

Manager's Commentary

The SICO fixed income fund ended June 4.8% lower from last month's NAV - underperforming the Benchmark Index by 1.3%. The GCC debt capital markets remained exceptionally volatile throughout the month, moving in tandem with US 10-Year Treasuries. Treasuries had their biggest sell-off since 2011, with yields spiking as high as 2.7%. HSBC's Middle East Total Return Bond Index was down 3.6% at month end. Debt securities across the GCC curve were affected regardless of credit quality or duration.

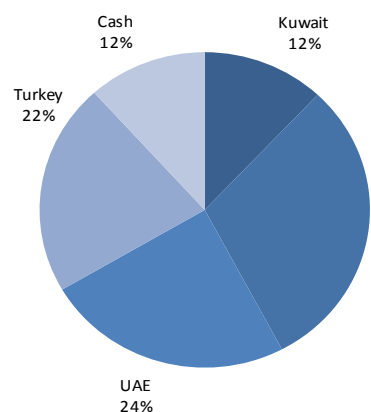
The sell-off filtered through to regional fixed income markets with the SICO fixed income fund taking a hit due to its 22% exposure to Turkey, which has seen substantial institutional investor outflows since May 22nd, and which was a common theme with other emerging markets. The political situation did not help, although we think this turbulence will not have a long-term effect on the country's creditworthiness. Investors in general have been switching out of emerging markets fixed income and repatriating funds either to their own markets or mature markets' equities.

Although the shift in the Fed's focus this month rattled investors, sending financial markets into a tailspin, it is important to point out that the loose monetary policy has not (yet) been reversed; QE3 will continue for at least another year, although an element of tapering may take place if the US economy shows more robust strength. Short term Interest rates remain near zero and there is no sign of any intention to radically raise rates in the near-term. For now, policymakers have only hinted at a slowdown in the pace of accommodation.

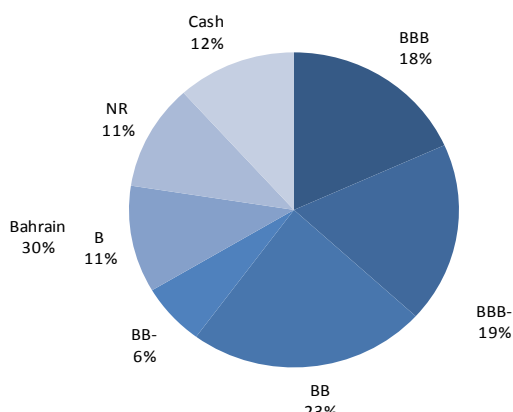
For the moment, sellers in the credit markets appear to be taking their fingers off the panic button. We have seen appetite return for Turkish debt with investment grade paper yielding in the 5% to 6% range. Demand for Bahraini names has returned with the likes of Batelco and Investcorp trading at attractive levels again. On a side note, KIPCO (12% of portfolio) is likely to benefit from a one to two-notch upgrade once its subsidiary's OSN's IPO is completed. We believe your portfolio is strongly positioned to capitalize on the expected improvements in yields, post the sell-off.

Portfolio Composition

Geography



Rating



Top Holdings

Rank	Top Holdings	BB Rating	Coupon	Yield	Duration	Allocation
1	INVESTCORP 8 ¼ 11/01/17	BB	8.3%	7.0%	3.7	13.21%
2	KIPCO 9 ¾ 07/15/20	BBB-	9.4%	6.1%	5.4	11.98%
3	ALDAR 10 ¼ 05/27/14	B	10.8%	2.2%	0.8	10.98%

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* (%)
June 2013	-4.8	-3.5
YTD 2013 (Apr - June 13)	-3.7	-2.7
Last 3 Months	NA	NA
Last 6 Months	NA	NA
Last 1 Year	NA	NA
Since Inception (2nd Apr – 30th Jun 13)	-3.7	-2.7
Duration (years)	4.2	5.0
Yield to maturity (%)	4.9	4.6
Coupon (%)	6.5	5.1
Spread (bps)	375	249

* HSBC Middle Eastern Aggregate Index

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