

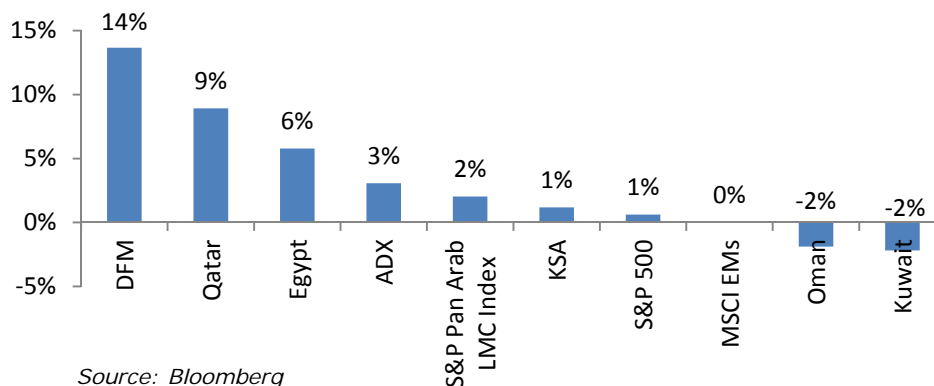


**mashreq**  
**Asset Management**  
Investing Professionally in the Middle East

## PORTFOLIO MANAGER'S OUTLOOK

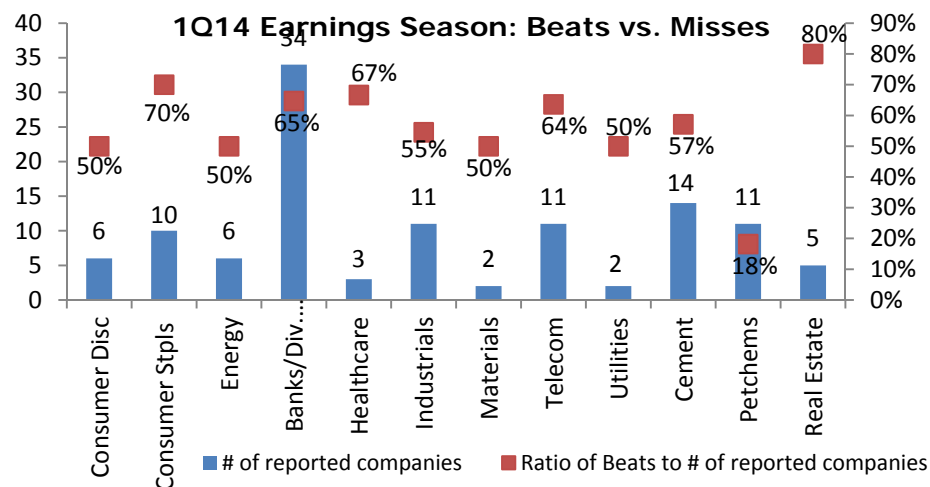
May, 2014

**Monthly Equity Market update – April 2014**



Source: Bloomberg

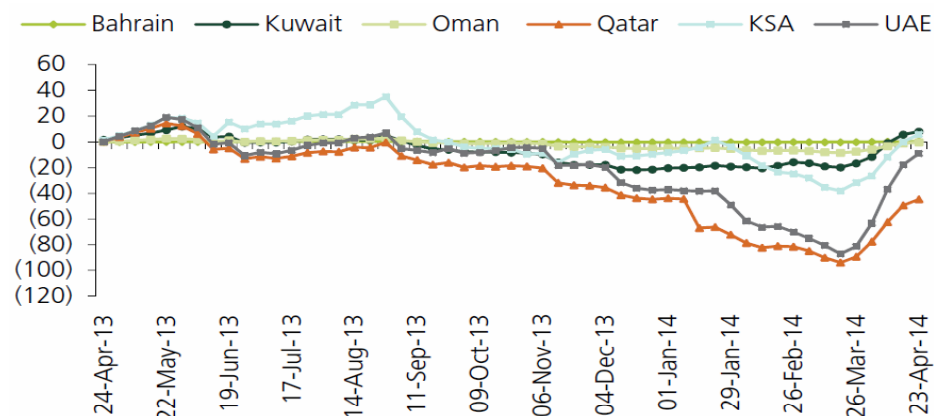
DFM index was the best performing market in April up 14% and 50% YTD. Qatar also performed well up 9%. This strong performance was despite MSCI's announcement on April 24<sup>th</sup> that they will effectively cut the implied weight in MSCI EM Index. Egypt also jumped 6% after being down as much as 4% in April.



