SICO Asset Management
Fixed Income Fund

SICO FIXED INCOME FUND
Class A | June 2021
NAV USD 110.29 ↓ 1.6%

Managers Commentary

The SICO Fixed Income Fund dropped by 1.6% in June on the back of one negative security while elsewhere treasuries retraced by another ~10 bps on the back of inflationary pressures with markets pricing in a very aggressive hiking path leading to a flattening in the US treasury curve.

GCC bonds have thrived in the current market environment, buoyed by strong economic data thanks to rising vaccinations, economies re-opening, and surging business and consumer confidence. This has also lead to higher oil prices with Brent jumping another 7 dollars to touch a two-year of USD 76 per barrel offering a boost to the whole GCC region. As a result, all the regional fixed income market ended the month in the green with Saudi and Qatar leading the way, both up by 1.0%. However, the rally has also been because of a sharp pickup in inflation and a rising concern that this could lead to central banks withdrawing some of their stimulatory policies. The May inflation numbers came in at a whopping 5.0% prompting bond markets to price in faster rate hikes going forward, leading to a flattening in the US curve, favouring high duration and EM bonds. Nevertheless, US Central Bank policy has been a major source of uncertainty as the Fed remained adamant in their recent FOMC meeting that such inflationary pressures were likely to ease as the year went on and they also felt that labour markets would take time to recover back to pre-Covid conditions. The dot plot from the June FOMC meeting was much more hawkish than expected. But the Fed will likely buy another trillion dollars in assets before tapering is finished, and markets have already priced in a more aggressive hiking path. However, GCC credit markets have largely shrugged off the Fed's hawkish surprise, with spreads actually tightening to 140 bps from 147 bps last month.

The Fund was however hampered due to one negative security which fell by over 50%, pushing it into distressed debt territory on the back of investor concerns and restructuring which contributed to a 2.1% loss this month. The rest of the fund however rode the positive wave in GCC fixed income benefitting from its HY sovereign and corporate exposure. In fact, the names that contributed most to the performance of the fund this month were Omani sovereign and quasi sovereign securities followed by Bahrain and UAE corporates. These have particularly benefitted from higher oil prices but also from a supportive macro backdrop driven by strong global growth which has fared well for most of the fund's assets. In fact, the tailwinds for our GCC assets have been very supportive, especially as EM picks up the growth baton from the US and China with the likes of India and Malaysia emerging now after contracting hard due to COVID lockdowns in Q2, spurring momentum and demand for the rest of the region. The only part where the fund lacked this month was its underweight duration (3.4 vs 8.0 years) as 30-year papers rose by an average of ~3% compared to an average of ~0.7% for 10-year papers. On the other hand, the fund's excess return from country allocation and security selection were relatively positive. Looking ahead, we expect the backdrop for GCC bonds to remain benign. Growth in Q3 is likely to be very strong however inflation fears will continue to be elevated. Unusually steep spread curves in many EM HY sovereigns mean that duration extension trades in markets such as Oman, KSA and Egypt are attractive. In GCC corporates, we expect strong earnings from UAE financials and real estate companies. Of course, we would have preferred better entry levels as most of the securities are trading at tighter levels than pre-covid. Moreover, while we do not expect a taper tantrum from the Fed, we believe that a grind higher in bond yields is the most likely outcome for the next three months and look to be positioned for this.

Investment Objective

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, and other Fixed Income related instruments.

Fund Features

High Liquidity

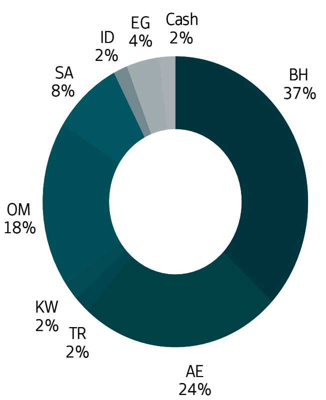
Low Volatility

Excellent Vehicle for medium to long term investing

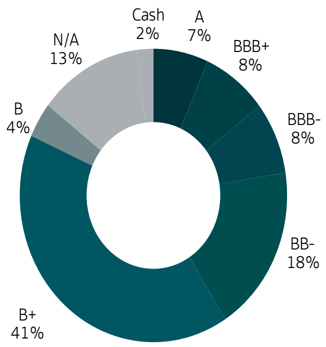
Returns (%)	Fund	Index*
June 2021	-1.6	1.1
YTD (June 2021)	0.6	0.1
2020	3.8	8.6
2019	10.3	15.0
2018	1.6	0.3
2017	3.4	4.7
2016	5.7	4.8
2015	1.6	1.7
2014	8.4	6.8
2013 (April till December 2013)	-1.0	-0.4
Last 3 months	-1.0	3.2
Last 6 months	0.6	0.1
Last 1 year	7.1	6.0
Last 3 years	18.1	28.2
Annualized (last 3 years)	5.7	8.6
Since Inception (April 13 — June 21)	39.3	48.9

