IIAB MENA Feeder Fund

A protected cell of the IIAB PCC Ltd

Performance Report 31.05.19

NAV PER SHARE	$5.70

OBJECTIVE OF THE FUND

The IIAB MENA Feeder Fund is a long-term, medium to high risk investment vehicle that invests in the IIAB Islamic MENA Fund (Master Fund). The IIAB Islamic MENA Fund is an open ended mutual fund that offers investors the opportunity to invest in the capital markets of the Middle East and North Africa region (MENA), with a particular focus on listed equities, whilst adhering to the sharia' principles. The Fund aims to achieve an annual average net return in excess of 11% over a full investment cycle. The Fund aims to carry a lower volatility than that of the market, by dynamically rotating across asset classes, geographies and sectors, depending on market conditions.

KEY FEATURES

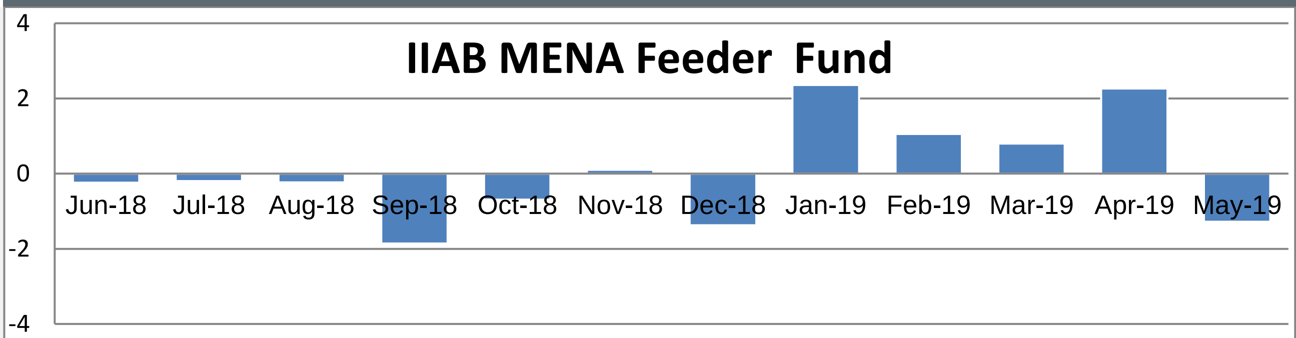
Domicile	Guernsey Channel Islands	Valuation point	Monthly, last business day of the month
Reference currency	USD	Minimum subscription	USD 25,000 & USD 1,000 thereafter
Fund assets	USD 2,888,729	Fund manager	AB Fund Managers (Guernsey) Ltd
		Investment advisor	Al Arabi Investment Group Co (AB Invest)
Launch date	28 February 2008	Dealing frequency	Monthly, 10 business days prior to month end
Listing	CISX	BBG code	IIABMEU GU Equity

Important note: For clarity purposes, the figures below represent the performance, asset allocation and holdings of the IIAB Islamic MENA Fund (Master Fund).

MONTHLY PERFORMANCE (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Y.T.D.
IIAB MENA Feeder Fund													
2019	2.36	1.05	0.80	2.62	-1.28								5.63
2018	-1.05	-1.00	1.24	-0.01	-0.86	-0.24	-2.00	-0.23	-1.86	-0.69	0.10	-1.37	-7.74
2017	0.10	0.01	0.40	0.69	-2.64	0.70	-1.00	-0.95	0.98	-0.28	-2.90	-0.04	-4.91
2016	-8.92	4.95	2.12	2.57	-1.25	-0.04	0.41	-0.12	-1.87	-0.99	4.95	1.81	2.89
2015	0.79	2.36	-3.44	5.70	-0.30	0.30	-0.17	-10.37	0.81	-2.97	0.54	-0.90	-8.19
IIAB Islamic MENA Fund (Master Fund)													
2019	2.41	1.10	0.85	2.65	-1.24								5.86
2018	-0.96	-0.92	1.30	0.06	-0.81	-0.17	-1.94	-0.18	-1.80	-0.64	0.15	-1.31	-7.03
2017	0.16	0.07	0.48	0.74	-2.58	0.79	-0.92	-0.88	1.05	-0.22	-2.83	0.05	-4.10
2016	-8.86	5.04	2.18	2.64	-1.18	0.02	0.48	-0.02	-1.81	-0.92	5.03	1.88	3.78
2015	0.87	2.44	-3.38	5.78	-0.23	0.38	-0.08	-10.32	0.89	-2.92	0.61	-0.83	-7.39

