



mashreq
Asset Management
Investing Professionally in the Middle East

PORTFOLIO MANAGER'S OUTLOOK

October, 2014

What to Look for in The Month Ahead – October 2014

Equity

- As expected, Emaar Malls Group (EMG) priced at the top end of the range of AED 2.9/share with an order book of above AED 150bn. The stock performed well on its opening few days and this performance is expected to continue. We believe the positive performance of EMG will bode well for Emaar Properties and consequently the rest of the market specifically as we enter a seasonally strong period for stock markets as well as the economy.
- We continue to monitor the situation in Egypt – the political situation has improved and continues to do so. The economic data has also picked up quite noticeable, which is providing a tailwind to the market. Investors are pricing in a strong set of earnings for 2H14 and 2015.
- News regarding the outcome of whether Qatar’s World Cup bid will be retracted or not will be postponed to November. We believe this will act as an overhang to the market as investors have already priced in a favorable decision for Qatar.

Sector	PER	PBVR	Dividend yield	1 year Earnings growth
Banks	17.5	2.3	2.9%	8.0%
Real Estate	21.6	1.47	1.4%	10.6%
Materials	18.9	2.65	3.8%	25.0%
Telecommunication	12.7	2.61	4.5%	10.8%
Consumer staples	26.0	4.00	1.8%	15.0%
Retail	23.5	4.21	2.5%	17.0%
Utilities	22.7	5.56	2.6%	3.0%
Industrials	16.4	1.61	4.3%	22.3%

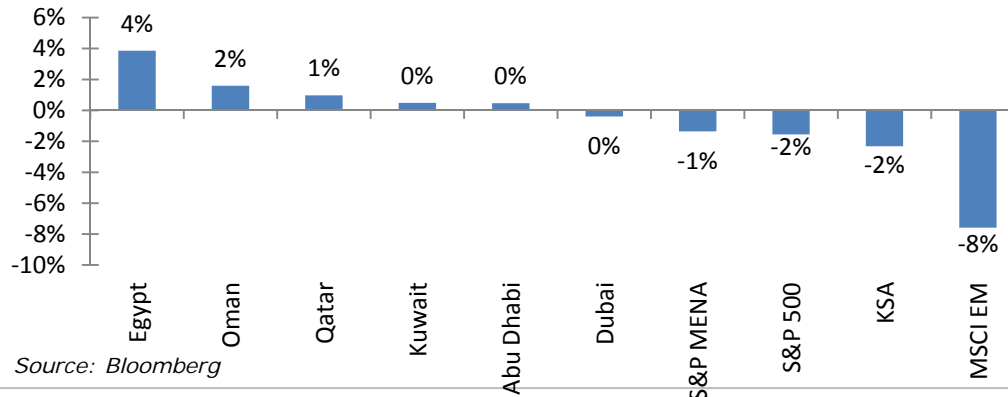
Top/Bottom Performers and How We Fared – September 2014

Equity

Top 3 Performers Across Funds		Bottom 3 Performers Across Funds	
El Sewedy Electric	25.5%	Dar Al Arkan	-10.6%
Arabian Cement Co. of Egypt	19.5%	Samba Financial Group	-6.6%
Al Tayyar	15.7%	Yansab	-6.1%

- While July and August were solid months for Saudi, the Kingdom's market witnessed profit taking over the last 2 weeks of the month as global markets were weak. Saudi banks suffered the most as investors weren't positive on the prospect of the US central bank raising rates anytime soon. Additionally, petrochemical names were also impacted due to sub-par economic data out of China.
- Over in Egypt, we continue to witness strength in banks, real estate and industrial names. The market is pricing in a recovery in earnings supported by an improving political situation, strengthening economic data and overall positive news flow.

