SICO Fixed Income Fund

Factsheet - January 2015

NAV US$ 106.26 ⬆ 0.6%

Adjusted (for dividends) NAV US$ 108.51

Manager's Commentary

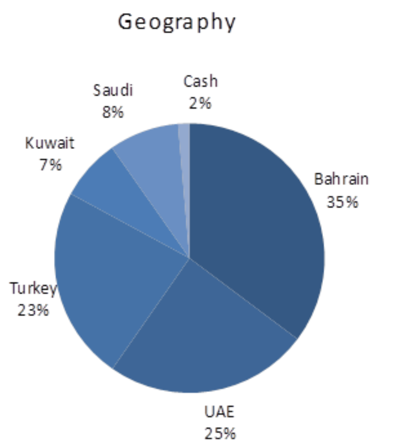
The SICO Fixed Income Fund began the year on a positive note as it rose by 0.6%, although it did underperform the benchmark which was up by 2.2%.

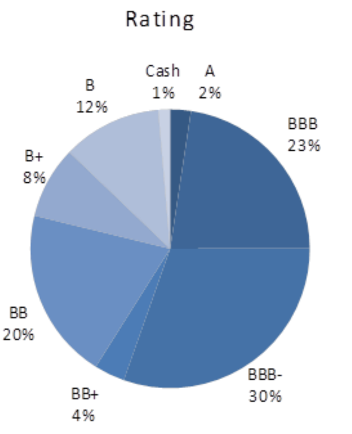
It has been a remarkable month for fixed income investors as treasuries continued to compress with the 10-year dropping from 2.17% at the end of 2014 to as low as 1.65%. However it seems that not all bonds took part in the celebrations as high quality names strongly outperformed corporates and high yielders. Those who held longer duration names were particularly cheerful as they made anywhere between 4 to 6 dollars in January alone. The fund however refrained from such strategies and acted prudently as it did not make sense to bet the returns of the last year on a single month, especially in a year where the Fed was set to begin raising interest rates. Markets have been largely driven by technicals rather than any fundamentals as the price of oil remains sparsely low at 47 dollars. Also although the European Central Bank definitely played its part in the revived optimism for bonds with its 60-billion-euro-a-month bond buying program, markets did overshoot this month as most of it was already priced in. Just prior to the announcement we had German 10-years at a YTM of 0.35% with the likes of Spain and Italy trading inside the US Treasury curve.

In light of these recent events, we prefer lightening up on sovereigns or taking on 'switch trades' within the same maturity spectrum. Front end treasuries have already come under some selling pressure due to the bold actions by the ECB which takes pressure off the Fed to delay hiking. While in the short term, the spread differential between the Euro Area and the US seems to favour dollar-denominated bonds, the party can quickly come to a bad end once the Fed removes its "patience" stance. Therefore we continue to be sensible and look to target strong asset backed corporates in the 2 to 5 year space with a good yield. We expect the carry return here to be the same as long duration names but with far less duration risk and volatility.

All in all, the fund is well positioned to deliver solid, continued and sustainable returns as we have a good mix of sovereigns, floaters, high yielders and trading positions in the portfolio. Additionally we expect to receive a boost from the repos and names that have lagged the rally this month down the line.

Portfolio Composition





Top Holdings	Rating	Coupon	Yield	Duration	Allocation
INVESTCORP 8 ¼ 11/01/17	BB	8.3%	5.4%	2.5	17.5%
ALBARAKA TURK 7 ¾ 05/07/23	B	7.8%	7.9%	6.1	11.2%
BHRAIN 6 ⅛ 07/05/22	BBB	6.1%	3.9%	6.1	8.4%

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* (%)
January 2015	0.6	2.2
2014	8.7	6.9
2013 (Apr - Dec 13)	-0.8	-0.4
Last 3 Months	0.9	1.8
Last 6 Months	2.2	3.4
Last 1 Year	8.9	8.1
Since Inception (Apr 2014 – Jan 2015)	8.5	8.8
Duration (years)	3.7	5.4
Yield to maturity (%)	4.3	3.1
Coupon (%)	6.5	4.7
Spread (bps)	349	158

* Barclays EM GCC Index

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ص.ب: ١٣٣١، المنامة، مملكة البحرين
هاتف: ٩٧٣١٧٥١٥٠٠٠+ فاكس: ٩٧٣١٧٥١٤٠٠٠+
سجل تجاري رقم ٣٣٤٦٩

بنك استثماري SICO Investment Bank