

### Manager's Commentary

Inclusion of Saudi Arabia to the MSCI Emerging Market watch list and the restriction placed on Qatar by Saudi Arabia, UAE, Egypt and Bahrain dominated both the news cycle and the regional market activity during the month. Unsurprisingly, Saudi Arabia was the best performing market (up by 8.5%) while in contrast, Qatar fell by 9% during the month.

The fund was up by 2.9% and the index was up by 3.3%. Leading up to the MSCI announcement in mid-July we increased exposure to selected large caps in Saudi Arabia, and this contributed to the fund's returns. However, we had very limited exposure to certain large caps such as Almarai (+26%) and NCB (+30%) which also increased appreciably during the month. We did not invest in Almarai because of its poor long term fundamentals and expensive valuations. Prior to the rally, the company was trading at PE of 30x 2017E; after the rally, it was trading at PE of 40x 2017E. We reduced our exposure to NCB in April following the announcement that insurers affiliated with Travelers Cos in the US have sued NCB and Al Rajhi Bank, citing affiliations with Osama Bin Laden's family. We fear this may jeopardize NCB's corresponding banking arrangements in New York.

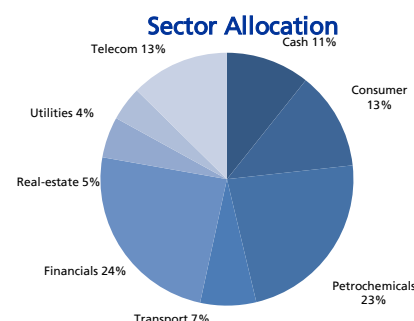
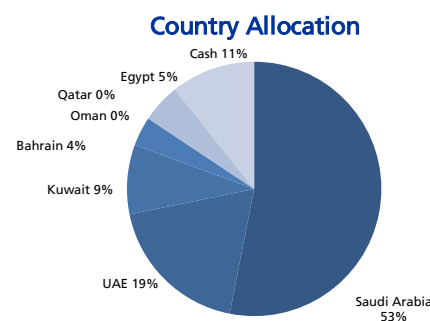
We did expect Saudi Arabia to be included on the MSCI watch list, given the extent of regulatory and procedural changes made by Saudi authorities in order to meet the requirements of MSCI. However, we did not anticipate the almost frantic buying which followed the MSCI announcement. The accession of Deputy Crown Prince Mohammed Bin Salman, which coincided with the MSCI announcement, may have further fuelled the buying frenzy. In the three weeks following the upgrade, anecdotal evidence suggests that Saudi government related entities purchased approximately USD 3bn worth of equities in the market, while the remainder of the participants were net sellers. In addition, it is pertinent to note that even if we assume the best case scenario, the actual upgrade in to the MSCI Emerging Markets index would only happen in 2020. We believe the market reaction was excessive and premature, hence we reduced our exposure in investments which we deemed to have reached their fair value. As a consequence, our cash allocation increased from 4% to 11%.

### Investment Objective

The Fund seeks long-term capital appreciation by investing principally in equity securities listed on the stock markets of GCC countries.

| Returns (%)                             | Fund  | Index* |
|---|-------|--------|
| June 2017                               | 2.9   | 3.3    |
| YTD (June17)                            | 4.7   | 3.6    |
| 2016                                    | 5.8   | 8.5    |
| 2015                                    | -6.2  | -14.6  |
| 2014                                    | 4.7   | 0.6    |
| Last 3 Months                           | 1.5   | 2.7    |
| Last 6 Months                           | 4.7   | 3.6    |
| Last 1 Year                             | 12.1  | 13.6   |
| Last 3 Years                            | 1.6   | -12.9  |
| Last 5 Years                            | 47.7  | 29.6   |
| Last 10 Years                           | 52.3  | 12.9   |
| Since Inception (March 04 to June 2017) | 202.8 | 123.2  |

\* S&P GCC Total Return Index



### Fund Information

|                                     |                                      |
|-------------------------------------|--------------------------------------|
| Launch Date                         | March 2004                           |
| Management Fee                      | 1.5%                                 |
| Performance Fee                     | 10% over 10%                         |
| Subscription & Redemption           | Weekly                               |
| Dealing Day                         | Thursday                             |
| Subscription & Redemption Dead-line | Two Business days before dealing day |
| Minimum Subscription                | USD 100,000                          |
| Bloomberg Code                      | KHALEQY BI Equity                    |
| Fund ISIN Code                      | BH000A1CZ8W7                         |
| Custodian / Administrator           | HSBC Bahrain                         |

### Key Statistics

|  | Fund                         | Index                        |
|--|------------------------------|------------------------------|
| Price to Earnings Multiple TTM (x)               | 16.9                         | 15.3                         |
| Price to Book Multiple Latest (x)                | 1.5                          | 1.5                          |
| Return on Equity TTM (%)                         | 9.4                          | 10.0                         |
| Dividend Yield—2016 (%)                          | 2.9                          | 3.6                          |
| Number of Holdings                               | 30                           | 300                          |
| Annualized Return (%) - Last 5 years             | 8.1                          | 5.3                          |
| Annualized Standard Deviation (%) - Last 5 years | 14.8                         | 16.0                         |
| Largest Monthly Gain (%) - Last 5 years          | 12.0 (April 15)              | 11.2 (April 15)              |
| Largest Monthly Loss (%) - Last 5 years          | -12.9 (Aug 15)               | -13.0 (Aug 15)               |
| % Positive Months (%)                            | 56                           | 54                           |
| Success Ratio (%) - Last 5 years                 | 46                           | NA                           |
| Latest Drawdown-Peak to Trough (%)               | -29.2                        | -40.2                        |
| Duration of Drawdown (months)                    | 17mths<br>(Aug 14 to Jan 16) | 17mths<br>(Aug 14 to Jan 16) |
| Recovery from Latest Drawdown (%)                | 23.0<br>(Feb 16 to May 17)   | 25.8<br>(Feb 16 to May 17)   |

### Top Holdings

| Name       | Country | (%) |
|------------|---------|-----|
| Zain Saudi | KSA     | 6.6 |
| SADAFCO    | KSA     | 6.2 |
| Zain Group | Kuwait  | 6.0 |

### Risk Statistics (last 5 years)

|                        |      |
|------------------------|------|
| Standard Deviation (%) | 14.8 |
| Sharpe Ratio           | 0.3  |
| Tracking Error (%)     | 4.6  |
| Information Ratio      | 1.7  |
| Alpha (%)              | 7.6  |
| Beta                   | 0.9  |

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