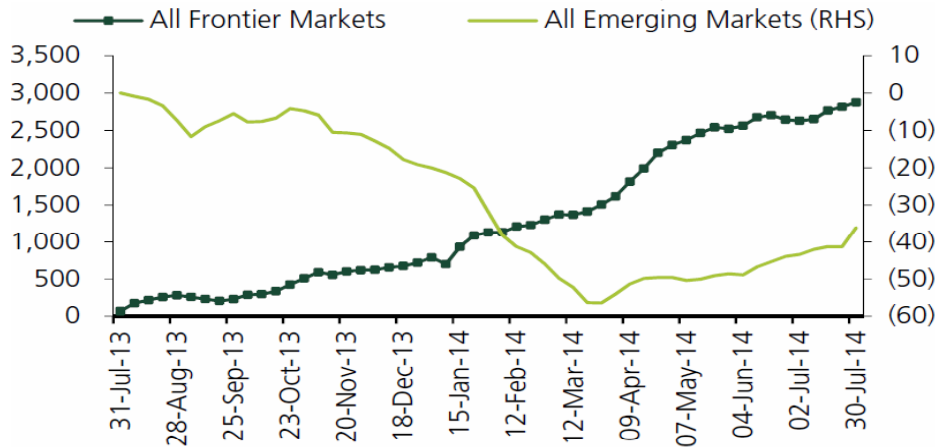
Monthly Equity Market update – September 2014



Source: Bloomberg

Egypt leading the way in September as news flow continues to be constructive. Additionally, the economic data is positive. Meanwhile, UAE's consolidation continues while KSA's supposed expensive market limits gains this month.

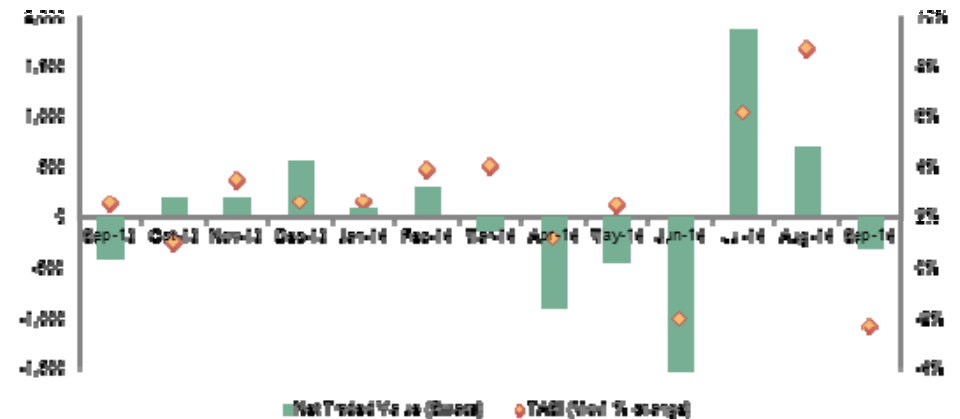
Frontier Markets vs. EMs: Cumulative Weekly Fund Flows (USD mn)



Source: EFG

Fund flows are returning to Emerging Markets as momentum picks up – the latter is positive for MENA markets as valuations will be further justified.

Saudi Stock Market Performance & Foreign Participation



Source: EFG, Stock Exchanges

Foreigners were net sellers in Saudi of SAR 286mn in September after 2 months of being significant net buyers.

Equity Market Outlook – October 2014

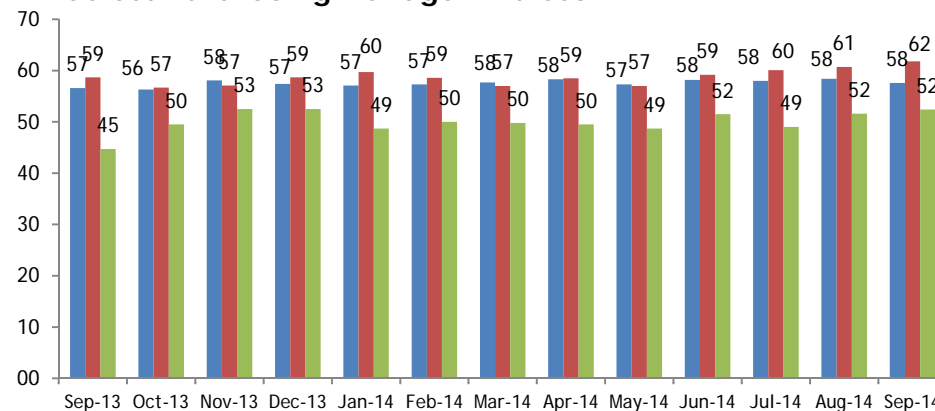
Stock Exchange	Year to date(%)	TTM P/E	Estimated 2014 P/E	Dividend Yield (%)
Saudi Stock Exchange	27.2%	20.9	17.2	2.6
Dubai Financial Market	49.6%	20.9	18.3	1.9
Abu Dhabi Exchange	19.0%	14.5	13.8	3.3
Kuwait Stock Exchange	9.2%	20.6	14.5	3.1
Doha Stock Market	32.3%	17.2	15.7	3.7
Cairo Stock Exchange	44.7%	19.9*	16.7	1.6
Muscat Stock Market	9.5%	11.3	12.4	3.7
S&P Pan Arab LargeMid Cap Index	21.8%	18.7	15.9	2.9
MSCI Emerging Markets	0.7%	12.7	11.7	2.8
S&P 500	7.0%	17.9	16.6	2.0

