



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 Almari (+26%) and NCB (+30%) which also increased appreciably during the month. We did not invest in Almari 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.

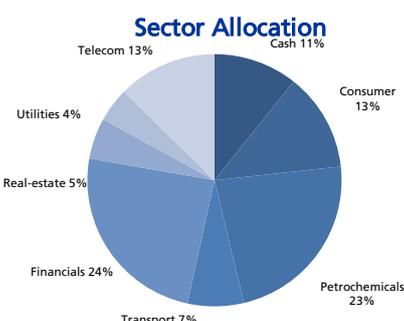
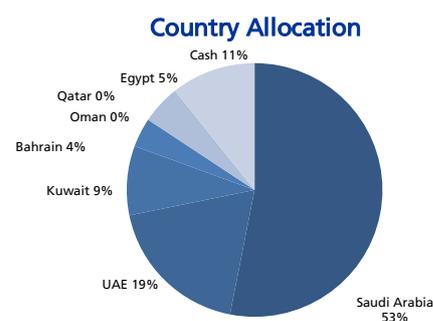
We did expect Saudi Arabia to be included on the MSCI watch list, given the extent of regulatory and procedural changes made by Saudi authorities in order to meet the requirements of MSCI. However, we did not anticipate the almost frantic buying which followed the MSCI announcement. The accession of 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 (Aug 14 to Jan 16)	17mths (Aug 14 to Jan 16)
Recovery from Latest Drawdown (%)	23.0 (Feb 16 to May17)	25.8 (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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Investment Bank

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