

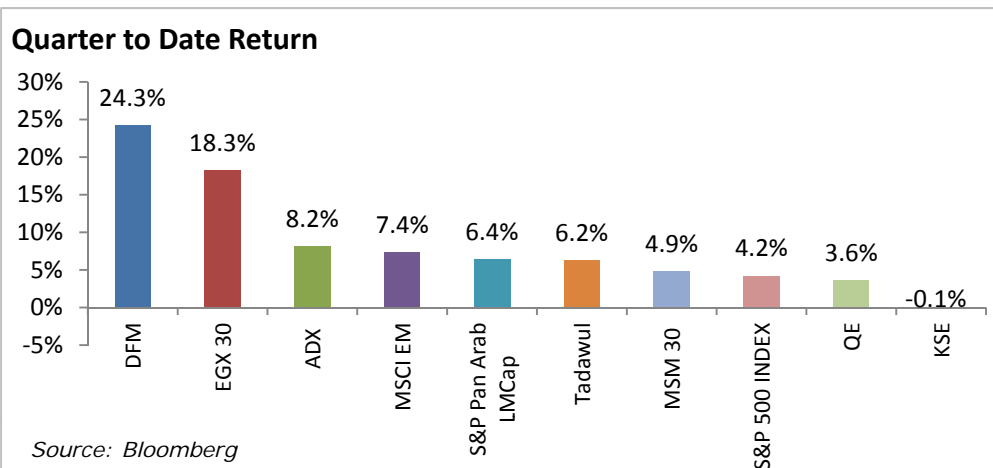


**mashreq**  
**Asset Management**  
Investing Professionally in the Middle East

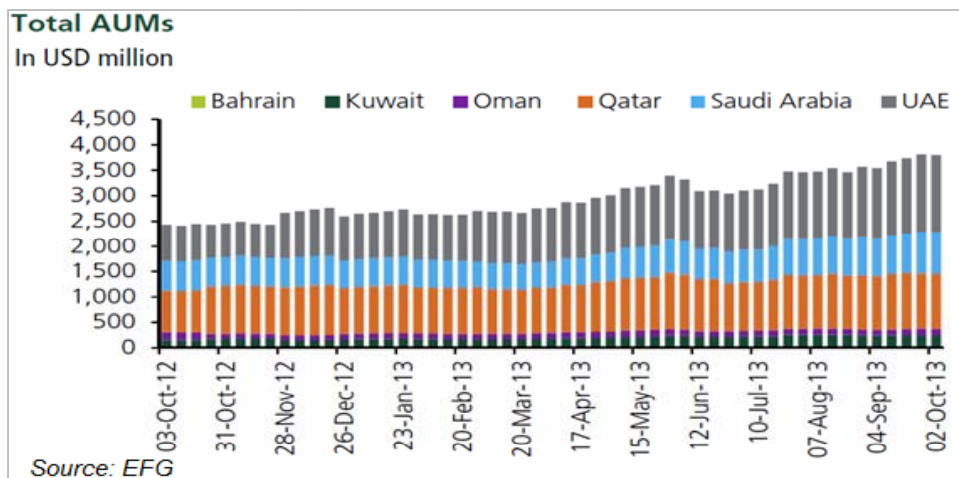
## PORTFOLIO MANAGER OUTLOOK

October, 2013

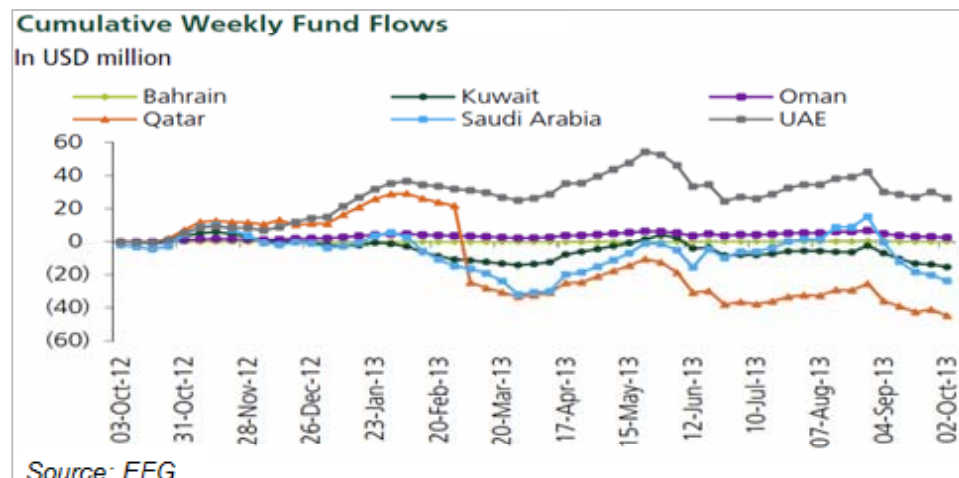
## Equity Market Update – 3<sup>rd</sup> Quarter



MENA markets continued their strong move up in the 3Q13 despite jitters about a US led attack on Syria. EMs including Egypt were helped by the US Central Bank's decision to delay tapering.