Source: Bloomberg

With the bulk of 1Q earnings season over, MENA corporates are showing a total beat ratio of 57% with positive showing from select consumer staples, real estate, telecom as well as banks.

**GCC: Cumulative Weekly Fund Flows (USD mn)**



Source: EFG

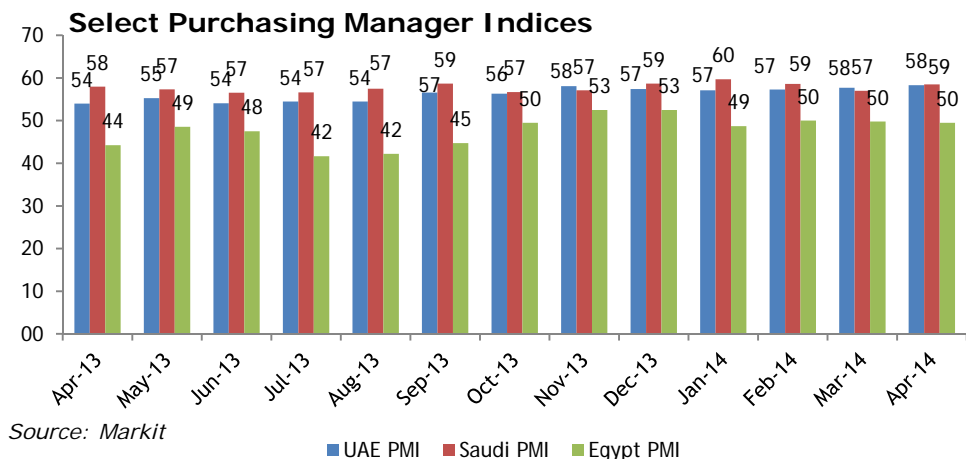
After cumulative weekly outflow YTD for UAE and Qatar, flows came back strongly in April as investors ready themselves for MSCI's final weights for UAE and Qatar in the MSCI EM Index.

## Equity Market Outlook – May 2014

Stock Exchange	Year to date(%)	TTM P/E	Estimated 2014 P/E	Dividend Yield (%)
Saudi Stock Exchange	12.3%	19.4	15.1	2.9
Dubai Financial Market	50.1%	20.9	17.3	2.0
Abu Dhabi Exchange	17.6%	14.9	13.9	3.4
Kuwait Stock Exchange	-1.9%	15.5	-	4.1
Doha Stock Market	22.1%	16.2	14.7	3.8
Cairo Stock Exchange	21.7%	23.2	11.8	2.3
Muscat Stock Market	-1.6%	12.1	11.8	3.9
S&P Pan Arab LargeMid Cap Index	12.1%	17.1	14.5	3.2
MSCI Emerging Markets	-0.7%	11.9	10.9	2.7
S&P 500	1.9%	17.2	15.9	2.0

Source: Bloomberg

While we believe the above average multiples compared to EMs are warranted, our view will be to stay more on the defensive side for the interim.



Source: Markit

While PMIs indicate that non-oil economic growth is strong, economic momentum seen in parts of 2013 has taken a breather.