Source: Bloomberg

We believe consolidation will continue for DFM until we are in the crux of 4Q. Egypt and Saudi will benefit from their own tailwinds while Qatar's World Cup bid uncertainty will result in an overhang on the market.

*EGX100 used only for this figure, EGX30 used for the rest of Egypt figures

Select Purchasing Manager Indices



Source: Markit

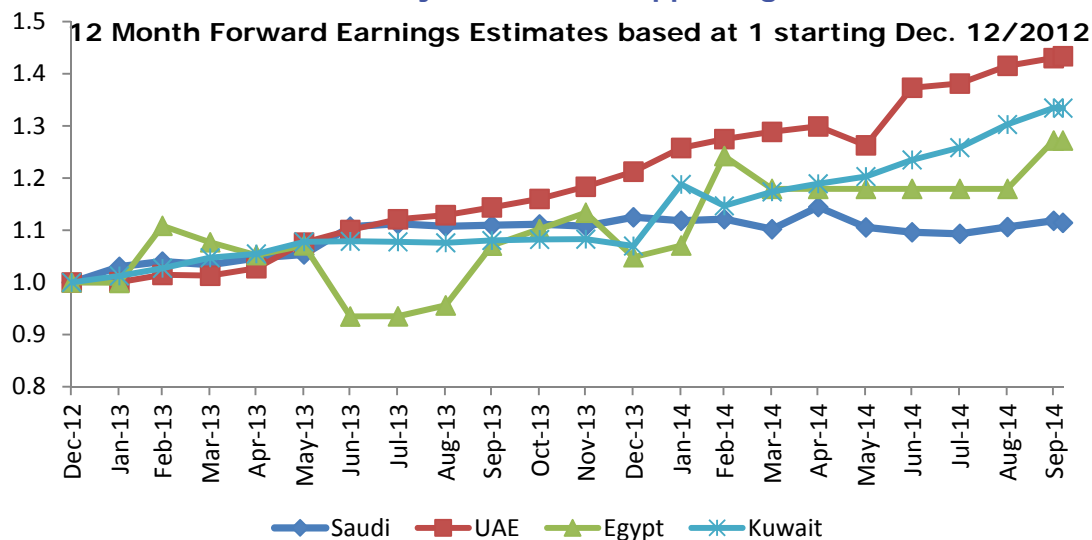
■ UAE PMI ■ Saudi PMI ■ Egypt PMI

PMIs continue to be resilient YTD. We're witnessing consecutive improvement in the PMIs in Egypt as well as Saudi while UAE has stabilized at levels indicative of strong growth in the economy.

Looking forward – Earning Estimates in Saudi could be ready to increase supporting valuations

Earnings estimates for most markets have been increasing. However, estimates for Saudi have been lagging as Saudisation has stalled GDP growth through the labor exodus, which has put expansion plans on hold creating bottlenecks in parts of the economy and not allowing Saudi to reach its potential GDP growth. We believe the situation is already reversing, which will provide support to the Saudi market.

12 Month Forward Earnings Estimates based at 1 starting Dec. 12/2012



Source: Bloomberg

Monthly Fixed Income Market update – October 2014

Where we stand

During the month of September the mood was set early on, when the nonfarm payrolls data missed expectations by a large degree (142k vs. 230k). Ironically US treasury yields trended higher on expectations that the Fed might change their wording to allow for earlier tightening, which eventually they didn't.

The payrolls data caused some analysts to question the strength of the US recovery, especially in the context of generally weaker numbers globally. Also further data caused disappointments later on during the month and when the Fed meeting did not result in any change of course, treasuries ended the month on a stronger note.

September was fairly busy in terms of new issues: In the GCC we saw a couple of known issuers like the Kingdom of Bahrain with a 30 year issue, Emirates NBD with its second perpetual, Burgan Bank with its first perpetual, Goldman Sachs with a long awaited Sukuk, ADCB with a new 5 year one and finally the National Bank of Oman, also with a 5 year bond. We participated in most of the new issues where there was relative value to existing positions or the added benefit of diversification.

