarily reflects the geopolitical and economic risks from its boycott by several Arab countries. However, the rating agency said that the country has been able to use its large fiscal assets to mitigate the impact of the ongoing boycott. The outlook could be revised upwards to stable if it appears that regional tensions have receded materially while at the same time Qatar's fiscal and external positions remain strong.

The fund reallocated its cash position back into Sukuk, taking into consideration geographic and sector diversity. Notwithstanding the previously mentioned, due respect was maintained in terms of the maturity structure, with a below average duration bias, given the rising volatility in the yield curve's shape, curvature and upward pressures, not to mention the persisting regional geopolitical risks. The Fund closed the month positioned with an overall weighted average maturity of 4.13 years, and a weighted average yield to maturity (YTM) of 4.43%.

## INVESTMENT METHODOLOGY AND APPROACH

AB Invest is one of the most experienced and fastest growing MENA investment managers operating out of Jordan. AB Invest provides its clients with a number of MENA-focused investment solutions on conventional and Sharia-compliant bases. Our investment process is based on rigorous fundamental analysis with a view on delivering superior risk-adjusted returns, using a combination of top-down and bottom-up approaches. Our deep knowledge of the markets in which we invest allows us to deliver consistent returns while prudently managing risk.

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Past performance should not be taken as a guide to the future. The value of investments can fall as well as rise.

The full documentation required to make an investment is available from AB Fund Managers (Guernsey) Ltd at its registered address: 11 New Street, St. Peter Port, Guernsey, GY1 2PF Channel Islands.

