

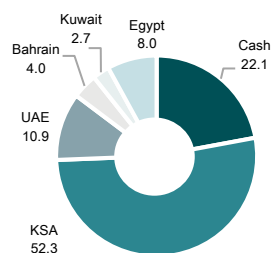
Managers Commentary

September was a volatile month for regional markets. During the first 3 weeks, Saudi Arabia fell 6% only to rebound 7% in the last week of the month. Surprisingly, it was mainly large caps that contributed to the volatility of the market. The rest of the markets, apart from Kuwait and Oman, declined by approximately 1%. The Kuwaiti was spared of the selloff mainly due to foreign inflows from the FTSE upgrade.

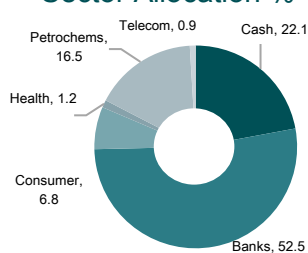
During the month, portfolio returns were broadly in line with the index. Although our investments in Saudi Arabia and UAE outperformed during the month, this was negated by our investments in Egypt. The fund has an off-index exposure of approximately 7% in Egypt and the Egyptian market fell 10% during the month. The Egyptian market continued to underperform, despite notable improvement of its macroeconomic fundamentals, due to broader emerging concerns. However, we intend to maintain our exposure to Egypt as we believe the companies we invested in are fundamentally sound and are trading at very attractive multiples (the majority of the Egyptian companies in our portfolio are trading at less than PE of 5x 2018e). Furthermore, given the inherent volatility of the GCC markets, our Egyptian exposure is likely to be a good source of diversification in the long run.

Given the gains posted in the first half of the year in Saudi Arabia, we did expect the markets to consolidate in the second half of the year. However, we were surprised by the degree of volatility experienced by the Saudi market. It is interesting to note that large caps such as Sabic and Al Rajhi were contributing to the market volatility. The fund flow numbers indicated that this may have been caused by outflows from discretionary portfolios managed by Saudi-based mutual funds. During the month, Kuwait benefited from the first batch of FTSE inflows and we capitalized on this to aggressively reduce our allocation to Kuwait. As a consequence, our cash allocation increased to 22%. We intend to use portion of the funds to pay dividends of USD 15per unit and the rest would be deployed over the next two months.

Asset Allocation %



Sector Allocation %



Key Statistics	Fund	Index
Price to Earnings Multiple TTM (x)	11.6	14.9
Price to Book Multiple Latest (x)	1.7	1.6
Return on Equity TTM (%)	14.8	11.1
Dividend Yield—2017 (%)	3.6	4.1
Number of Holdings	27	300
Annualized Return (%) - Last 5 years	5.9	3.4
Annualized Standard Deviation (%) - Last 5 years	13.5	14.7
Largest Monthly Gain (%) - Last 5 years	12.0	11.2
Largest Monthly Loss (%) - Last 5 years	-12.9	-13.0
% Positive Months (%)	59.0	56.1
Success Ratio (%) - Last 5 years	50	
Latest Drawdown-Peak to Trough (%)	-29.9	-40.2
Duration of Drawdown (months)	25mths (Aug 14 to Sep 16)	25mths (Aug 14 to Sep 16)
Recovery from Latest Drawdown (%)	46.7	42.7

Investment Objective

The Fund seeks long-term capital appreciation by investing principally in equity securities listed on the stock markets of GCC countries.

Returns (%)	Fund	Index
September 2018*	0.3	0.3
YTD (August 2018)	15.3	14.1
2017	7.6	3.3
2016	5.8	8.5
2015	-6.2	-14.6
2014	4.7	0.6
Last 3 months	-1.0	0.7
Last 6 months	5.0	5.9
Last 1 year	14.7	13.2
Last 3 years	25.6	18.8
Last 5 years	33.5	18.1
Since Inception (Mar 04— Sep 18)	258.5	153.9

*S&P GCC Total Return Index

Fund Information

Launch Date	Mar-04
Management Fee	1.50%
Performance	10% over 10%
Subscription & Redemption	Weekly
Dealing Day	Thursday
Subscription & Redemption Deadline	Two business days before dealing day
Minimum Subscription	100,000
Bloomberg Code	KHALEQY BI Equity
Fund ISIN Code	BH000A1CZ8W7
Custodian/Administrator	HSBC / Apex Fund Services

Top Holdings

Name	Sector	(%)
Al Rajhi Bank	Banks	9.4
SABIC	Petrochemical	8.4
NCB	Banks	6.7

Top Risk Statistics (last 5 years)

Standard Deviation (%)	13.5
Sharpe Ratio	0.2
Tracking Error (%)	4.5
Information Ratio	0.6
Alpha (%)	2.6
Beta	0.9

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