

Manager's Commentary

The SICO Fixed Income Fund came under pressure in September dropping by 0.2% versus the Index which fell by 0.8%.

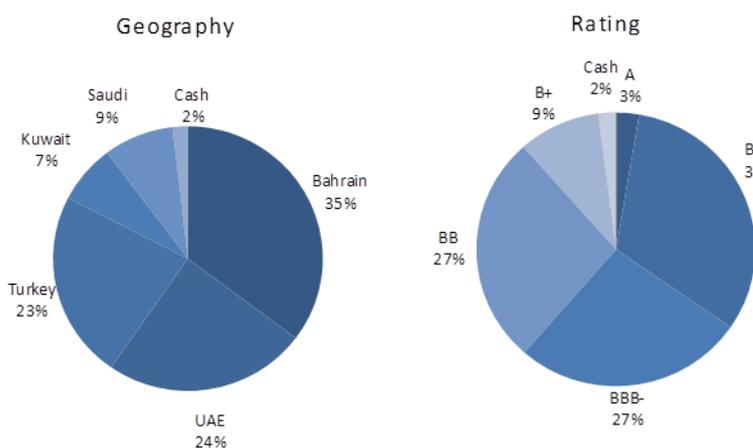
The month of September was a tricky month for regional fixed income markets as US 10 year Treasuries came under continuous pressure with yields widening to as high as 2.63%, which had some effect on the GCC. A further factor adding to the pressure was the record number of issuances that hit regional markets during the month. Over USD 7 billion of paper was issued across the GCC. Issuers were clearly taking advantage of low borrowing costs while they last as talk of tightening started to emerge from the US given the healthy recovery currently in full swing.

Geographic diversification paid off in September as the Fund's Turkish exposure performed well and countered the Fund's GCC exposure which came under pressure. Names held in the fund such as Albaraka '23 and KFH '19 hit new highs of USD 100 and USD 103.57 respectively, and thus contributed the portfolio's upside.

Globally, most investors believed that the Fed would change the "tone" of their forward guidance as we near the end of the Treasury bond buying program, currently USD 15 billion per month. The press conference post the September FOMC meeting turned out to be somewhat ambiguous, as on one hand, Fed Chair, Janet Yellen, stressed to keep rates lower for a "considerable amount of time", and the overall committee on the other hand believing that rate rises would be sharper than expected once the Fed exits its zero rate policy. The median estimate as given by the "dots" for 2015 is now 1.375% (up 25bps from the June meeting), 2.875% for 2016 (up 37.5bps) and 3.75% for 2017. However when assessing the hawkishness of the Fed, fixed income investors should put a far greater weight on what they will actually do as opposed to what they forecast they're going to do.

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 managed to outperform the index on the downside, thus providing significant downside protection to investors.

Portfolio Composition



| Top Holdings | Rating | Coupon | Yield | Duration | Allocation |
|----------------------------|--------|--------|-------|----------|------------|
| INVESTCORP 8 ¼ 11/01/17 | BB | 8.3% | 4.8% | 2.7 | 18.2% |
| ALBARAKA TURK 7 ¼ 05/07/23 | NA | 7.8% | 7.8% | 6.2 | 11.4% |
| DEWAAE 7 ¼ 10/21/20 | BBB | 7.4% | 3.2% | 5.0 | 8.4% |

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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* (%) |
|--|----------|----------------|
| September 2014 | -0.2 | -0.8 |
| YTD (Jan - Sep) 2014 | 8.0 | 6.0 |
| 2013 (Apr - Dec 13) | -0.8 | -0.4 |
| Last 3 Months | 1.5 | 0.7 |
| Last 6 Months | 4.4 | 2.7 |
| Last 1 Year | 9.6 | 7.1 |
| Since Inception (2nd Apr - 30th Sep14) | 7.1 | 5.6 |
| Duration (years) | 4.0 | 5.3 |
| Yield to maturity (%) | 4.6 | 3.0 |
| Coupon (%) | 6.6 | 4.6 |
| Spread (bps) | 299 | 134 |

* Barclays EM GCC Index

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