

SICO Fixed Income Fund

Factsheet - Aug 2014

NAV US\$ 105.04 ↑ 1.1%

Manager's Commentary

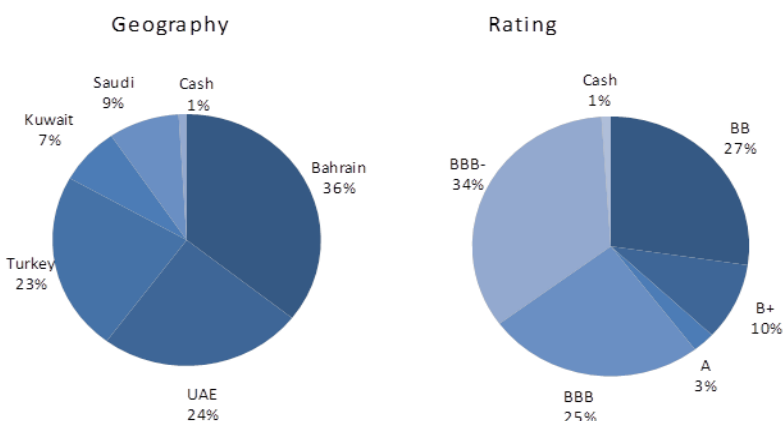
The SICO Fixed Income Fund posted a positive performance for the month of August, appreciating by 1.1% versus the Index return of 1.2%. The fund paid out its first 2.25% dividend to investors.

The month ended on a strong footing, with curves benefiting from a healthy combination of safe haven buying and local spread tightening. The local curve was up by 20 cents on average as 10-year US Treasuries dropped to 2.32%. High beta names continued to outperform as investors preferred the likes of Bahrain and Qatar. The CBB curve was bid up and some decent flow was also witnessed on Investcorp 17 which closed at USD 110.5. Long duration names were also well bid, rising by more than a dollar. The high duration sector still remains one of the few maturity buckets where GCC bonds trade wider than similarly rated emerging market peers. It will therefore be interesting to follow the developments on the rumoured 30-year Bahrain paper as the Kingdom has announced investor meeting to commence in September.

Globally the most significant market moving event came as Central Bankers met at Jackson Hole, Wyoming as Fed Chair, Janet Yellen made comments that added to speculation that the Central Bank is preparing to boost interest rates next year. The majority of Fed officials predict the Central Bank will start raising borrowing costs in 2015 based on forecasts it published in June. Interest rate specialists predict that the first "Fed fund" rate hike to happen in July next year, initially by 0.25% but then to close 2015 at 1%. The upward trajectory would continue the following year and close 2016 at 2.25%. A hike in US interest rates will also offer support to US Dollar denominated bonds due to the strengthening dollar and should thus see buying demand. GCC bonds are therefore well suited to benefit from their pegged dollar status. In Europe, The ECB has hired Blackrock as a consultant for an ABS purchasing program. Bond investors are expected to be one of the main beneficiaries of such liquidity programs.

Turning to the fund, no new positions were added. The existing position composition did not require any rebalancing either. Positioning proved to be key as the fund kept up its positive performance with a current yield to maturity of 4.4% and an average coupon of 6.6%. Going forward into September, the fund should continue to outperform.

Portfolio Composition



Top Holdings	BB Rating	Coupon	Yield	Duration	Allocation
INVESTCORP 8 ¼ 11/01/17	BB	8.3%	4.6%	2.8	18.4%
ALBARAKA TURK 7 ¼ 05/07/23	NR	7.8%	7.5%	3.2	11.4%
DEWAE 7 ¼ 10/21/20	BBB	7.4%	3.1%	5.0	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	Barclays EM GCC Bond 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* (%)
August 2014	1.1	1.2
YTD (Jan - August) 2014	8.1	5.6
2013 (Apr - Dec 13)	-0.8	-0.4
Last 3 Months	2.0	1.3
Last 6 Months	5.4	3.9
Last 1 Year	11.9	9.8
Since Inception (2nd Apr – 30th Aug14)	7.4	6.4
Duration (years)	3.7	5.2
Yield to maturity (%)	4.4	2.8
Coupon (%)	6.6	4.6
Spread (bps)	294	122

* Barclays EM GCC Index

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