Assets under Management (AuM) in GCC countries increased c.22% Q-o-Q with UAE AuMs increasing c.45% supported by the increase in returns QTD.

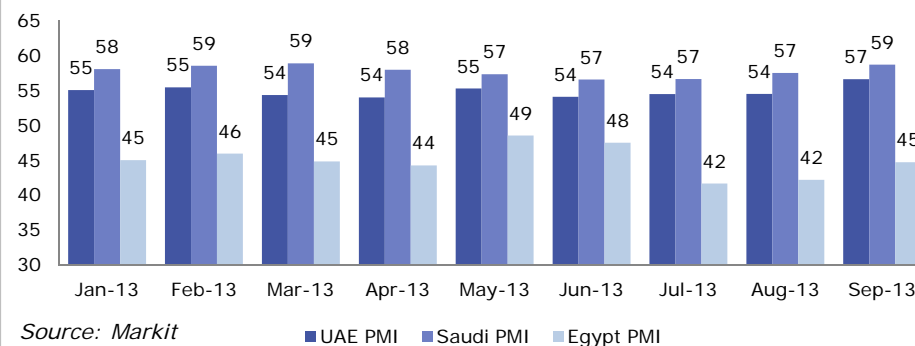


The situation is different when looking at equity net fund flows, which show an overall neutral movement Q-o-Q despite worries about a US led attack on Syria waning.

## Equity Market Outlook – 4<sup>th</sup> Quarter

Stock Exchange	Year to date (%)	TTM P/E	Estimated 2013 P/E	Dividend Yield (%)
Cairo Stock Exchange	2.9	29.5	8.6	6.4
Abu Dhabi Exchange	46.1	10.8	10.1	4.9
Muscat Stock Market	15.4	10.7	10.1	4.2
Doha Stock Market	14.9	11.9	11	4.9
Saudi Stock Exchange	17.1	16.2	12.3	3.6
Dubai Financial Market	70.3	14.6	12.8	3.7
Kuwait Stock Exchange	30.9	24.9	-	3.4
S&P Pan Arab Large Mid Cap Index	13.0	15.2	12.7	4.1
MSCI EM Index	-6.4	11.4	10.3	2.9
S&P 500	13.2	15.8	14.7	2.1

Select Purchasing Manager Indices (PMI)



Despite seemingly 'negative' net fund flows, MENA markets trade at a deserved premium to EMs while Egypt trades at a progressively less deserved discount to MENA & EM indices.

Additionally, summer doldrums are over denoted by PMIs increasing for a select number of countries with leading indicators such as output, new business orders and new export orders all picking up quite well.

### Looking forward – what to expect in the 4<sup>th</sup> Quarter

Themes to look out for:

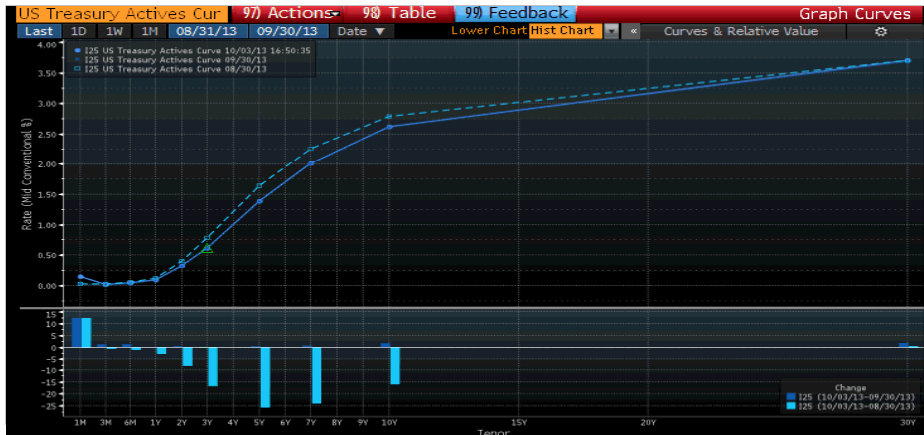
- Emerging market growth expected to rebound sharply in 4Q
- Inflation to begin to become more of a spoken concern in Saudi, UAE and to a lesser extent Oman
- Dubai winning Expo 2020
- Egypt's new financial backers will continue to provide financial visibility

EM economies had a destructive 2Q13 as the Fed's rhetoric to taper security purchases resulted in a 'run on the EMs' where a financial crisis turned to an economic crisis. However, with the Fed delaying tapering indefinitely, the trend could reverse in 4Q13, which would begin to put pressure on commodity prices and consequently, global inflationary pressures. With heavy government spending in Saudi and Oman (47% of GDP in spending), rocketing real estate prices in UAE (up 50% Y-o-Y as of August 2013), potential resumption of global growth discussed above (save from a US government shutdown and subsequent default), MENA countries will not be an exception from inflationary pressures.

