

**Peer Group:**

UAE

**Fund Manager/Adviser:**

Ibrahim Masood (since launch)

**Location:**

Dubai

**Launch Date:** February 2005

**Fund Size (November 2008):**

US\$9.6m

**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](http://www.funds.standardandpoors.com)

**STANDARD & POOR'S OPINION (DECEMBER 2008)**

This single-country fund looks for long-term capital appreciation by investing in stocks listed on the Dubai and Abu Dhabi stock exchanges. It aims to outperform the MSCI UAE Domestic index and peers over the same horizon. The investable universe available to fund manager Ibrahim Masood is limited by the narrowness of these markets and contains 34 stocks that the managers consider liquid and investable.

The fund is run in an index-aware fashion with a stronger focus on relative valuations than the team has on Middle East and North Africa (MENA) portfolios. The manager has little room for manoeuvre other than determining stock over- and underweights against the benchmark. Those decisions are driven by the team's bottom-up stock views, which emphasise quality of management and attention to fundamentals.

Ibrahim Masood, who has over 13 years' experience of the region, heads the now eight-strong team of three fund managers (including himself) and five

analysts (all generalists) who run MENA funds. Specific day-to-day assistance on this fund is provided by Reda Gomaa, who has three years as co-manager on this fund as well as analytical experience.

After outperforming the benchmark between 2005 and 2007 thanks to good stock selection, 2008 has been challenging. The managers also struggled relative to peers, facing significant redemptions as international investors reduced what was for them an off-benchmark asset allocation bet. Outflows and market falls have caused the fund to shrink to almost a third of its size.

Investors should note the constrained nature of the fund, and that this single-country emerging market fund's volatility and risk profile is higher than that of MENA mandates. That said, the clarity of investment approach and the experience of the team in the region lead to the fund retaining its S&P A status.

**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. They focus exclusively on the Middle East and North Africa region and manage assets of around \$350m.

**Fund Manager:** Ibrahim Masood has 13 years' investment experience and has managed all the Makaseb funds since launch. He works closely with Reda Gomaa on this fund.

**Style:** An index-aware portfolio of UAE-listed stocks. The portfolio tends to be concentrated relative to the benchmark and built from the bottom-up.

**Past performance:** Since inception in February 2005 to the end of October 2008, the fund returned -14.18%, significantly outperforming the MSCI UAE index, which achieved -22.0%.

**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.

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.

Junaid Farooq - CFA, started his career in 2003 as an analyst first in the equity research then in the corporate finance division of Global Securities Pakistan before joining 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 and again Citibank (in Singapore and London) where he was a senior portfolio manager.

## PORTFOLIO CHARACTERISTICS

No. of holdings	12
Turnover ratio (%)	50
% in top 10	96

## TOP 10 HOLDINGS (01/11/08)

	%
Emirates Telecom	23.9
Emaar Properties	14.0
Abu Dhabi National Energy	11.0
Dubai Islamic Bank	9.1
Dana Gas	8.8
Emirates NBD	7.0
Union Properties	6.9
Arabtec Holding	6.4
Dubai Financial Market	5.0
Air Arabia	3.4

\* In top 10 holdings a year ago

## ALLOCATION BREAKDOWN (01/11/08)

	Fund %
Energy	8.8
Financials	41.9
Industrials	11.0
Telecommunications	23.9
Utilities/ Others	11.0
Cash	3.4

## MAKASEB EMIRATES EQUITY FUND

Peer Group: UAE



## MANAGEMENT STYLE

• This fund is managed in an index-aware fashion with the goal of outperforming its MSCI UAE index benchmark.

• The universe includes around 40 companies - most of which are part of the benchmark - and is screened for liquidity and narrowed down to a list of around 30-32 investable companies. The team focuses on companies with organic growth, quality of earnings and attractive valuations (P/E and P/B ratios). Meeting company management is also important and top-down thematic considerations are of some use, although on this fund there is less scope for that. Compared to the Arab Tigers Fund also run

by the team, the focus is more on relative valuations.

• The portfolio is built keeping an eye on the benchmark and it tends to be fairly concentrated, 12 stocks at review.

• Risk controls are common sense and include limiting the maximum exposure to each individual holding to a third of the average daily liquidity, assuming a three-day liquidation period. Cash management on this fund tends to be less active than on the Arab Tigers Fund, which is run for absolute returns. Sector deviations against the benchmark are also more controlled.

• Annual turnover has averaged 50%.

## PORTFOLIO REVIEW

The fund saw severe outflows this year as international investors reduced what for them was an off-benchmark asset allocation position. Some of the outflows were relatively lumpy and while the managers tried to minimise the impact on the fund by selling across the board, portfolio composition was affected. Outflows, combined with the market's fall, led to the fund shrinking to \$9.6m from \$35m last year.

At review the portfolio was invested in 12 stocks with the top two holdings unchanged

but accounting for 38% against 52% at last review, due to the reduction in the Emaar position from 30% to a more neutral 14% following negative newsflow in Q1.

The largest sector deviation was in financials (-23.7%). The defensive telecom weight was represented by Emirates Telecom. Energy and industrials exposure had increased to overweight along with utilities (the largest active stock bets were Dana Gas and National Energy). Tracking error was lower than 12 months ago at 17%.

## PERFORMANCE ANALYSIS (NOVEMBER 2008)

Since launch in February 2005 the fund has outperformed its MSCI UAE index benchmark, returning -14.18% against the index's -22%. Unlike the Arab Tigers Fund, also run by Masood, this single-country portfolio tends to be managed in a more index-aware fashion. This explains why the performance trend of the fund has been similar to its benchmark.

Unsurprisingly, absolute returns have been weak in the difficult market conditions of 2008, and given the scale of the redemptions and forced selling the managers have done well to limit the fund's underperformance against the index (-50.3% against the benchmark's -49.6%). Within the portfolio, the underweight to banks and real estate has been positive, but the fund's continuing overweight stance in energy and capital goods hurt. One of the few resilient areas was telecoms, where Emirates Telecom (Etisalat) (although down in absolute terms) outperformed on a relative basis.

### DISCRETE PERFORMANCE (CALENDAR YEARS)

	2004	2005	2006	2007	YTD 31/10/2008
	%	%	%	%	%
Fund			-42.3	53.2	-51.7
Index**			-44.6	52.1	-49.1

\*\* S&P/IFCG UAE

Performance relative to peers has not been strong, as other managers have managed to maintain much higher levels of cash as a result of lower redemption levels.

In 2007, the fund's two largest overweights, Emirates Telecom (Etisalat) and Arabtec, were the top two contributors. Dubai Islamic Bank, the off-index bet in Tamweel and Abu Dhabi National Energy were also beneficial. More importantly, the losers have been far less than the winners and have had a limited impact on the fund's returns. Most laggards were concentrated in the bank industry (Abu Dhabi Commercial Bank, Union National Bank, Emirates Bank). Aabar Petroleum Investments and Aldar Properties also detracted. Interestingly, Emaar did not figure among the top losers despite being the fund's top holding and being overweight.

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