During the month, both the Makaseb Income Fund and the Mashreq Al-Islami Income Fund maintained their year-to-date gains of 4.8% and 5.8% respectively.

The month ahead

In the meantime we already have had Nonfarm payrolls data release in October, which was quite good and even included a strong revision of last month's release. Nevertheless the mood remains cautious and any impulse on US treasuries will likely remain muted.

As we are entering the last quarter, it will be interesting to see how the market positions itself. Some parts of the fixed income market are now at relatively cheap levels. This can partly be explained by investors who already divested, in order to lock-in their year's profit, and also because dealers were eager to keep their inventory low at the end of the third quarter.

It is therefore likely, that we see a strong last quarter, unless we have further geopolitical disturbances or data releases that surprise on the upside or downside.

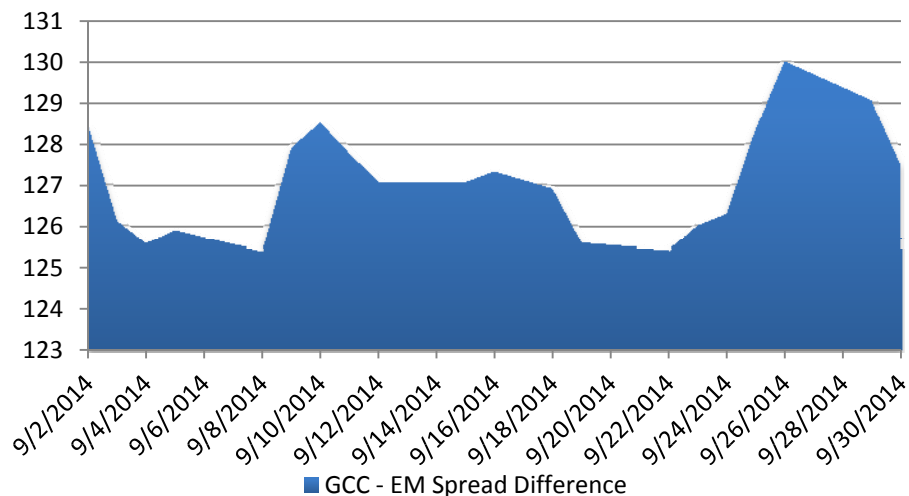
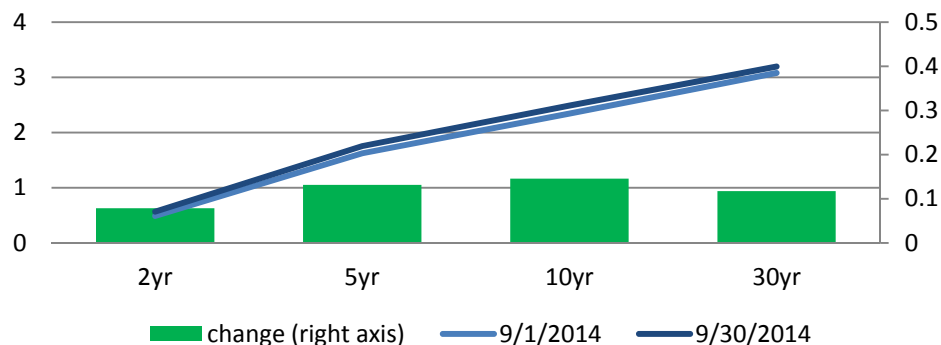
We remain cautiously optimistic: valuations are attractive, US treasury yields will likely be range-bound and incremental investor demand will meet limited supply due to low dealer inventories. Furthermore, the supportive monetary policy of the ECB will provide markets with liquidity, which should provide support to European assets and indirectly, through relative valuation, also for assets outside the region.