MONTHLY RETURN OVER THE PREVIOUS 12 MONTHS



PERFORMANCE STATISTICS (MASTER FUND)

	Portfolio
Annualised return	-4.2%
Annualised volatility	13.9%
Sharpe ratio	NM
Maximum month	8.3%
Minimum month	-25.6%
% Positive months	52.2%
Worst 12 months	-69.9%
Best 12 months	88.9%

TOP TEN HOLDINGS (MASTER FUND)

	Country	%
Siniora Food Industries	Jordan	11.37%
Dubai Islamic Bank	UAE	8.54%
Ooredoo	Oman	7.70%
Saudi Airlines Catering	KSA	7.36%
Emaar Properties	UAE	7.10%
Aramex	UAE	6.35%
Palestine Telecommunication	Palestine	4.96%
Human Soft Holding	Kuwait	4.26%
Savola Group	KSA	2.77%
Arab Pesticide And Veterinar	Jordan	2.14%

Smarter investment vehicles for a changing world

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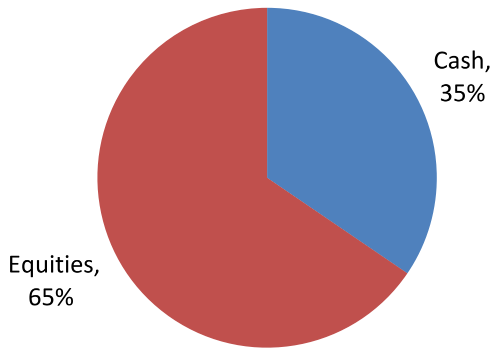
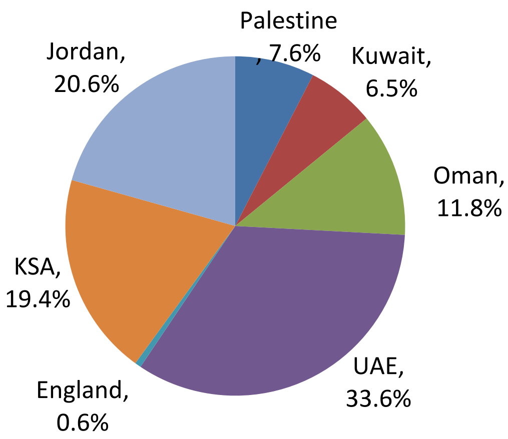
ASSET ALLOCATION (MASTER FUND)



GEOGRAPHIC ALLOCATION (MASTER FUND :EQUITIES)



COMMENTARY

During May, MENA and global markets alike declined significantly on political tensions and trade war threats. The S&P Pan Arab Investable Index dropped 4.08% (YTD +1.72%) and the Dow Jones MENA Index lost 5.00% (YTD +6.54%). The Dow Jones Islamic Market MENA Index similarly shed 4.55% (YTD +3.47%).

The Arab Bank MENA Fund and IIAB Islamic MENA Fund were able to offset a large portion of the decline in regional markets and retreated by just 1.86% (YTD +4.71%) and 1.24% (YTD +5.86%), respectively. Therefore, the AB MENA Feeder Fund lost 1.90% (YTD +4.49%) and the IIAB MENA Feeder Fund fell by 1.28% (YTD +5.63%).

The first phase of Saudi Arabia's inclusion in MSCI Emerging Markets Index kicked off on the 28th following the listing of 30 Saudi stocks, which represented an aggregate index weight of 1.42%. The Tadawul All Shares Index (TASI) closed 2.02% higher at the end of the day after fluctuating during the session, with banks contributing the most to the increase. The day saw SAR28.7 billion in traded value, the highest in Saudi Arabia since September 2006, where 74% of turnover occurred during the auction. The second phase is expected in August and both phases should result in attracting around SAR37.5 billion in passive inflows.

The Saudi Index reached a yearly high on May 2 and has lost about 9% since. Still, Saudi shares managed to outperform their peers in emerging markets by 9.58% on a year-to-date basis, and by 38% since June 2017 when MSCI announced that it was considering the inclusion of the country in its EM category.