### Looking forward – what to expect in May

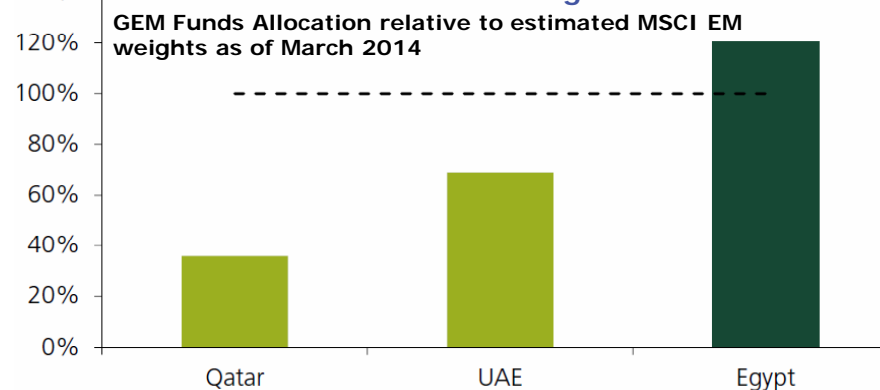
MSCI is expected to announce the final list of constituents and effective weights in MSCI EM Index in the evening of May 14<sup>th</sup> 2014 for UAE and Qatar. While markets has run up anywhere between 45% and 135%, at least for Qatar, non-local foreign ownership is low compared to historical standards and the Global EM funds' current allocation to estimated MSCI EM weights is also on the low end.

#### Qatari non-local Foreign Ownership

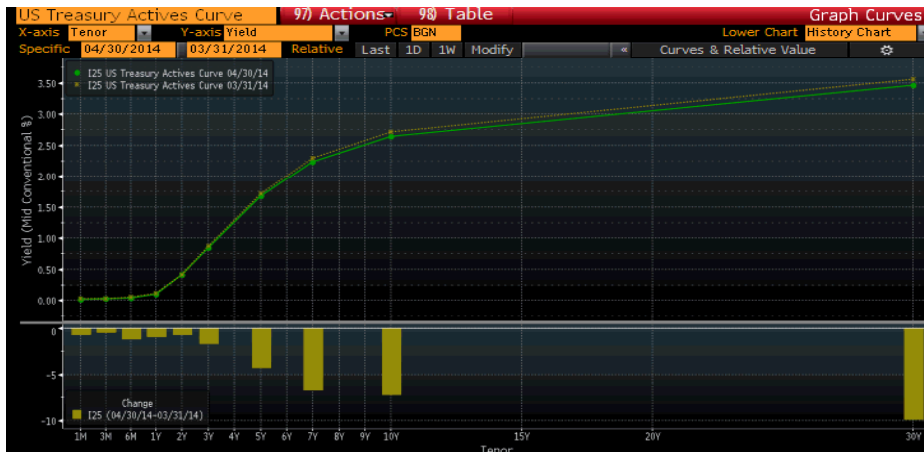


Source: EFG

#### Global Emerging Market (GEM) Allocation to Qatar & UAE vs. Benchmark Weight



Monthly Fixed Income Market update – May 2014



Higher prices of US treasuries shifted the benchmark yield curve down in April. This was a positive factor for the bond market in general but particularly for investment grade and the GCC market.



The above chart of spread of middle eastern bonds compared to US treasuries is lower year-to-date but was unchanged to slightly up during April. This was due to GCC bond prices moving up less than the US treasury market.



On a total return basis the market was very solid in April which even started to accelerate during the start of May.



The Sukuk total return index was up slightly more, which demonstrates the ongoing positive dynamics of this market segment. Also here one can see that the positive momentum carried over to May and became more pronounced.

## Monthly Fixed Income Market update – April 2014

### April Commentary

As well as last month, the US rate environment is very benign for bond markets. The FOMC decided to cut back further in its bond purchasing from US\$55bn to US\$45bn, but this is largely anticipated and a non-event. Going forward the market will react to the developments of the Ukraine-Russia situation and how the economic data from the US as well as from China turns out. Inflation remains exceptionally low.

Going into May many market participants discuss that there might be a possible weakness in the market coming up, which has been the case during mid-year of the last two years. The difference to previous periods would be though, that prior to the weakness the market rally was more pronounced. On the other hand new issues have been very strong during these periods - which is the same right now – and normally the market will then enter into a period to digest the new issue flow until it carries on its course again.