Market themes to look out for continue to be:

- US economic recovery with a focus on the interest rate path and the impact of exiting the bond buying program.
- China policies for economic growth
- Geopolitical conflicts

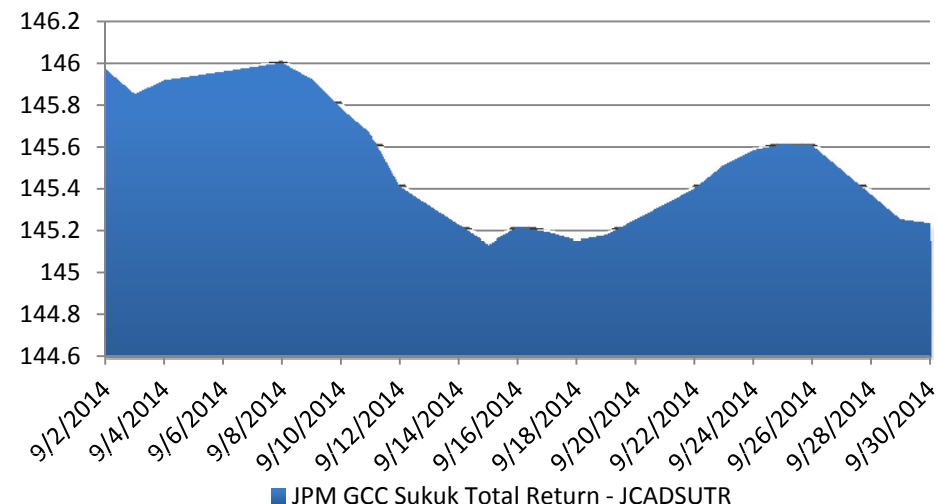
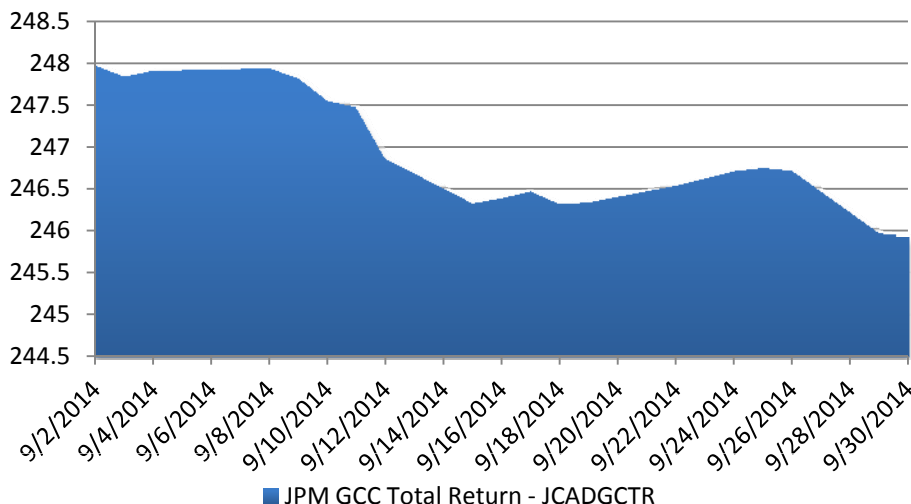
Monthly Fixed Income Market update – September 2014

US Yield Curve



In September the yield curve moved up: the largest move happened in the 10yr. Towards the middle of the month the move had been more pronounced but due to treasury strength the move was only moderate on a month on month basis.

The above chart displays the spread at which the Emerging Markets are trading wider than the GCC market. The spread difference stayed pretty constant throughout the month and finished hardly changed.



On a total return basis the GCC market lost slightly. This was due to softer treasuries and unchanged to slightly wider spreads in general.

The Sukuk sub-section's performance traded in line with the rest of the GCC market, i.e. it was slightly softer during September.

FUNDS AT A GLANCE

Peer Comparison – MAKASEB ARAB TIGERS FUND

Fund Name	NAV Date	YTD	1Y	3Y*	5Y	SI
Arabian Opportunities	30-Sep-14	41.729	57.7	120.974	119.347	82.058
Makaseb Arab Tigers MATF	30-Sep-14	29.938	46.007	116.998	135.633	66.89
Rasmala Arabian Markets Growth Equity Fund	22-Sep-14	28.664	34.81	107.738	114.168	76.222
Amundi Fds Equity MENA - AU (C)	02-Oct-14	30.252	41.705	97.498	97.025	0.719
Schroder ISF Middle East A Acc	03-Oct-14	28.737	40.077	92.165	96.337	44.7
Amundi Oasis Middle East & North Africa AU	02-Oct-14	31.337	42.27	91.279	100.916	31.337
Arab Gateway	30-Sep-14	21.168	34.71	84.634	94.244	288.1
Franklin MENA A (acc) USD	03-Oct-14	30.972	47.495	84.455	72.451	-20.5
Baring MENA A USD Acc	02-Oct-14	23.648	35.252	81.674	-	71.5
Emirates MENA Top Companies - USD A	02-Oct-14	26.878	38.708	80.388	89.615	24.361
Al Mal MENA Equity	01-Oct-14	24.447	34.184	73.344	74.961	12.5
T Rowe Middle East & Africa Equity A USD	02-Oct-14	18.854	32.528	68.412	71.193	-6.7
TNI MENA UCITS	25-Sep-14	23.153	34.155	67.681	-	58.956
Emirates MENA High Income USD A Acc	02-Oct-14	19.258	27.8	56.754	71.462	111.79
Meridio Funds - Meridio Arab World P	06-Oct-14	22.777	35.843	45.194	26.872	-5.29
Al Masah Capital Fund- MENA Dividend Fund A	03-Oct-14	17.743	28.286	-	-	32.391
NBAD MENA Dividend Leader (USD)-Acc	24-Sep-14	22.973	37.655	-	-	54.242
NBAD MENA Dividend Leader (USD)-D	24-Sep-14	23.281	38.171	-	-	54.962

