

Peer Group:

MENA

Fund Manager/Adviser:

Ibrahim Masood (since launch) /
Team

Location:

Dubai

Launch Date: November 2005

Fund Size (November 2008):

US\$29m

Group Contact No:

+971 4207 8535

Website:

www.mashreqbank.com

S&P ID Number: N/A



INVESTMENT STYLE

	Value	Blend	Growth
Large-Cap			
Mid-Cap			
Small-Cap			

Please see page 2 for required research analyst certification disclosure.

Further information on S&P's fund coverage can be found at www.funds.standardandpoors.com

STANDARD & POOR'S OPINION (DECEMBER 2008)

The Makaseb Arab Tigers Fund aims for long-term capital appreciation by investing in the 11 countries (13 exchanges) of the Middle East and North Africa region. Launched in November 2005, it now has a three-year track record. Despite overall negative returns, since launch it has proved relatively resilient to its reference benchmark, the MSCI Arabian index, due to strong outperformance in 2006 and a solid 2007.

Inevitably the fund has suffered in the difficult market conditions of 2008, but it was disappointing and somewhat unexpected, given its quality bias, to see it underperforming both peers and benchmark in the 10 months to end-October 2008. This was mainly due to asset allocation; the managers decided to stay fully invested, so cash levels were kept low, which certainly hurt performance relative to regional peers and was in marked contrast to action taken in previous corrections. The volatile market environment also tested the team's stockpicking discipline, with some decisions proving somewhat inopportune.

We are reassured that fund manager Ibrahim Masood and his team have now reaffirmed their focus on the key disciplines of the process, which emphasises conviction stockpicking based on strict attention to fundamentals and the quality of company management, as well as the top-down thematic overlay, within which context stock selection occurs. This refocusing has led to decisions that have helped performance, such as the sharp reduction in Egyptian exposure.

Overall, we take comfort from the over 13 years' experience of manager Ibrahim Masood. We also note the addition of resources to the team, which now numbers eight (as against three full-time members previously); this should enhance stock coverage. On balance, therefore, the fund just retains its S&P AA rating.

FACT FILE

Group: Mashreqbank is the largest privately owned bank in the UAE and the only one present in all the seven emirates. Its activities encompass retail, corporate, investment banking, treasury, capital markets and financial institutions. The bank has recently started to expand outside the UAE.

Team: The eight-strong team is led by Ibrahim Masood. It focuses exclusively on the Middle East & North Africa region and manages assets of around \$350m.

Fund Manager: Masood has over 13 years' investment experience and has managed all the Makaseb funds since launch. He is assisted in the day-to-day management of the Arab Tigers Fund by co-manager Junaid Farooq.

Style: An unconstrained and fairly concentrated portfolio of stocks listed in the MENA region. The focus is on bottom-up selection within Masood's broad top-down thematic input.

Past performance: Since inception in November 2005 to the end of October 2008, the fund returned -35.7% as compared to the reference MSCI Arabian index benchmark, which achieved -50.7%.

FUND MANAGER & TEAM

Imran Ahmed joined in 2004 from Citigroup to set up and head Mashreqbank's asset management business. Team CIO Ibrahim Masood, the named fund manager on all funds, heads a team that comprises two further fund managers and five analysts. Responsibilities are split by country but at sector and stock level all team members are generalists.

Ibrahim Masood - senior investment officer - CFA, started his career in 1995 working as analyst and fund manager for a Pakistani affiliate of Morgan Stanley before moving to Credit Agricole Indosuez, Merrill Lynch and CLSA. In 2001 he moved to Rana Investment Company in Saudi Arabia where he managed US and European portfolios. He joined the group in 2003 and was promoted to SIO in 2005.

Junaid Farooq - CFA, started his career in 2003 as an analyst, first in equity research then in the corporate finance division of Global Securities Pakistan. He joined the group in October 2005.

Reda Gomaa - started his career in 1997 as a credit analyst at Arab Investment Bank in Cairo, eventually becoming a senior investment analyst responsible for making investment recommendations. He joined the group in October 2005.

Imran Ahmed - head of asset management - BA (Occidental College, CA), started his career in 1988 at Standard Chartered in Pakistan before moving to Citibank, then Bank of America. He then moved back to Citibank (in Singapore and London) where he was a senior portfolio manager, before joining the group in 2004.

PORTFOLIO CHARACTERISTICS

No. of holdings	27
Turnover ratio (%)	100
% in top 10	68

TOP 10 HOLDINGS (01/11/08)

	%
Almarai	11.7
Jarir Marketing	11.0
Etihad Etisalat *	8.4
Emirates Telecom	7.2
Saudi Fertilizer	5.6
Savola *	5.5
Emaar Properties *	5.4
Orascom Construction	5.0
Al Rajhi Bank	4.5
Saudi Arabian Mining	3.8

* In top 10 holdings a year ago

ALLOCATION BREAKDOWN (01/11/08)

	Fund %
Cash	5.0
Egypt	7.0
Jordan	1.0
Kuwait	2.0
Oman	6.0
Qatar	6.0
Saudi Arabia	50.0
UAE	23.0

MAKASEB ARAB TIGERS FUND

Peer Group: MENA



MANAGEMENT STYLE

• This actively run portfolio invests in the 13 exchanges of the Middle East & North Africa region (11 countries) and seeks long-term outperformance of the MSCI Arabian index and peers.