Nevertheless, the Saudi Index lost ground this month as renewed political tensions between the US and Iran have alarmed some investors. The Saudi Arabian TASI closed the month down 8.47% (YTD +8.81%) in what can also be described as a correction of last month's market prices. UAE markets were also affected by the same geopolitical tensions, with the Abu Dhabi Index losing 4.84% (YTD +1.80%) and the DFM General Index dropping 5.30% (YTD +3.58%). Other GCC markets saw smaller price movements; the Bahraini Index inched down by 0.03% (YTD +7.20%), the Qatari Index lost 1.00% (YTD -0.25%) and Oman's MSM30 Index shed 0.29% (YTD -9.01%). The Kuwaiti Premier Market Index rose 3.22% (YTD +18.51%).

Outside the Gulf, the Jordanian ASE Index slipped 0.27% (YTD -5.36%) and the Egyptian EGX30 retreated a significant 7.70%, but maintained its positive performance for the year (YTD +5.64%).

According to the Egyptian Minister of Planning, Egypt's economy is expected to grow at 5.8% in the fourth quarter of its 2018/19 fiscal year. The issued statement showed that the country registered an economic growth rate of 5.6% in the third quarter (compared to 5.4% in the same quarter of the previous year). The Minister highlighted that growth had been driven by the extraction, retail, and construction sectors, where mining and energy, which fall under extraction, contributed to 30% of the total growth in Q3.

S&P Global Ratings' new report expects Islamic banks in the GCC region to show resilience over the next two years after weathering tough market conditions in 2018. S&P's Head of Islamic Finance projects mid-single-digit growth for both types of banks due to several factors including forecasts of muted GCC economic growth, despite some benefit from government spending and strategic initiatives such as national transformation plans, the FIFA 2022 World Cup and Dubai Expo 2020.

In the UAE, the third largest banking giant came into being following the merger of Abu Dhabi Commercial Bank, Union National Bank and Al Hilal Bank. The merged ADCB Group has AED423 billion in assets and accounts for 21% of all retail loans in the country (as at Dec 31, 2018). This is yet another round of consolidation seeking to create a financial titan with increased pricing power, after the merger of the National Bank of Abu Dhabi and First Gulf Bank two years ago to create the AED671 billion First Abu Dhabi Bank.

In energy markets, Brent Oil lost 11.41% (YTD +19.87%) and WTI Oil fell by 16.29% (YTD +17.82%). Saudi Energy Minister recently announced that there was consensus among OPEC members and allied producers to drive down crude inventories “gently”. However, he assured that Saudi Arabia would remain responsive to the needs of the market, which he currently considers fragile.

Global market performances were overwhelmingly negative, and falling prices ate into previous gains. In the U.S., the S&P 500 shed 6.58% (YTD +9.78%) and the Dow Jones Industrial Average Index lost 6.69% (YTD +6.38%). President Trump imposed a tariff increase on a USD200 billion worth of Chinese goods on May 10, but allowed a grace period for sea-borne cargoes that departed from China before that date, keeping them at the old 10% duty rate. The Trade Representative’s office set a June 1 deadline for those goods to arrive in the U.S. before Customs and Border Protection would begin collecting the 25% duty rate. The President also threatened to impose new tariffs on Mexico if the country does not improve its immigration enforcement actions.

Over in Asian markets, the Shanghai Composite Index retreated by 5.84% (YTD +16.23%), the Hang Seng declined by 9.42% (YTD +4.08%) and the Nikkei Index fell 7.45% (YTD +2.93%).

In Europe, the French CAC 40 Index fell by 6.78% (YTD +10.08%) and the German DAX dropped 5.00% (YTD +11.06%) while the FTSE 100 lost 3.46% (YTD +6.44%). According to the Big Three credit rating agencies, British Prime Minister Theresa May’s decision to resign increases the chance of a no-deal Brexit. The agencies believe that the leadership contest may lead contenders for Conservative party leadership to the conclusion that leaving the EU under any circumstances, even with no deal, is the only way to regain voters’ support.

With rising geopolitical regional risks, interest rate policy volatility, uncertainty in the commodities markets, escalating frictions and severity of trade wars and absence of short-term catalysts, the markets may become ripe for hunting opportunities in fundamentally overbeaten positions. With a healthy cash position, we will keep a close eye on the markets during the summer, riding the volatility where needed and gradually rebuilding the risk positions that were reduced in the first half of the year.

INVESTMENT METHODOLGY & EDGE

AB Invest is one of the oldest, most experienced and fastest growing investment managers in the MENA region with more than a decade of cumulative quality experience in creating regional risk-adjusted investment solutions. Our investment process is underpinned by a focus on "value" selection, using a combination of top down and bottom up approach. Our knowledge of the constraints in the local markets allows us to adjust our approach and tailor a suitable investment process.

DISCLAIMER