While the much anticipated Expo 2020 victory for Dubai may cause some profit-taking in the interim, the news is a long-term positive for the ambitious Emirate. Despite violence continuing on the streets of Egypt, the economy has improved mainly due to Egypt's new financial backers. While the PMIs reveal this improvement, one can also view the confidence by looking at the difference between the official and unofficial USDEGP currency cross, which has narrowed from 18% in 2Q13 to 3% as at 3Q13 end.

Going forward, while we see select markets taking a breather from their YTD runs, we believe a strong finish for 2013 will be on the cards.

Monthly Fixed Income Market update – September 2013



Due to rising prices of US treasuries the benchmark yield curve shifted down this months which was a supporting factor for fixed income.

The spread of the Middle East investment grade index was largely unchanged and ended the month 3 basis points tighter.



The positive market in US treasuries as well as the slight spread tightening contributed to the positive performance of the Middle East investment grade total return index which was up by 1.67%.

The Sukuk total return index was similarly positive with a gain of 1.47% on the month.

## Monthly Fixed Income Market update – September 2013

### September Commentary

The month of September included the FOMC meeting on the 18<sup>th</sup>, which had been a highly anticipated event and was the dominant theme of the market. US treasury yields widened to new heights in the first half of the month with 10 year notes surpassing 3% yield for the first time in more than 3 years. But as economic data come in mostly below expectations, yields retraced as the FOMC meeting approached, after which they plunged into the 2.75% area, as the FED –as spoken for by Bernanke- signaled that tapering may not be imminent yet, as was broadly expected by the market before the meeting. Yields continued to fall further until the end of the month.

For the fixed income market in general this had two positive supporting factors: 1) US treasuries as the benchmark rose which lifted fixed income markets and 2) the prospects of loose monetary policy – for longer than expected – gave a huge boost to asset markets as well as the attitude towards risky assets.

### Looking forward – what to expect in the 4<sup>th</sup> Quarter

Themes to look out for are:

- Debate in the US Congress about the budget and the debt ceiling
- Effects of the US government shut down
- Signs of a continuing economic recovery with focus on the US
- The potential start of tapering

As of the time of writing the fight in the US congress about the budget and the debt ceiling is in full swing. It has already escalated to the point that “non-essential” government operations needed to be shut. The big date to watch out for is 17<sup>th</sup> of October, by which the US Treasury expects to run out of funds to meet ongoing obligations – including debt service which could trigger a default. Unofficial estimates give the Treasury a little bit more time until the end of the month.

Once the issue is hopefully resolved the focus will turn back to tapering. This means that very close attention will be paid to the ongoing release of economic data, 3<sup>rd</sup> quarter earnings season, as well as discussions around the potential economic drag, that a prolonged government shut down will have had on the 4<sup>th</sup> quarter and potentially 1<sup>st</sup> quarter 2014.

For fixed income this might create a beneficial situation, as it is likely that US interest rates will stay range bound: a sharp increase in yields would tighten financial conditions and make the FED more reluctant towards tapering – therefore keeping monetary conditions loose. On the other hand a further decline in rates surely will be capped as well, as tapering is still on the horizon, unless economic data comes in much worse. Inflation is not expected to be a driving force in valuations for now, but has to be watched closely as the complete effects of the unprecedented loose monetary policy are yet unknown.

