

Manager's Commentary

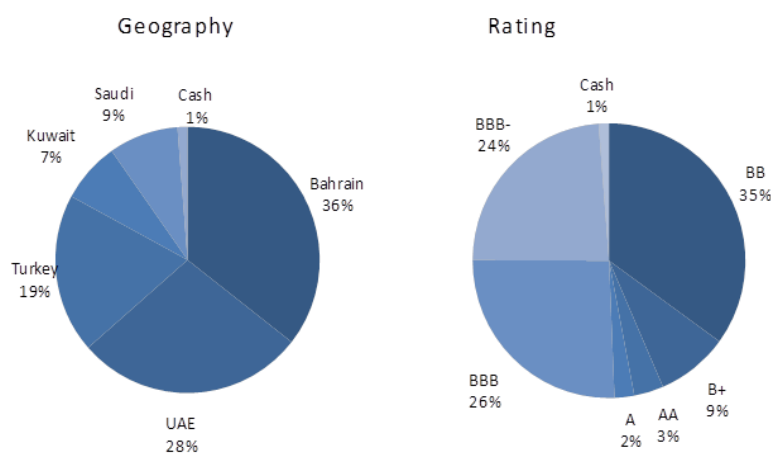
The SICO Fixed Income Fund posted a robust performance for the month of May, appreciating by 1.5% versus the Index return of 1.7%. The slight underperformance was due to the Index's higher constitution in Government bonds, who's higher correlation with US Treasuries caused them to rally more during the month.

Regional and MENA debt capital market performance were clearly uplifted and buoyed on an appreciating 10 year US Treasury note which compressed to as low as 2.4% towards month end- the lowest yield witnessed in over a year. Least to say the decline in Treasuries came as surprise to most investors. It was driven by disinflation fears, supply-demand conditions, weak US 1st quarter results but most notably investors positioning themselves for potential quantitative easing from the European Central Bank. Others attributed the rally to month-end buying flows and more short covering from one of the biggest wrong way trades of this year. With respect to the GCC, tightening US Treasuries, coupled with strong regional demand for paper, created an obvious opportunity for regional issuers to come out and take advantage of cheap borrowing costs. As a result Investment Corporation Dubai (ICD) issued a tightly priced dual tranche Sukuk and Saudi based Dar Al Arkan issued a 5 year Sukuk generously priced at 6.75%.

Turning to the fund, two new positions were added in May. These were Dar Al Arkan '19 and ENBD Floater 2023. Dar '19 contributed nicely to the portfolio's upside as it steadily appreciated from USD 98.953 levels all the way to USD 101, causing the whole curve to tighten by around 40bps, benefiting the fund as it holds Dar '15s and '16s. The fund should also reap the benefits of the ENBD FRN as interest rates creep upwards in the near future. The portfolio's Turkish exposure, currently at 20%, also continued to appreciate with Tufika '18 rising by 2 Dollars etc. The top performing holding for May however was Bahrain '22 which appreciated 4 Dollars, followed by Turk Finans '19 which appreciated by 3 Dollars and KIPCO '20 which appreciated by 2.6 Dollars.

The fund is well positioned to keep up its solid performance down the line as a careful eye has been kept on its overall duration and sensitivity to swings in Treasury yields

Portfolio Composition



Top Holdings	BB Rating	Coupon	Yield	Duration	Allocation
INVESTCORP 8 ¼ 11/01/17	BB	8.3%	4.6%	3.0	18.5%
ALBARAKA TURK 7 ¼ 05/07/23	BB	7.8%	8.6%	6.5	10.7%
DEWAE 7 ¼ 10/21/20	BBB	7.4%	3.3%	5.3	8.5%

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Investment Objective and Strategy

The Fund's primary objective is to generate income and seek capital appreciation over the medium to long term.

To achieve its objective, the Fund will actively invest in Government and Corporate Fixed Income, Sukuk, Repo, Money Market instruments, and other fixed income related instruments.

Fund Features

- High liquidity
- Lower volatility
- Excellent vehicle for medium-long term investing

Fund Information

Launch	April 2013
Benchmark	HSBC ME Aggregate Index
Management Fee	1.00%
Subscription & Redemption	Weekly
Subscription / Redemption	Two Business Days
Minimum Subscription	US\$100,000
Custodian/ Administrator	HSBC Middle East
Registrar	HSBC Middle East

Fund Returns and Characteristics

	Fund (%)	Benchmark* (%)
May 2014	1.5	1.7
YTD (Jan - May) 2014	6.0	5.5
2013 (Apr - Dec 13)	-0.8	-0.4
Last 3 Months	3.3	2.5
Last 6 Months	6.0	5.5
Last 1 Year	4.5	5.3
Since Inception (2nd Apr – 29th May14)	5.2	5.0
Duration (years)	4.1	5.3
Yield to maturity (%)	4.4	2.8
Coupon (%)	6.4	4.7
Spread (bps)	302	132

* Barclays EM GCC Index

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