

IIAB Sukuk & Murabaha MENA Fund

Performance Report 30.09.19

A protected cell of the IIAB PCC Ltd

NAV PER SHARE

\$9.14

OBJECTIVE OF THE FUND

The IIAB Sukuk & Murabaha MENA Fund is a medium to long-term, medium-risk investment vehicle with particular focus on sukuk, murabaha and sharia' compliant cash transactions, initiated out of the Middle East & North Africa region. The Fund seeks to earn the highest level of current income, while aiming to achieve a net return exceeding three month USD LIBOR on annualized basis.

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	7,979,265	Fund Manager	AB Fund Managers (Guernsey) Ltd
		Investment Advisor	Al Arabi Investment Group Co (AB Invest)
Launch date	28 February 2008	Dealing frequency	Monthly, 7 business days prior to month end
Listing	CISX	BBG code	IIABSUK GU Equity

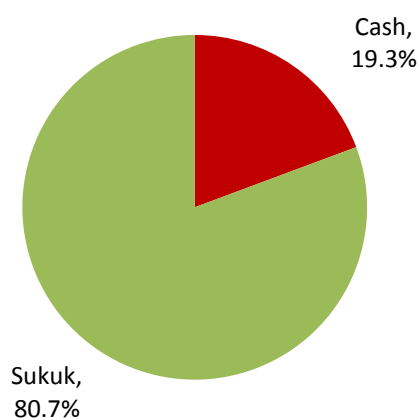
MONTHLY PERFORMANCE (%)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Y.T.D.
2019	1.17	0.55	0.91	0.62	0.41	0.86	1.01	0.54	0.02				6.26
Benchmark	0.23	0.23	0.22	0.22	0.21	0.21	0.19	0.19	0.18				1.90
2018	-0.23	-0.68	-0.30	-0.20	-0.40	0.09	0.69	0.24	0.18	-0.25	0.05	0.12	-0.68
2017	0.45	0.30	0.07	0.20	0.02	-1.04	0.60	0.21	-0.11	0.00	-0.49	0.13	0.32
2016	-1.47	1.26	0.50	0.25	0.00	0.47	0.50	0.10	-0.07	-0.12	-0.48	0.19	1.13
2015	0.39	0.37	-0.33	0.56	0.21	-0.57	0.49	-0.51	-0.10	0.04	-1.36	-0.10	-0.91
2014	0.12	0.29	-0.10	0.19	0.27	-0.17	0.12	0.21	-0.44	-0.21	0.27	-1.05	-0.51

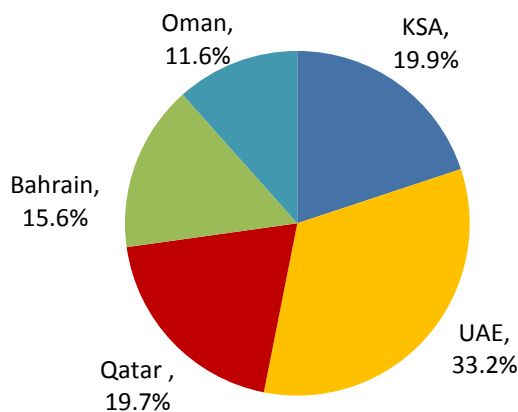
ASSET ALLOCATION (%)

	Actual
Cash	19.3%
Sukuk	80.7%

ASSET ALLOCATION



GEOGRAPHIC ALLOCATION (SUKUK)

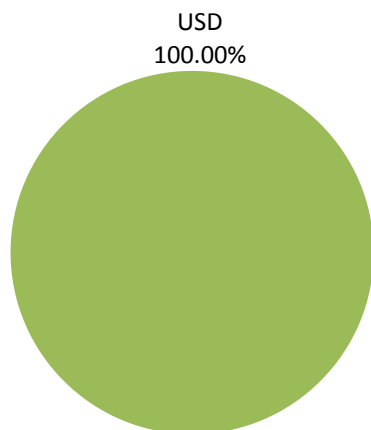


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CURRENCY ALLOCATION



TOP TEN HOLDINGS

First Abu Dhabi Bank Sukuk	6.50%
State of Qatar Sukuk	6.49%
Dubai Islamic Bank Sukuk	6.43%
CBB International Sukuk Company	6.38%
Kingdom of Saudi Arabia	6.35%
Saudi Electric Co. Sukuk	6.31%
Sharjah Islamic Bank Sukuk	6.30%
Mumtalakat Sukuk Holding	6.26%
Qatar Islamic Bank Sukuk	6.26%
Oman Sultanate Sukuk	6.23%

COMMENTARY

MENA Sukuk markets lost some of last month's gains as the Dow Jones Sukuk Index fell by 0.78% (YTD +7.07%) and the S&P MENA Sukuk Index shed 0.50% (YTD +9.46%). However, the IIAB Sukuk & Murabaha MENA Fund bucked the trend, inching upwards by 0.02% (YTD +6.26%) this month to close at USD9.14.

