



Fund owner: Mashreq Bank
Fund manager/adviser: Mashreq Capital
Named portfolio manager/adviser(s): Abdul Kadir Hussain (since launch)
Contact group: +9714 207 8835

Latest grading issued July 2013

Fund profile

Launch date	June 2009
Manager location	Dubai
Sector	Emerging markets debt
Peer group	Sukuk funds
Fund benchmark	5-7% annualised return over the life of the fund
Fund size	US\$98m (1 April 2013)

Review period 12 months to end-March 2013

Alastair Wainwright, Analyst at S&P Capital IQ Fund Research, prepared and is responsible for this report; the Grading Committee is responsible for the grading.

The following report is based on information taken direct from the group either via interview or as a written document and augmented by information in the public domain. The sources of performance data are provided within the report. All opinions are our own.

Cumulative returns

	3 years
Fund share class	29.2%
Index**	1.0%

** Citi USD 3m Eurodeposit

Fund Research opinion (July 2013)

Note: Due to unreliable third party data sources, we are unable to provide peer group data for this report.

This fund invests in sukuk and other Shariah-compliant fixed income securities. The fund aims to return an average of 5-7% annually, before fees, over the lifetime of the fund. The fund does not have a benchmark, as the sukuk universe is decided by the Shariah board.

The manager, Abdul Hussain, has over 20 years' experience working in fixed income markets. In 2012, he was made head of asset management and he is now responsible for both the fixed income and equity teams at Mashreq. He is involved at a high level on the equity side, and does not participate in the day-to-day management of the equity funds. He is still making investment decisions for the fixed income funds, but is less involved in the day-to-day running of the fund. There has been no change to the team since our last review; Hussain is supported by three fixed income analysts, including deputy manager Aliasgar Tambawala.

Assets under management have grown to over \$97m, from \$33m at the time of our last review. This growth has come from institutional and retail clients through the funds' inclusion on fund platforms.

The investment process has remained largely unchanged. The prospectus was altered in 2012 to allow the fund to use Shariah-compliant profit rate swaps, which the managers have used to reduce duration on the fund's longer-dated paper.

The fund had a good year in 2012, as it returned 13.4%, but the manager admits 2012 was not a difficult year as nearly all bonds in the universe produced positive returns. The sukuk market has also seen some interest from conventional bond managers, as some sukuk issues offer a discount to the conventional bonds, which has helped increase bond values. The first quarter of 2013 was relatively flat, but a 2% return in April has helped performance year to date. For the remainder of 2013 and 2014, Hussain believes it will be increasingly harder for fixed income investors to make positive returns as US interest rates look set to rise. He will look for positive returns from diversification and carry going forward. Turkey, for example, offers a large sukuk sector, particularly in banks, across senior and subordinated issues.

The small, stable team is experienced and makes good use of the resources it has available. The fund has also met its target since inception and ranks highly amongst other sukuk funds.

For these reasons, it achieves an S&P Capital IQ Silver/V3 grading.

Mashreq Al Islami Income Fund

Management style

The fund invests in a diversified portfolio of sukuk and other Shariah-compliant fixed income securities originating primarily from countries in the GCC and MENA regions, and may also have limited holdings in other emerging markets (primarily Asia, emerging Europe and Africa).

The fund has no formal benchmark, as its investment universe is set by the Shariah board, which may not accept bonds regarded as sukuk by other boards. Therefore, managing against an index can be problematic. However, the manager seeks a 5-7% annualised return over the life of the fund.

The investment approach begins with a top-down review of the macro environment, but the main emphasis is on bottom-up security selection, driven by the team's relative value analysis.

Portfolio duration is normally 3.5-7 years, and is not guided by the benchmark.

The fund can hold high yield, but the average rating on the fund is normally investment grade.

Geographical and sector positioning is generally driven by the manager's bottom-up portfolio construction. However, no more than 20% of the portfolio can be invested outside the GCC and MENA regions.

The portfolio normally has around 10-15 holdings, each below 20%. The manager does not use credit derivatives, but may use interest rate futures to manage overall duration positioning.

Cash is normally 4-5% of the portfolio, and does not normally go over 10%.

The portfolio is subject to independent oversight by Mashreq Bank's risk management team.

Fund manager & team

Abdul Hussain is head of Mashreq Asset Management's fixed income team of four, which includes back-up manager Aliasgar Tambawala and two analysts (Robert Hahm and Kojagiri Bhoir). Hussain started the group's fixed income business at the end of 2005.

Abdul Kadir Hussain - economics (Wharton School, University Pennsylvania), MBA (Anderson School, UCLA, London), has over 21 years' investment experience including time at First Chicago, Pacific Life Assurance Company and Peregrine West LB. From 1999 to 2006, he worked for CSFB, first in Singapore as head of Asian credit research and then trading fixed income in London. He joined Mashreq Capital in Dubai in April 2006.

