

### Manager's Commentary

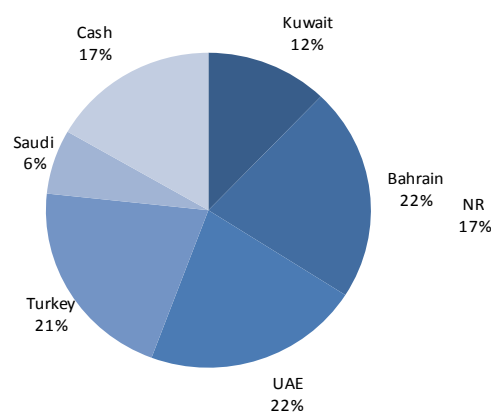
The SICO fixed income fund showed significant recovery over the month of July, recouping previous losses. The fund was up 2.6%, in contrast to its 4.85% drop in June, outperforming the benchmark by 0.4%. The outperformance took place despite the extremely volatile GCC debt capital markets which remained exceptionally challenging, with the markets strongly affected by the continuous swings in US 10-Year Treasuries. Treasury yields continued to remain range bound opening the month at 2.47% and closing the month at 2.74%. HSBC's Middle East Total Return Bond Index was up 2.2% at month end. Debt securities across the GCC curve showed signs of recovery especially during mid-month when US Treasuries retraced.

Overall, July was a quiet month regionally as investors were in Ramadan mode. The fund's Turkish positions recovered slightly as political unrest in the country receded allowing financial markets to re-appreciate. On a macroeconomic level however, Turkish GDP forecasters pared their 2013 growth outlook to 3.8% while raising their inflation expectations to 7%, while the economy is further impacted by a substantial current account deficit, which hitherto was financed by foreign investment inflows. The outflow of investor funds from emerging market funds and into developed market equities continued into the month.

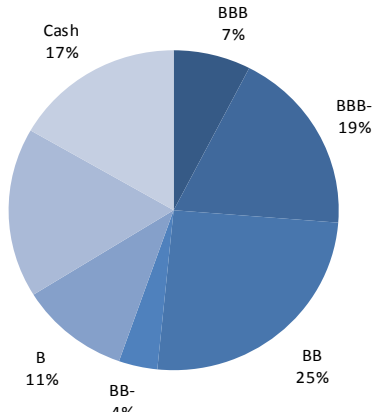
US-wise, the Fed's focus on job creation/ employment numbers, GDP growth, housing data continued to grip investors' attention as markets continued to be predominantly data driven. Worth noting is that the world's largest economy expanded at a 1.7% annual rate in the second quarter, more than the consensus forecasts. The US Fed said it will maintain its USD85 billion in monthly bond purchases while noting that persistently low inflation could hamper economic expansion. In a statement made following the July FOMC meeting, Fed members recognized and concluded that inflation persistently below its 2% objective could pose risks to economic performance. Meeting minutes also showed that the FOMC forecasted inflation will move back toward its objective over the medium term and repeated the pledge it has used since September that it will continue its purchases until the U.S. labor market outlook improves substantially. These statements spurred buying of longer-duration bonds in the GCC as investors regained some confidence.

### Portfolio Composition

Geography



Rating



Top Holdings	BB Rating	Coupon	Yield	Duration	Allocation
1 INVESTCORP 8 ¼ 11/01/17	BB	8.3%	6.9%	3.6	15.4%
2 KIPCO 9 ¾ 07/15/20	BBB-	9.4%	5.8%	5.4	12.2%
3 ALDAR 10 ¾ 05/27/14	B	10.8%	2.1%	0.7	10.8%

### 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

### 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* (%)
July 2013	2.6	2.2
YTD 2013 (Apr - Jul 13)	-1.6	-1.7
Last 3 Months	-2.8	-3.0
Last 6 Months	NA	NA
Last 1 Year	NA	NA
Since Inception (2nd Apr – 31st Jul 13)	-1.7	-0.9
Duration (years)	3.5	5.1
Yield to maturity (%)	4.6	4.4
Coupon (%)	6.5	5.1
Spread (bps)	325	216

\* HSBC Middle Eastern Aggregate Index

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