

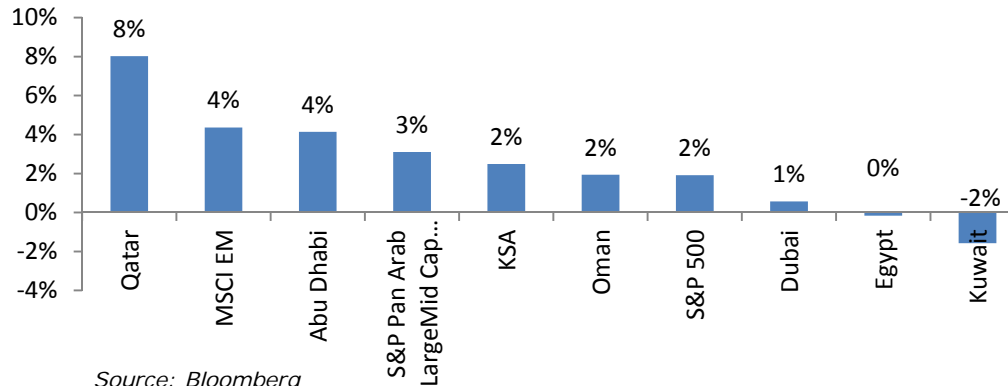


mashreq
Asset Management
Investing Professionally in the Middle East

PORTFOLIO MANAGER'S OUTLOOK

June, 2014

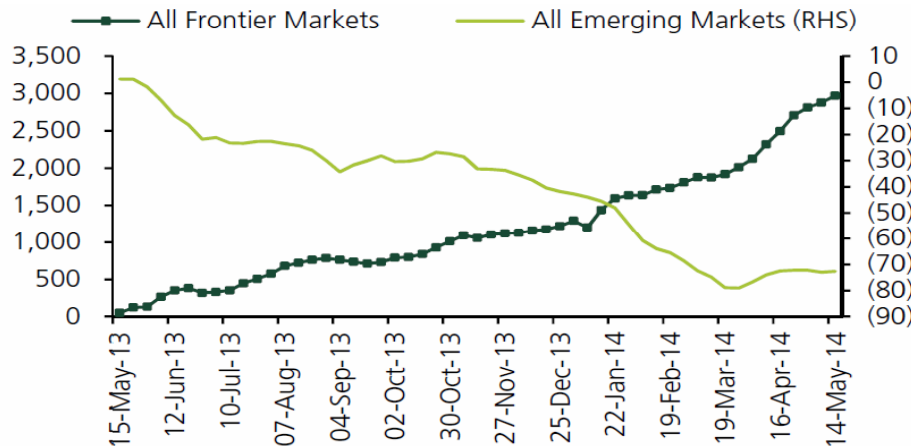
Monthly Equity Market update – May 2014



Source: Bloomberg

The Qatari market was the best performing index in May as it was under owned relative to the final MSCI EM weights disclosed in May. Abu Dhabi market also performed well following its May correction as investors scooped up banks and real estate names in anticipation of MSCI EM related flows.

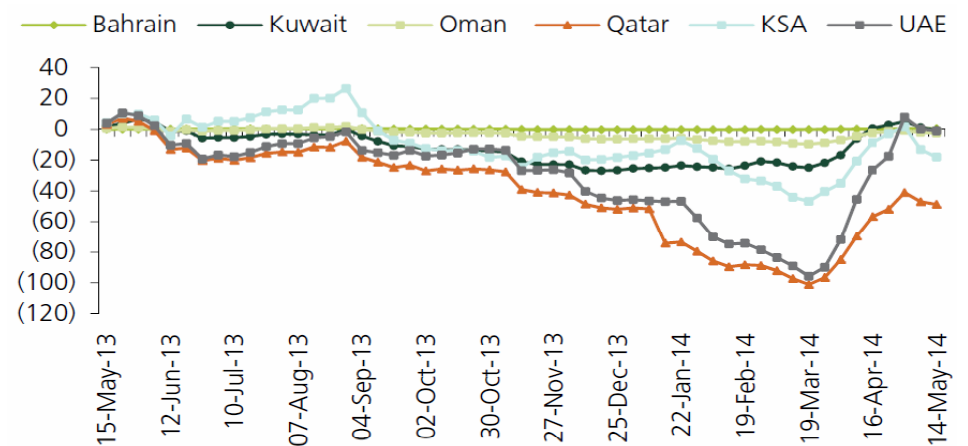
Frontier Markets vs. EMs: Cumulative Weekly Fund Flows (USD mn)



Source: EFG

The reallocation of capital from Emerging Markets to Frontier Markets continue unabated with no change likely to materialize anytime soon.

GCC: Cumulative Weekly Fund Flows (USD mn)



Source: EFG

Cumulative weekly flows have turned negative for most markets as buying the MSCI EM event has come and gone.

