

IIAB Sukuk & Murabaha MENA Fund

Performance Report 28.02.19

A protected cell of the IIAB PCC Ltd

NAV PER SHARE

\$8.75

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 | 7,638,560 | 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 |

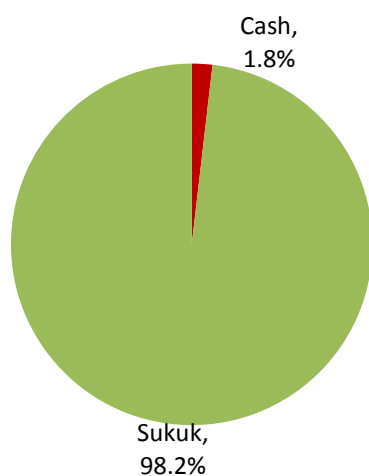
MONTHLY PERFORMANCE (%)

| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Y.T.D. |
|-----------|-------|-------|-------|-------|-------|-------|------|-------|-------|-------|-------|-------|--------|
| 2019 | 1.17 | 0.55 | | | | | | | | | | | 1.72 |
| Benchmark | 0.23 | 0.23 | | | | | | | | | | | 0.46 |
| 2018 | -0.23 | -0.68 | -0.30 | -0.20 | -0.40 | 0.09 | 0.69 | 0.24 | 0.18 | -0.25 | 0.05 | 0.12 | -0.68 |
| 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 |

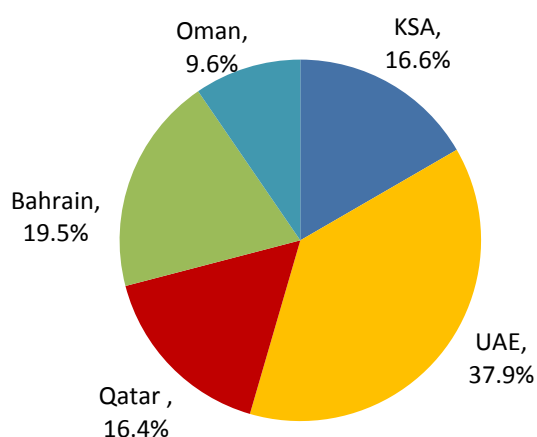
ASSET ALLOCATION (%)

| | Actual |
|-------|--------|
| Cash | 1.8% |
| Sukuk | 98.2% |

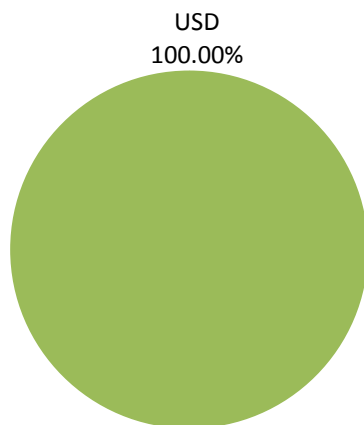
ASSET ALLOCATION



GEOGRAPHIC ALLOCATION (SUKUK)



CURRENCY ALLOCATION



TOP TEN HOLDINGS

| | |
|---------------------------------|-------|
| Emaar Malls Group Sukuk LTD | 9.94% |
| First Abu Dhabi Bank Sukuk | 6.55% |
| State of Qatar Sukuk | 6.54% |
| Kingdom of Saudi Arabia | 6.45% |
| CBB International Sukuk Company | 6.45% |
| Dubai Islamic Bank Sukuk | 6.45% |
| Qatar Islamic Bank Sukuk | 6.43% |
| Sharjah Islamic Bank Sukuk | 6.42% |
| CBB International Sukuk Company | 6.38% |
| Mumtalakat Sukuk | 6.37% |

COMMENTARY

MENA Sukuk markets outperformed the region's equity markets this February. Whereas Islamic (and conventional) equity markets declined, Sukuk markets built on the previous month's gains. The S&P MENA Sukuk Index gained 0.82% (YTD +2.22%), and the Dow Jones Sukuk Index rose by 0.41% (YTD +1.60%). The IIAB Sukuk & Murabaha MENA Fund appreciated 0.55% (YTD +1.72%) to close at USD8.75.

An S&P Global Ratings report forecasts 13 MENA countries will ramp up their borrowing in 2019 by 25% to reach USD136 billion as governments continue to finance fiscal deficits and roll over debt. Saudi Arabia, as the largest Arab economy, will contribute 22% of total commercial long-term borrowing in the region, followed by Egypt and Lebanon, with 20% and 14%, respectively. S&P is projecting sovereigns such as Abu Dhabi, Kuwait and Qatar to issue 18% of the total this year, up from 8% in 2018, partly because Kuwait is on the verge of passing a new debt law that will raise its debt ceiling. If the law is enacted, Kuwait is expected to raise USD15 billion in long-term commercial debt, compared with zero borrowing in 2018. The rating agency expects about 44% of the USD136 billion gross borrowing to go toward refinancing maturing long-term debt, which means the region's estimated net borrowing requirement is USD76 billion.

In Saudi Arabia, the Ministry of Finance issued SAR9.376 billion (USD2.5 billion) in domestic Sukuk in February under its monthly issuance program. The sale was divided into five-year Sukuk worth SAR1.805 billion, 10-year Sukuk worth SAR0.274 billion, and 12-year Sukuk worth SAR7.297 billion. However, in terms of the Saudi international Sukuk market, the government is planning an issue in the second half of 2019. According to the head of the Debt Management Office, the Kingdom is planning to borrow a total of SAR118 billion, which will be used to partly cover its projected budget deficit of SAR131 billion. The government is also considering launching savings Sukuk for the first time to help investors save for future needs including buying a house or paying tuition fees. The plan is aligned with the Saudi 2030 Vision, which targets to raise household savings to 10% of total household income from 6%.

On the corporate front, Saudi Arabian Almarai Company completed an international Sukuk issuance worth USD500 million. The Regulation S senior unsecured Sukuk, which has a maturity of five years and a profit rate of 4.311%, is listed on the Irish Stock Exchange.

Over in Bahrain, Bahrain Mumtalakat Holding Company, the country's 100% government-owned sovereign wealth fund, sold USD600 million worth of Regulation S senior unsecured Sukuk. Mumtalakat is rated BB- by Fitch and B+ by S&P, both with stable outlooks. The company started marketing for the notes with an initial price guidance of approximately 6.25% and it garnered orders of around USD4 billion. The paper carries a profit rate of 5.625%.

Qatar International Islamic Bank issued USD500 million in five-year Sukuk. The issuance was more than six times oversubscribed with investors from outside the Middle East placing a total of USD3.3 billion in orders. The paper carries a profit rate of 4.264%, a spread of 175 basis points over five-year mid-swaps. Qatari companies are not showing any signs of slowing down when it comes to Islamic borrowings, which is likely to reinforce the country's position as one of the largest Sukuk issuers in the industry, an achievement made possible after the GCC cut ties with the tiny nation in 2017.

Outside the MENA region, the issuance market was active this month. Notably, the Republic of Indonesia raised USD2 billion through a dual tranche Green Sukuk. The first tranche, worth USD750 million with a 5.5-year maturity, was priced at 3.9%, while the second tranche, worth USD1.25 billion maturing in 10 years, was priced at 4.45%. Furthermore, the Republic of Turkey sold USD2 billion three-year Sukuk, where initial guidance was at 6.125%, but due to strong demand, final pricing was revised to 5.8%.



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The Fund closed the month positioned with an overall weighted average maturity of 3.66 years, and a weighted average yield to maturity (YTM) of 4.08%.

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.

DISCLAIMER

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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.