Source: Zawya

Peer Comparison – MASHREQ AL ISLAMI ARAB TIGERS FUND

Fund Name	NAV Date	YTD	1Y	3Y*	5Y	SI
Jadwa Arab Markets Equity	01-Oct-14	36.705	54.742	142.74	171.34	189.508
UNB Al Samaha Islamic	02-Oct-14	29.242	43.676	84.114	66.616	17.586
Mashreq Al-Islami Arab Tigers	02-Oct-14	24.013	32.808	76.35	86.319	111.712
Falcom Arab Market	30-Sep-14	18.633	30.061	76.024	-	64.456
IIAB Islamic Mena	31-Aug-14	12.949	17.724	31.397	34.893	-30.113
IIAB MENA Feeder Fund	31-Aug-14	12.215	15.993	26.888	27.183	-31.1
Al Rajhi MENA Dividend Growth Fund	01-Oct-14	22.682	31.171	-	-	43.842

Source: Zawya

Peer Comparison – MAKASEB INCOME FUND

Fund Name	NAV Date	YTD	1Y	3Y*	5Y	SI
Makaseb Income (MIF)	30-Sep-14	4.939	10.547	26.81	58.435	34.944
Emirates MENA Fixed Income Ins Inc	02-Oct-14	7.308	11.942	26.427	-	73.234
Emirates MENA Fixed Income USD A Inc	02-Oct-14	7.134	11.665	25.456	-	71.158
Al Mal MENA Income	01-Oct-14	6.176	9.764	22.711	26.921	35.056
Falcon Crown Portfolio - Menasa Bond Fund A	30-Sep-14	6.071	10.024	-	-	17.184
NBAD Cautious Income Fund	25-Sep-14	1.255	3.672	-	-	14.345
NBAD MENA Bond (USD)-D	24-Sep-14	4.818	7.32	-	-	5.764
SICO Fixed Income A	18-Sep-14	5.866	8.389	-	-	5.04

Source: Zawya

Peer Comparison – MASHREQ AL ISLAMI INCOME FUND

Fund Name	NAV Date	YTD	1Y	3Y*	5Y	SI
Mashreq Al-Islami Income Fund (B)	30-Sep-14	5.697	9.553	22.947	50.485	51.334
BLME Sharia'a USD Global Sukuk Income A	06-Oct-14	4.522	7.726	19.809	-	20.325
Emirates Global Sukuk A USD Acc	02-Oct-14	4.975	8.311	16.683	-	27.102
Emirates Global Sukuk USD A Inc	02-Oct-14	4.975	8.31	16.625	-	28.008
Jadwa Global Sukuk	30-Sep-14	3.765	5.915	12.154	27.999	23.732
EFH Funds Global Sukuk Plus	02-Oct-14	2.804	4.606	8.21	24.147	28.815
Al Hilal Global Sukuk Fund	29-Sep-14	5.305	5.942	-	-	5.2
HSBC Sukuk Fund	30-Sep-14	1.265	1.352	-	-	2.479
Mashreq Al-Islami Income Fund (D)-Acc	30-Sep-14	5.005	8.466	-	-	6.713
Mashreq Al-Islami Income Fund (D)-Income	30-Sep-14	5.005	8.466	-	-	6.871
NBAD Sukuk Income Fund	25-Sep-14	1.329	0.654	-	-	3.061
SC Income Fund A	02-Oct-14	1.29	1.891	-	-	1.29

Source: Zawya

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