Equity Market Outlook – June 2014

Stock Exchange	Year to date(%)	TTM P/E	Estimated 2014 P/E	Dividend Yield (%)
Saudi Stock Exchange	15.1%	19.6	15.3	2.9
Dubai Financial Market	51.0%	20.4	18.7	2.2
Abu Dhabi Exchange	22.4%	15.5	13.9	3.4
Kuwait Stock Exchange	-3.4%	16.5	-	3.8
Doha Stock Market	31.9%	17.1	14.6	3.9
Cairo Stock Exchange	21.5%	-	12.9	1.5
Muscat Stock Market	0.3%	12.4	12.1	3.8
S&P Pan Arab LargeMid Cap Index	15.6%	18.1	14.5	3.1
MSCI Emerging Markets	3.6%	13.1	11.6	2.6
S&P 500	3.9%	17.7	16.5	1.9

Source: Bloomberg

Some markets including UAE have begun to correct meaningfully. As we approach the summer season, which coincides with Ramadan, we believe there are few catalysts left to propel markets further up. Our view will continue to stay more on the defensive side for the interim.

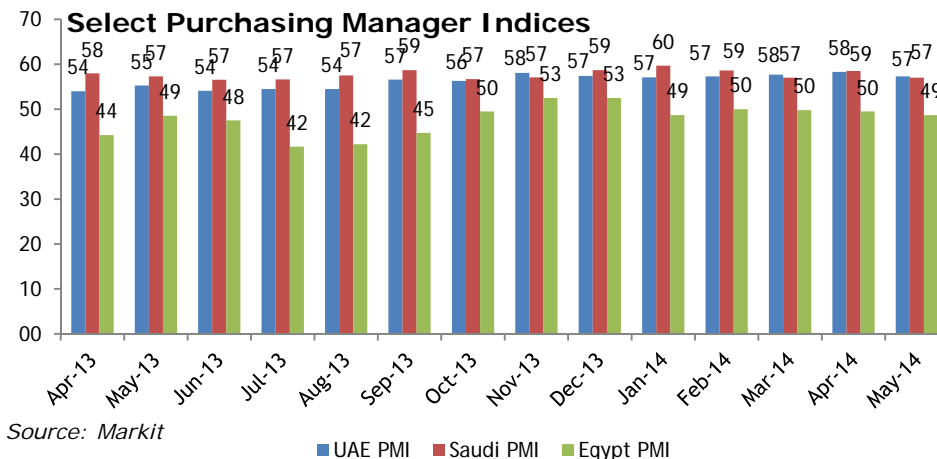
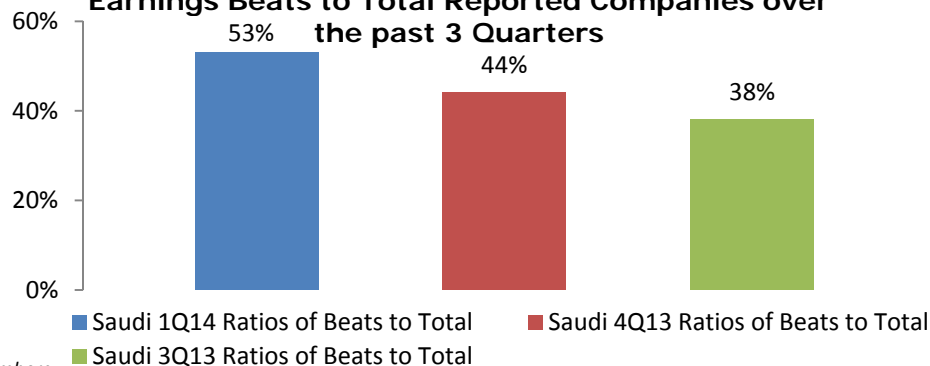
Looking forward – what to expect in June

Saudi is the last market that has yet to correct meaningfully. The market is up more than 15% and trades at one of the highest multiples on a trailing P/E basis. While it trades at a relative cheap number on a forward basis compared to Qatar and UAE, expected earnings growth for Saudi is at a rather high 20-25% from 2013. In the context of markets being under pressure, Saudi cannot afford to miss on earning estimates come 2Q14 earnings season. While earnings could be a catalyst for market such as UAE and Qatar, at the current point in time, earnings will be a potential headwind for Saudi.

Having said the above, if the increasing momentum in earnings beats (see graph to the right) is any indication of things to come, then a correction in Saudi may be more shallow than anticipated specifically that earnings estimates for the full year have been revised downwards by 5% in the past 4 weeks.

Source: Bloomberg

Earnings Beats to Total Reported Companies over the past 3 Quarters



Source: Markit

PMIs have taken a breather across the board month over month although nothing to worry about it as the global macro story remains strong for the above countries, specifically the UAE.

Monthly Fixed Income Market update – May 2014



On a month-to-month basis the yield curve is almost unchanged, but during May the market experienced elevated volatility with the US 10 year yield dropping as low as 2.4% and subsequently reversing to above 2.6%.



The above chart of spread of middle eastern bonds compared to US treasuries got lower in May. This was due to GCC bond prices outperforming the US treasury market.



On a total return basis the market was very solid in May with a return of 1.58%.



The Sukuk total return index was up slightly less, but still 1.43%.