At the moment the market is still rock solid but it is always wise to acknowledge that in Emerging Markets and high yield markets the mood can swing very quickly some times. Nevertheless this should not worry too much as the underlying fundamentals of the economies and the companies have mainly improved and we continue to be on a growth-recovery path.

### Outlook

Market themes to look out for are:

- West vs. Russia over Ukraine
- China slowdown
- 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**

<b>Fund Name</b>	<b>NAV Date</b>	<b>YTD</b>	<b>1Y</b>	<b>3Y*</b>	<b>5Y</b>	<b>S.I.</b>
Makaseb Arab Tigers Fund	07-May-14	22.988	47.702	97.156	141.257	57.963
Mashreq-Al-Islami Arab Tigers Fund	07-May-14	17.394	34.338	63.196	90.517	100.411
Arab Gateway Fund	05-May-14	14.674	39.924	59.28	98.005	267.3
Baring MENA Fund (Class A Acc - USD)	11-May-14	18.601	28.115	58.173	-	64.5
Emirates MENA Top Companies Fund Institutional Shares (I Share Class)	10-May-14	12.116	37.612	56.649	98.516	27.397
EFG-Hermes MEDA Fund	04-May-14	17.554	48.235	55.769	66.032	240.2
Emirates MENA Top Companies Fund A Share Class	10-May-14	12.058	37.283	55.532	95.899	-5.466
Franklin MENA Fund (Class A - USD Accumulated Share)	11-May-14	19.44	46.465	52.632	77.696	-27.5
Al MaI MENA Equity Fund	06-May-14	16.372	39.338	47.339	85.538	5.2
NAEEM MENA Growth Fund	10-Apr-14	16.793	36.582	41.541	6.288	-45.761
Emirates MENA High Income Fund (A Share Class Accumulation)	10-May-14	13.101	26.026	40.395	69.8	93.411
TNI MENA UCITS Sub Fund	07-May-14	13.425	29.579	39.205	-	46.927
Mena Dividend Leader Fund Distribution USD	30-Apr-14	13.761	38.13	-	-	43.008
Al Masah Capital Fund ? MENA Dividend Fund (A)	06-May-14	12.087	-	-	-	26.173

SI – Since Inception,  
Source: Zawya

## Peer Comparison – MAKASEB INCOME FUND

Fund Name	NAV Date	YTD	1Y*	3Y	5Y	S.I.
Makaseb Income Fund	07-May-14	3.522	4.267	26.573	71.31	33.109
Emirates MENA Fixed Income Fund (A Share Class - Accumulation)	08-May-14	5.355	3.721	26.163	-	18.679
Emirates MENA Fixed Income Fund (A Share Class - Income)	08-May-14	5.353	-1.39	14.837	-	22.377
Al Mal MENA Income Fund	06-May-14	4.934	5.316	13.364	19.255	21.64
NBAD Mena Bond Fund (USD Share)	07-May-14	0.789	0.18	-	-	2.392
NBAD Cautious Income Fund	07-May-14	-0.365	-1.319	-	-	12.547
Falcon Menasa Bond Fund	29-Apr-14	2.122	-	-	-	16.65

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	07-May-14	3.256	2.783	21.423	-	47.839
BLME Shariaa Umbrella Fund SICAV-SIF- USD Global Sukuk Fund (Class A)	11-May-14	3.368	2.573	18.965	-	18.996
Emirates Global Sukuk Fund USD Institutional Share Class (Accumulation)	08-May-14	3.542	2.465	16.945	-	23.563
Jadwa Global Sukuk Fund	05-May-14	2.441	1.888	12.262	26.547	22.064
NBAD Sukuk Income Fund	07-May-14	2.878	2.74	-	-	11.71
Mashreq Al Islami Income Fund (DI)	08-May-14	1.069	-0.031	-	-	2.879
HSBC Amanah Sukuk Fund	05-May-14	1.049	-0.75	-	-	2.24
Mashreq Al Islami Income Fund (DA)	08-May-14	2.894	-	-	-	3.136

SI – Since Inception  
Source: Zawya

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