Mid-September saw a number of policy rate changes. In the Eurozone, the European Central Bank (ECB) cut interest rates further below zero and revived bond purchases as President Mario Draghi makes a final attempt to reflate the euro-area economy before the end of his term in October. The ECB reduced the deposit rate to -0.5% from -0.4%, and said it would buy debt starting November 1 at a pace of EUR20 billion a month for as long as necessary to hit its inflation goal.

In the U.S., the Federal Reserve voted to lower the Federal Funds target rate by 25bps to a range of 1.75% - 2.00%, and though the central bank's forecast showed no further rate cuts, the members of the Federal Open Market Committee (FOMC) were actually divided on what action the Fed should take moving forward. The last time the Fed released a forecast, the central bank said it did not expect any cuts until 2020.

The central banks of Saudi Arabia and the UAE followed suit with 25bps rate cuts. The Saudi Arabian Monetary Authority (SAMA) cut its repo rate and the reverse repo rate to 2.50% and 2.00%, respectively. The UAE's central bank cut rates applied on the issuance of certificates of deposits by 25bps and reduced the repo rate for borrowing short-term liquidity by the same margin. Meanwhile, Kuwait's central bank kept its benchmark rate unchanged at 3.00%; the rate was held steady for the second consecutive meeting, considering Kuwait has skipped a few of the previous rate hikes.

Outside the GCC, the Central Bank of Egypt cut policy rates by 100bps to maintain easing momentum. This is the second cut in two months, which brings total cuts this year to 350bps and total cuts since the beginning of the easing cycle in early 2018 to 550bps. The Monetary Policy Committee (MPC) cited the flagging of underlying inflationary pressures as the main reason for the decision. Egypt's headline inflation dropped to 7.5% year-on-year in August, while core inflation fell to 4.9%, the lowest readings in six years. The MPC noted that the future of policy rate adjustment remains a function of inflation expectations.

In new issuances, Kuwait's Warba Bank priced a five-year Sukuk issuance worth USD500 million. The senior unsecured Sukuk Wakala is the first tap of the senior Sukuk market by a Kuwaiti financial institution and serves as a benchmark for future issuers. The Sukuk was priced at 135bps above five-year USD mid-swaps, resulting in a profit rate of 2.982%. In addition, the issue was oversubscribed by 6.31 times, receiving orders totaling USD3.154 billion. The sukuk will be listed on Nasdaq Dubai and the Irish Stock Exchange.

In the UAE, Emaar Properties (Emaar) issued USD500 million 10-year Sukuk as part of its USD2 billion bond issuance programme. The Sukuk will have an annual return of 3.875%.

Meanwhile in Saudi Arabia, the kingdom raised SAR8.8 billion through a local currency-denominated Sukuk as part of the country's wider debt management strategy to shore up finances and diversify its funding base. The issuance was divided into three tranches; SAR1.4 billion maturing in 2028, SAR1.19 billion maturing in 2031, and SAR6.25 billion maturing in 2049.

At the same time, Standard & Poor's Global Ratings affirmed Saudi Arabia's ratings at "A-/A-2" with stable outlook. The kingdom is expected to be able to maintain a balance between spending to support the economy and containing the financial deficit. The rating agency also expects Saudi Arabia to boost exports through its Red Sea ports.



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The Fund closed the month positioned with an overall weighted average maturity of 2.20 years, and a weighted average yield to maturity (YTM) of 2.47%.

INVESTMENT METHODOLOGY AND APPROACH

AB Invest is one of the most experienced and fastest growing MENA investment managers operating out of Jordan. AB Invest provides its clients with a number of MENA-focused investment solutions on conventional and Sharia-compliant bases. Our investment process is based on rigorous fundamental analysis with a view on delivering superior risk-adjusted returns, using a combination of top-down and bottom-up approaches. Our deep knowledge of the markets in which we invest allows us to deliver consistent returns while prudently managing risk.

DISCLAIMER

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Past performance should not be taken as a guide to the future. The value of investments can fall as well as rise.

The full documentation required to make an investment is available from AB Fund Managers (Guernsey) Ltd at its registered address: 11 New Street, St. Peter Port, Guernsey, GY1 2PF Channel Islands.