Monthly Fixed Income Market update – May 2014

May Commentary

During May we experienced a curiosity in the US treasury market: while economic data tended to be released mostly above expectations, the reaction of the bond market would have been to sell-off subsequently, but the opposite happened whenever numbers were released. This behavior only changed at the very end of the month when the market started reacting again as expected. Explanations for this are perhaps a massive overhand of short positions that were put on at the beginning of the year expecting higher yields, but also we had some macro events like the crisis in Russia and Ukraine that kept on dragging on.

Going into June it will be interesting to see how the market will digest the massive issuance of new bonds. Looking at the GCC market this should be more than balanced with maturities coming up which need to be reinvested.

Also we will have the FOMC meeting again on 18 June with Fed Chair Yellen giving her second speech. given the better picture from an economic perspective it will be interesting to see how the Fed will adjust its wording and guide on the future interest rate path.

Outlook

Market themes to look out for are:

- China policies for economic growth
- Signs of a continuing economic recovery with focus on the US and Fed's interest rate path
- Inflation picking up in the US

FUNDS AT A GLANCE

Peer Comparison - MAKASEB & MASHREQ AL ISLAMI ARAB TIGERS FUND

Fund Name	NAV Date	YTD	1Y	3Y	5Y*	S.I.
Makaseb Arab Tigers Fund	10-Jun-14	21.4	42.4	96.02	121.6	55.9
Mashreq-Al-Islami Arab Tigers Fund	12-Jun-14	18	31.28	64.81	80.03	101
Emirates MENA Top Companies Fund A Share Class	12-Jun-14	18.32	33.581	60.044	78.824	-0.18
Arab Gateway Fund	3-Jun-14	12.05	30.747	58.245	78.291	258.9
Emirates MENA High Income Fund (Institutional Share-Class Accumulation)	12-Jun-14	12.71	23.56	43.495	63.829	101.3
Franklin MENA Fund (Class A - USD Accumulated Share)	13-Jun-14	20.1	42.105	58.824	63.453	-27.1
Emirates MENA High Income Fund (A Share Class Accumulation)	12-Jun-14	12.6	23.245	42.462	62.009	92.56
Markaz Arabian Fund	5-Jun-14	17.15	30.726	50.912	60.642	36.83
Al MaI MENA Equity Fund	11-Jun-14	14.49	27.306	49.566	58.499	3.5
EFG-Hermes MEDA Fund	2-Jun-14	17.87	47.983	51.398	53.097	241.1
Awraq Fund	2-Jun-14	28.03	42.201	50.548	50.349	-20.5
Arab Bank MENA Fund	30-Apr-14	9.101	17.584	30.137	50.287	-1.7
T. Rowe Price Africa and Middle East Fund	12-Jun-14	-2.77	11.804	27.821	48.537	-6.41
IAB Islamic MENA Fund	30-Apr-14	6.24	14.454	16.281	38.98	-31.9

SI – Since Inception,
Source: Zawya

Peer Comparison – MAKASEB INCOME FUND

Fund Name	NAV Date	YTD	1Y	3Y	5Y*	S.I.
Makaseb Income Fund	10-Jun-14	5.45	7.935	28.139	67.248	35.6
Al Mal MENA Income Fund	11-Jun-14	5.538	9.135	12.136	18.547	22.34
Emirates MENA Fixed Income Fund (A Share Class - Accumulation)	12-Jun-14	6.105	8.556	25.695	-	19.52
Falcon Menasa Bond Fund	30-May-14	3.649	-	-	-	18.39
NBAD Cautious Income Fund	12-Jun-14	0.485	2.651	-	-	13.51
NBAD Mena Bond Fund (USD Share)	11-Jun-14	1.795	6.06	-	-	3.414
SICO Fixed Income Fund (A)	5-Jun-14	6.319	-	-	-	6.545

SI – Since Inception
Source: Zawya

Peer Comparison – MASHREQ AL ISLAMI INCOME FUND

Fund Name	NAV Date	YTD	1Y	3Y	5Y*	S.I.
Mashreq Al Islami Income Fund	10-Jun-14	4.37	5.94	21.6	49.4	49.4
Jadwa Global Sukuk Fund	10-Jun-14	3.233	4.616	11.94	26.45	23.01
Tharawat Sukuk Fund	30-Apr-14	6.985	15.76	40.53	-	54.82
BLME Sharia?a Umbrella Fund SICAV-SIF- USD Global Sukuk Fund (Class A)	13-Jun-14	4.32	5.828	19.22	-	20.09
Emirates Global Sukuk Fund USD Institutional Share Class (Accumulation)	12-Jun-14	4.302	5.959	16.97	-	24.47
IIAB Sukuk & Murabaha MENA Fund	31-Mar-14	0.346	0.115	0.462	-	-13.1
Mashreq Al Islami Income Fund (DA)	3-Jun-14	3.59	-	-	-	3.83
Mashreq Al Islami Income Fund (DI)	3-Jun-14	1.75	1.98	-	-	3.58

SI – Since Inception
Source: Zawya

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