

Makaseb Income Fund (MIF)

Fund Description

Makaseb Income Fund (MIF) primarily seeks to provide current income along with the stability of capital. Fund's secondary objective is to seek income growth over the long term. The Fund aims to achieve its investment objective by investing in a diversified portfolio of fixed and floating rate investments originating from countries in the GCC, MENA, South Asia and other emerging economies.

Fund Managers Commentary

Makaseb Income Fund performed steady again in July 2014

The fund was down by -0.12%, versus 0.35% of the JP Morgan Middle East Index month-to-date. Year-to-date the fund is up by 4.25%.

The month witnessed a multitude of global unrelated negative events: Russia-Ukraine tensions, Iraq turmoil, Israel-Gaza conflict, West sanctions towards Russia and vice versa, Argentinean default, Airlines crashing and US air-strike. All these coupled with summer low liquidity, fear of rate hikes and end of the Fed's bond buying program underpinned investors view and led them to stand on the side-line sending the markets wider.

In the region, geopolitical tensions are still mounting, but they seem discounted at this point. Overall sovereigns and GRE levels were maintained; a slight weakness appeared in some HY names and long duration bonds despite a drop in UST yields, due to the looming sentiment.

The US economy seems to be on the right track although Q2 GDP figures could be just rebounding from the very bad Q1. Nonetheless, a pickup in corporate spending and/or some government spending need to be seen in order to sustain this recovery. We remain positive however we acknowledge that there will be a lag in the economic data and more needs to be seen. Note that the flattening of the yield curve recently points to a lack of conviction about the economic growth prospects.

Weakness was also apparent in Asia and Europe in sympathy with the general sentiment and lack of liquidity. European corps and financials widened across the board, higher weakness was seen in the more subordinated bonds. Asia saw couple of new issues that maintained well. This market "lullness" should reverse by September as it is not caused by fundamental factors.

We broadly maintained our positions and interest rate hedges against certain maturity buckets, since we are comfortable with our current holding to smoothly sail across the summer illiquidity; we only added few names that had value. Currently the fund has a high average rating of BB+, an average yield of 4.69% and a relatively short duration of 1.75 years. The short duration is a result of our hedging. -ZR-

Fund Returns

| | MTD | YTD | 1 Year | 3 Years | 5 Years | SI | |
|-----------|--------|---------|--------|---------|---------|--------|-------|
| MIF | -0.12% | 4.25% | 8.15% | 25.52% | 60.76% | 34.06% | |
| Benchmark | 0.35% | 5.83% | 8.27% | 20.65% | 53.52% | 72.68% | |
| | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 |
| MIF | 2.10% | -21.60% | 10.40% | 12.08% | 0.92% | 19.93% | 5.50% |
| Benchmark | 5.62% | -10.61% | 23.54% | 12.30% | 7.08% | 12.15% | 0.39% |

Top Holdings

| | |
|--------------------------|-------|
| Icd Funding Ltd | 7.41% |
| Turk Telekomunikasyon As | 6.12% |
| Investcorp Sa | 5.44% |
| Dar Al-Arkan Sukuk Co Lt | 4.97% |
| Srilankan Airlines Ltd | 4.95% |

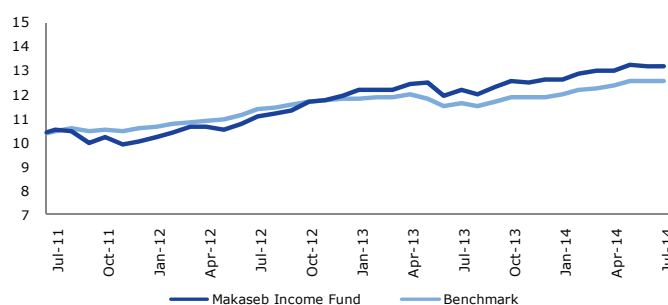
Fund Statistics

| | |
|-----------------------|-------|
| Average Coupon | 5.61 |
| Fund Rating | BB+ |
| Average Maturity | 8.14 |
| Average Yield | 4.69 |
| Modified Duration | 1.75 |
| CAGR Since Incep | 3.53% |
| 1 year Volatility | 3.20% |
| 3 year Volatility | 8.19% |
| Sharpe Ratio - 1 year | 2.38 |
| Sharpe Ratio - 3 year | 3.05 |

Monthly Performance (%)

