

IIAB Sukuk & Murabaha MENA Fund

A protected cell of the IIAB PCC Ltd

Performance Report 31.10.19

NAV PER SHARE

\$9.14

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, murabaha 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	7,981,479	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

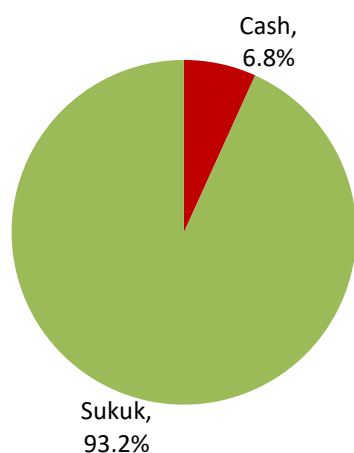
MONTHLY PERFORMANCE (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Y.T.D.
2019	1.17	0.55	0.91	0.62	0.41	0.86	1.01	0.54	0.02	0.03			6.29
Benchmark	0.23	0.23	0.22	0.22	0.21	0.21	0.19	0.19	0.18	0.17			2.07
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

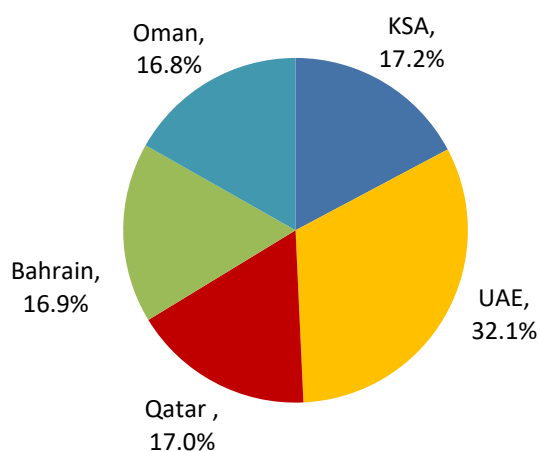
ASSET ALLOCATION (%)

	Actual
Cash	6.80%
Sukuk	93.2%

ASSET ALLOCATION



GEOGRAPHIC ALLOCATION (SUKUK)

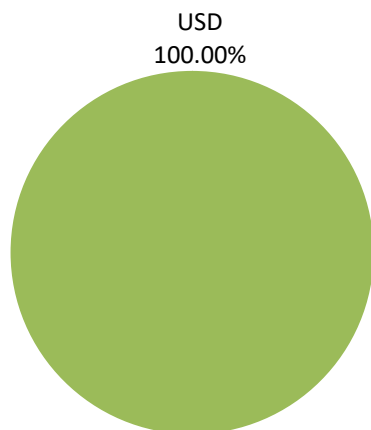


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CURRENCY ALLOCATION



TOP TEN HOLDINGS

Oman Sultanate Sukuk	9.44%
Mumtalakat Sukuk Holding	9.39%
First Abu Dhabi Bank Sukuk	6.48%
State of Qatar Sukuk	6.48%
Dubai Islamic Bank Sukuk	6.42%
CBB International Sukuk Company	6.42%
Kingdom of Saudi Arabia	6.36%
Saudi Electric Co. Sukuk	6.32%
Sharjah Islamic Bank Sukuk	6.30%
Qatar Islamic Bank Sukuk	6.26%

COMMENTARY

Sukuk markets in the MENA region managed to outperform global Sukuk markets in October. The S&P MENA Sukuk Index gained 0.08% (YTD +9.55%) while the wider-scale Dow Jones Sukuk Index fell 0.17% (YTD +6.88%). This month, the IIAB Sukuk & Murabaha MENA Fund rose 0.03% (YTD +6.29%) to close at USD 9.14.

In October, the Government of Sharjah raised USD750 million from the sale of a 10-year sukuk at a final spread of 155 bps over mid-swaps for a final return of 3.234%. At the same time, the Saudi Arabian Government sold USD2.5 billion-worth of Sukuk in its first international debt sale since the attack on the state-owned Saudi Aramco facilities last month. Hefty demand on the issue, which peaked at nearly USD14 billion, allowed the kingdom to tighten pricing to a profit rate of 127 bps over mid-swaps, 20 bps below the level at which the Sukuk were marketed. According to one of the banks leading the deal, this latest sale should complete the country's external funding requirements for the year. Meanwhile, the government, in a separate document, said it had also issued SAR7.265 billion (USD1.94 billion) in domestic Sukuk.

It is worth noting that at the end of September, Fitch Ratings downgraded Saudi Arabia's credit rating to 'A' from 'A+'. The rating agency cited rising geopolitical and military tensions in the Gulf and deterioration of the country's fiscal position, as the bases of the decision to downgrade.

The private sector was also busy with new issues. Saudi real estate developer, Dar Al Arkan, sold a new 5-year Sukuk worth USD600 million at a profit rate of 6.75%. Concurrently in the UAE, Aldar Investment Properties raised USD500 million through the sale of 10-year Sukuk, where the final profit rate was set at 3.875% (225 bps over mid-swaps). Furthermore, UAE developer and shopping mall operator, Majid Al Futtaim, raised USD600 million by selling green Sukuk. The 10-year Sukuk received orders in excess of USD2.1 billion and the final profit rate was set at 230bps over mid-swaps, down from an initial price guidance of 250bps over mid-swaps. The funds raised will be used to finance renewable energy projects or projects related to energy efficiency.

In the most recent FOMC meeting, Federal Reserve officials cut rates for the third time this year and signaled a pause in further cuts as long as the economic outlook does not change materially. As in the September statement, the Fed cited the implications of global developments in deciding to lower the target range for the benchmark rate to 1.5% - 1.75%.

In response to the rate cut in the U.S., Saudi Arabia, the United Arab Emirates and Bahrain, whose currencies are pegged to the US dollar, cut their benchmark rates by the same margin. Kuwait also joined the Federal Reserve-led monetary easing cycle after holding rates steady in July and September. According to the Central Bank of Kuwait, it cut its discount rate by 25bps to 2.75% in order to maintain a comfortable margin for the Kuwaiti dinar and support investment. In Egypt, the Central Bank of Egypt (CBE) cut interest rates for the third time this year after pivoting to monetary easing in August as a result of a drastic slowdown in inflation. The CBE said the decision was consistent with achieving an inflation target of 9%, plus or minus 3%, by the end of 2020, and future decisions will remain a function of inflation expectations rather than prevailing inflation rates.

The Fund closed the month positioned with an overall weighted average maturity of 2.70 years, and a weighted average yield to maturity (YTM) of 2.97%.



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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.