# FUNDS AT A GLANCE

## Peer Comparison - MAKASEB & MASHREQ ARAB TIGERS FUND

Fund Name	NAV Date	1M	3M	YTD	1Y*	3Y*	5Y	S.I.
<b>Makaseb Arab Tigers Fund</b>	<b>09-Oct-13</b>	<b>7.35</b>	<b>7.42</b>	<b>25.61</b>	<b>24.57</b>	<b>51.22</b>	<b>63.98</b>	<b>19.55</b>
<b>Mashreq Arab Tigers Fund</b>	<b>10-Oct-13</b>	<b>2.54</b>	<b>3.83</b>	<b>18.62</b>	<b>19.55</b>	<b>39.88</b>	<b>59.93</b>	<b>63.53</b>
SGAM Oasis Middle East & North Africa Fund (Retail Class USD)	07-Oct-13	5.80	5.10	25.23	24.74	34.28	11.66	-5.20
ING (L) Invest Middle East & North Africa Fund (Class I Cap - USD)	03-Oct-13	4.91	10.87	37.38	35.68	33.03	-	47.26
Alpha MENA Fund	06-Oct-13	6.71	12.98	31.39	32.61	30.39	6.79	-29.85
Emirates MENA Top Companies Fund Institutional Shares (I Share Class)	09-Oct-13	4.95	4.96	22.99	23.92	29.07	2.16	6.59
Markaz Arabian Fund	03-Oct-13	6.67	7.01	22.63	23.08	25.79	10.02	12.00
Baring MENA Fund (Class A Acc - USD)	09-Oct-13	7.24	4.63	22.52	26.47	25.16	-	33.30
Al MaI MENA Equity Fund	09-Oct-13	1.66	4.25	23.45	22.92	25.07	32.41	-14.20
Beltone MENA Equity Fund	07-Oct-13	6.91	8.71	24.24	21.70	25.00	-3.40	-10.84
Franklin MENA Fund (Class I - USD Accumulated Share)	09-Oct-13	7.00	9.76	25.21	24.69	22.89	0.00	-40.40
Emirates MENA High Income Fund (A Share Class Accumulation)	09-Oct-13	3.92	3.53	15.19	15.50	20.79	-	62.82
Franklin MENA Fund (Class A - USD Accumulated Share)	09-Oct-13	7.03	9.53	24.28	23.20	19.03	-5.38	-43.70
TNI MENA UCITS Sub Fund	07-Oct-13	5.44	4.03	17.56	17.97	14.37	-	21.45
EFG-Hermes MEDA Fund	07-Oct-13	6.95	8.38	33.55	35.59	7.64	-8.90	166.30
Meridio Arab World Fund (Public Shares)	10-Oct-13	3.73	4.09	8.56	6.88	-1.30	-20.87	-27.71
WIOF Middle East Performance Fund (I)	09-Oct-13	-0.50	-5.65	-1.02	-0.35	-6.54	-	-15.58
Arabian Markets Growth Equity Fund	07-Oct-13	5.10	9.74	30.75	32.69	-	-	47.08
Amundi Funds Equity MENA-AU	09-Oct-13	5.66	4.49	25.06	24.57	-	-	32.25

SI – Since Inception,  
Source: Zawya

## Peer Comparison – MAKASEB INCOME FUND

Fund Name	NAV Date	1M	3M	YTD	1Y	3Y*	5Y	S.I.
<b>Makaseb Income Fund</b>	<b>08-Oct-13</b>	<b>3.25</b>	<b>3.05</b>	<b>3.21</b>	<b>6.72</b>	<b>24.27</b>	<b>29.15</b>	<b>25.79</b>
Emirates MENA Fixed Income Fund (I Share Class - Accumulation)	09-Oct-13	2.64	1.84	-0.49	2.59	21.87	-	31.02
Emirates MENA Fixed Income Fund (I Share Class - Income)	09-Oct-13	2.64	1.84	-2.96	0.04	11.00	-	17.89
Al MaI MENA Income Fund	09-Oct-13	1.60	1.83	-0.23	-5.69	10.98	-	13.64
NBAD Cautious Income Fund	03-Oct-13	-2.28	-0.67	-2.19	-1.15	-	-	7.30
NBAD Mena Bond Fund (USD Share)	07-Oct-13	-0.99	-1.25	-	-	-	-	-3.02

SI – Since Inception  
Source: Zawya



## Peer Comparison – MASHREQ AL ISLAMI INCOME FUND

Fund Name	NAV Date	1M	3M	YTD	1Y	3Y*	5Y	S.I.
<b>Mashreq Al Islami Income Fund</b>	<b>09-Oct-13</b>	<b>2.63</b>	<b>2.46</b>	<b>0.37</b>	<b>3.26</b>	<b>21.90</b>	-	<b>40.79</b>
Emirates Global Sukuk Fund USD A Share Class (Accumulation)	09-Oct-13	2.31	1.59	-0.50	1.60	15.25	-	15.86
Jadwa Global Sukuk Fund	08-Oct-13	1.66	1.43	0.05	1.72	14.49	16.28	18.10
Emirates Global Sukuk Fund (A Share Class - Inc - USD)	09-Oct-13	2.31	1.59	-2.47	-0.41	8.08	-	13.11
NBAD Sukuk Income Fund	03-Oct-13	0.97	3.07	1.30	3.89	-	-	6.96
BLME Shariaa Umbrella Fund SICAV-SIF- USD High Yield Fund (Class A)	10-Oct-13	2.05	1.49	-0.07	2.18	-	-	13.61
HSBC Amanah Sukuk Fund	24-Sep-13	0.00	0.15	-1.38	-1.08	-	-	1.09
<b>Mashreq Al Islami Income Fund (D)</b>	<b>09-Oct-13</b>	<b>2.54</b>	<b>2.20</b>	<b>-0.41</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>0.31</b>

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