• The universe of about 1,700 names is reduced by liquidity screens to around 250 investable companies with over \$250m market cap. The team targets companies with organic growth, quality of earnings, attractive valuations and strong management; meeting companies is deemed important.

• The portfolio is built bottom-up on conviction but within a clear top-down thematic and macro overlay. Construction,

though, is benchmark aware and ideally a 2.5% overweight is sought in each stock held. The goal is to select the best of breed per sector. Sector and country weightings are a by-product of stock selection, but a broad diversification is sought.

• Risk controls are common sense and include limiting the maximum exposure to each individual holding to one-third of the average daily liquidity, assuming a three-day liquidation period. The fund's retail status limits individual stock weights to 10% at purchase.

• Cash may be actively managed (although less so than in the past). Up to 10% of the fund may be in bonds.

PORTFOLIO REVIEW

The end of October 2008 portfolio was invested in 27 stocks but with a much greater top 10 concentration than before (68% against 56%). Despite difficult market conditions, the fund remained almost fully invested, with cash at just 5%, lower than some regional peers and also than historically in the fund itself (cash went up to 40% in the 2006 market correction).

In 2007 the fund was underweight Saudi Arabia, which continued to outperform, so in Q4 the team added some bank exposure they

considered good value. This was, however, cut in Q1 2008 as credit problems surfaced and relative valuations worsened. The focus then shifted to domestic demand plays such as Almarai, Saudi Fertiliser and retailer Savola. At review, seven of the top 10 names were Saudi, taking the country exposure to 50% from 18% previously (slightly overweight versus index). Egyptian exposure was cut sharply from 21% to 7% on worries over government tax proposals; just two names (Oriscom and Elswedy Cables) remained.

PERFORMANCE ANALYSIS (NOVEMBER 2008)

This fund, launched in November 2005, had relatively resilient performance against the MSCI Arabian index in the three years to end October 2008, falling -35.7% against -50.7% for the benchmark. A relatively weak start in the momentum markets of 2005 was followed by a strong bounce back in 2006, with most outperformance coming in Q3-Q4 2006 from the zero weighting of Saudi Arabia and from cash levels, which briefly touched 40%. This was followed by a solid 2007.

In the extremely difficult market conditions of 2008, however, the fund has not been as resilient as might have been expected given its quality bias. It returned -47.6% in the 10 months to end-October 2008 against the benchmark's -44.8% and trailed some regional peers. The relative underperformance was partly

due to asset allocation; the fund remained almost fully invested with cash levels very low relative to peers. Specific stock moves, such as the decision to increase Saudi banking exposure, hurt. The team cut Saudi bank positions back in Q1 2008 as relative valuations deteriorated, locking in some underperformance. These factors led to the team redoubling their focus on fundamentals, and some notably strong performance contributions came from names such as Almarai and Jarir Marketing. The sharp reduction in Egyptian exposure has also been beneficial as over the last 12 months that market has been the worst performer in the region, falling -55.3% (-33.2% in October 2008 alone).

DISCRETE PERFORMANCE (CALENDAR YEARS)

	2004	2005	2006	2007	YTD 31/ 10/2008
	%	%	%	%	%
Fund			-8.1	38.7	-47.6
Index**					-40.0

** S&P Pan Arab index

All of the views expressed in this research report accurately reflect our committee's views regarding any and all of the subject securities or issuers. No part of the committee's compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report. © [2008] The McGraw-Hill Companies, Ltd trading as Standard & Poor's ("S&P") 20 Canada Square, Canary Wharf, London, E14 5LH. Tel: +44 (0)20-7176 3800. All rights reserved. No part of this publication shall be reproduced, stored in any retrieval system or transmitted in any form electronic or otherwise without the prior written consent of S&P. Any part of the publication by S&P of which this page is a part is made accessible subject to the terms and conditions which are accessible at the url address below ("S&P Terms") - by accessing and viewing this page and/or pages associated with or attached to it you accept the S&P Terms. Go to <http://www.funds-info.standardandpoors.com>. Performance Data Source - © 2009 Lipper. All Rights Reserved. The performance information contained herein: (1) is proprietary to Lipper and/or its content providers; (2) may not be copied or distributed; and (3) is not warranted to be accurate, complete or timely. Neither Lipper nor its content providers are responsible for any damages or losses arising from any use of this information. Past performance is no guarantee of future results.