Aliasgar Tambawala - business administration, MSc applied economics (Marquette University), started as an equities analyst with IL&FS Investsmart in March 2003. One year later, he moved to JP Morgan Stanley's Mumbai office to do mutual funds research on behalf of corporate advisory and private wealth advisory clients. In March 2005, he moved to ENAM Securities in Mumbai to cover Indian financial services securities. He joined Mashreq's fixed income team in April 2007.

Kojagiri Bhoir - CA, after working as an audit assistant, she joined Standard & Poor's Mumbai office as a credit analyst in September 2006. She moved to Mashreq Bank in October 2008 to work on monitoring bank-wide credit risk, and then joined the fixed income team in July 2011.

Robert Hahm - MSc economics (University of Hamburg), CFA, started as a graduate banking trainee with Dresdner in Hamburg in February 2000, becoming a junior trader in January 2002 and a portfolio manager/senior trader in April 2003. After a three-year sabbatical, he joined Orion Holdings in Dubai in June 2008 as a market risk officer. In September 2009, he moved to Arzak Global Securities to take an appointment as its risk manager in Dubai and the Isle of Man. He joined Mashreq Capital as a research analyst in November 2011.

Calendar-year performance

	2009	2010	2011	2012	Year to 29/03/2013
	%	%	%	%	%
Fund share class	-	8.3	8.0	13.4	0.6
Index**	0.9	0.3	0.3	0.4	0.1

** Citi USD 3m Eurodeposit

Fund benchmark: 5-7% annualised return over the life of the fund

Share class screened: AEM000130025 (B)

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Latest grading issued July 2013

Investment style

	Inv Grade	Blend	Sub Inv Grade
Govt			
Corp			
Emerging			
ABS/MBS			

Sources of return

	None	Low	Average	High
Duration				
Yield curve				
Credit spreads				
Country / sectors				
Currency exposure				
Derivatives				

Risk characteristics

Volatility	3 years	3.6
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Grading Process

To qualify for an interview and potential grading, a fund must have a minimum two-year performance track record (three years for funds-of-hedge-funds). New funds, funds with less than two years' performance record and specialist funds can be analysed and included providing independent verifiable performance data is supplied.

The starting point for a grading is an initial quantitative screen based on performance data obtained from Lipper Inc or elsewhere. For long-only funds, discrete annual performance comparisons are made, as opposed to cumulative returns over a three-year period. Relative performance of funds within each sector is ranked by decile.

This quantitative screen captures approximately the top 20% of funds in each sector, depending on the size of the sector. For funds-of-hedge-funds the screen is based on the fund's risk/reward objective.

For more information on the fund grading process please visit our website at www.funds-info.standardandpoors.com.

Symbols and Definitions

Active funds

Grading bands for long-only funds

Platinum	The fund demonstrates the highest standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.
Gold	The fund demonstrates very high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.
Silver	The fund demonstrates high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

Grading bands for Fund-of-hedge-funds / Absolute return / Specialist funds

Platinum	The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.
Gold	The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.
Silver	The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

Grading bands for Ucits III flexible beta funds

Platinum	The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.
Gold	The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.
Silver	The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency relative to its own objectives and relative to comparable flexible beta funds.

Bond gradings

V	Bond fund volatility gradings of V1 to V6 reflect S&P Capital IQ's current opinion of a fund's sensitivity to changing market conditions. A volatility grading evaluates a fund's sensitivity to interest rate movement, credit risk, investment diversification or concentration, liquidity, leverage and other factors. For the V1 to V4 categories, risk is considered relative to a portfolio composed of government securities denominated in the base currency of the fund.
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Absolute return gradings

N	The N grading is S&P Capital IQ's indication of a fund's potential capital stability in normal markets. It is a qualitative grading but is based on annualised weekly downside deviation. N1 is the most stable, and N9 the least stable grading.
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Symbols and Definitions (continued)

Passive funds

Platinum	The fund demonstrates the highest standards of quality based on its investment process, risk management and consistency of performance as compared to its benchmark index and other passive funds with a similar benchmark.
Gold	The fund demonstrates very high standards of quality based on its investment process, risk management and consistency of performance as compared to its benchmark index and other passive funds with a similar benchmark.
Silver	The fund demonstrates high standards of quality in its sector based on its investment process, risk management and consistency of performance as compared to its benchmark index and other passive funds with a similar benchmark.

Applicable to both active and passive funds

Bronze	A previously graded fund where a newly appointed fund manager or team does not yet have the required 12 months' relevant investment management experience to achieve a Silver grading or higher.
Grading On Hold	A grading is placed On Hold when a significant change occurs at the fund manager or fund management team level and S&P Capital IQ has not yet had the opportunity to evaluate the impact on the qualitative appraisal.
Grading Removed	A previously graded fund is classified Grading Removed when a significant change occurs at the fund manager or fund management team level sufficient for the fund to no longer meet the standards to achieve a grading.
LTG recognition	A long-term grading (LTG) denotes a fund that has achieved an S&P Capital IQ fund grading at Platinum, Gold or Silver level in each of the last five or 10 consecutive years.

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