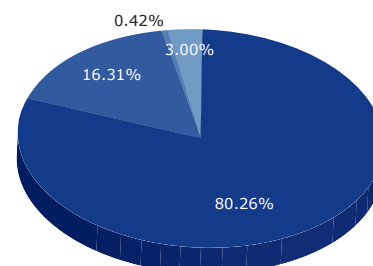
| | Jan | Feb | Mar | Apr | May | Jun | Jul | Aug | Sep | Oct | Nov | Dec | Total |
|------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|--------|
| 2014 | -0.03 | 2.05 | 0.73 | 0.32 | 1.73 | -0.47 | -0.12 | - | - | - | - | - | 4.25 |
| 2013 | 1.82 | 0.27 | -0.04 | 2.12 | 0.14 | -4.25 | 1.78 | -1.53 | 2.52 | 2.12 | -0.18 | 0.80 | 5.50 |
| 2012 | 1.79 | 2.09 | 1.99 | 0.24 | -0.99 | 1.84 | 2.95 | 1.15 | 1.43 | 3.11 | 0.56 | 1.74 | 19.93 |
| 2011 | 0.87 | -1.38 | 1.49 | 2.78 | 1.06 | -0.82 | 1.91 | -0.37 | -4.60 | 2.54 | -2.91 | 1.04 | 0.92 |
| 2010 | 1.21 | -1.04 | 6.12 | -0.45 | -3.34 | 2.82 | 2.12 | 3.28 | 1.03 | 1.25 | -1.96 | 1.14 | 12.08 |
| 2009 | -7.06 | -4.28 | 2.64 | 3.45 | 4.54 | 0.77 | 2.96 | 2.13 | 6.24 | 1.95 | 0.01 | -2.94 | 10.38 |
| 2008 | -1.04 | -0.76 | -0.32 | 0.15 | 0.22 | 0.12 | 0.27 | -0.52 | -3.68 | -6.68 | -9.80 | -1.45 | -21.59 |
| 2007 | 0.86 | 0.05 | 0.03 | 0.21 | 0.28 | 0.38 | -0.64 | 0.69 | 0.61 | 0.60 | -0.42 | 0.57 | 2.11 |
| 2006 | - | - | - | -0.44 | -0.10 | -0.60 | -0.04 | -0.08 | 0.19 | 0.75 | 0.75 | 0.11 | 0.53 |

Performance (Chart)



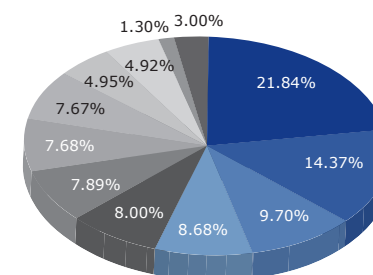
Regional Allocation

- MENA (80.26%)
- South Asia (16.31%)
- Europe (0.42%)
- Cash (3.00%)

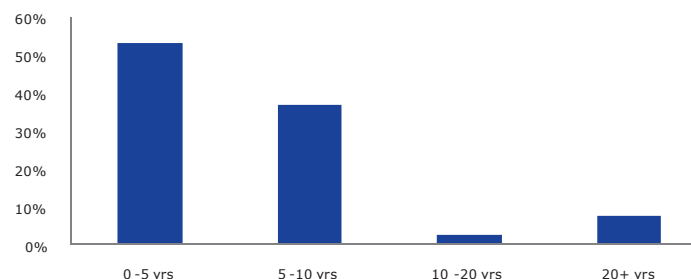


Industry Allocation

- Financial (21.84%)
- Conglomerate (14.37%)
- Real Estate (9.70%)
- Telecom Services (8.68%)
- Diversified Finan Serv (8.00%)
- Utilities (7.89%)
- Industrial (7.68%)
- Energy (7.67%)
- Airlines (4.95%)
- Sovereign (4.92%)
- Logistics (1.30%)
- Cash (3.00%)



Maturity Profile



Note: 57.34% of the portfolio is hedge with US Treasury Interest Rate Futures

Fund's benchmark until Dec 31, 2013 was HSBC Nasdaq Dubai ME index. However w.e.f 1st January 2014, the fund has changed its benchmark to JP Morgan MSCI Index - BB Ticker (JCADMETR). All historical benchmark performances have been replaced to that effect.

SI: Since Inception, MTD: Month to Date, YTD: Year to Date

Makaseb Income Fund (MIF)

Fund Details

| | | | |
|---------------------------------------|--------------------------|------------------------------|--|
| Fund size | USD 40.47 million | Bloomberg Ticker | MAKAINC BI |
| Fund Type | Open Ended | Zawya Code | MAKINCM.MF |
| Inception Date | March 29, 2006 | Lipper ID | 65038282 |
| Domicile | Bahrain | Minimum Subscription | USD 10,000 and in multiples of USD 1,000 thereafter |
| Currency | USD | Subscription Fee | Up to 2% |
| Benchmark | JP Morgan MECI Index | Performance Fee | Nil |
| Investment Manager | Mashreq Bank | Management Fee | 75 bps |
| Fund Manager | Abdul Kadir Hussain, CFA | Redemption Fee | 3% within first 3 months; 2% within 3-6 months; 1% within 6-12 months |
| Valuation Day | Each Business Day | Settlement for Subscriptions | 2 Business Days prior to Dealing Day |
| Dealing Day (Subscription/Redemption) | Each Business Day | Settlement for Redemption | 5 Business Days after the Dealing Day |
| ISIN | BH000A0J3RR6 | Notice Periods | 2 Business Days each for Subscriptions and Redemptions |

Contact Us: Tel: +9714 207 8811, Email: assetmanagement@mashreqbank.com, Web: www.mashreqassetmanagement.com

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