*Barclays GCC Bond Index

Country Allocation



Rating Allocation



Fund Information

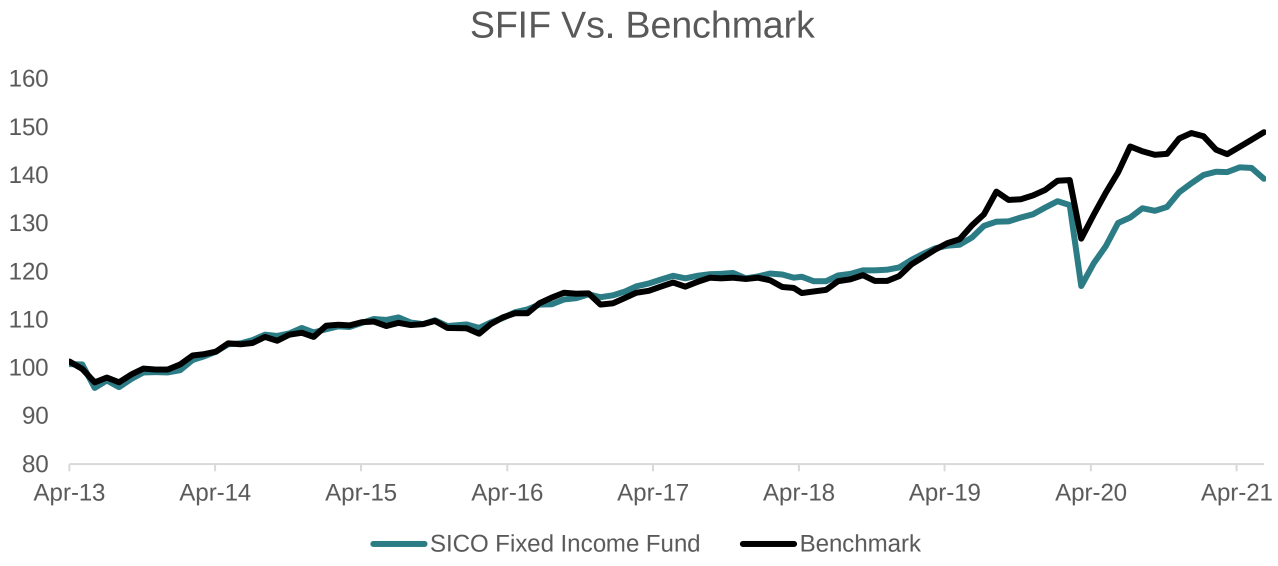
Launch Date	April 2013
Management Fee	1.00%
Subscription & Redemption	Weekly
Dealing Day	Wednesday
Subscription & Redemption Deadline	Two business days before dealing day
Minimum Subscription	$ 100,000.00
Dividends	Semi Annual
Registrar	HSBC Middle East
Custodian/Administrator	HSBC Middle East

Top Holdings

Name	Yield	Coupon	Maturity	(%)
BAHRAIN 2024	3.0	5.6	2/12/24	14.5
BOSUH 2024	2.9	4.0	9/18/24	7.8
OMGRID 2031	5.0	5.8	2/3/21	6.5
ARNBAB 2030	5.0	3.3	10/28/30	5.8

Top Risk Statistics

Name	Fund	Index
Yield to Maturity (%)	4.7	2.6
Duration (years)	3.4	8.0
Coupon (%)	5.3	4.0
Spread (bps)	400	140


SFIF Vs. Benchmark
160
150
140
130
120
110
100
90
80
Apr-13
Apr-14
Apr-15
Apr-16
Apr-17
Apr-18
Apr-19
Apr-20
Apr-21
SICO Fixed Income Fund
Benchmark

SICO Asset Management
Fixed Income Fund

SICO FIXED INCOME FUND
Class B | February 2019
NAV USD 107.55 ↑1.2%

Managers Commentary

The SICO Fixed Income Fund had another strong month and jumped by 1.2%, profiting from stable rates and higher oil prices whilst continuing to reap the benefits from the JP Morgan emerging market index inclusion. Its benchmark, the Barclays GCC Bond Index rose by 1.3% in February.

Investors continued to flock into GCC bonds, taking advantage of the favorable market backdrop, stable dollar and general “risk-on” sentiment. Fears of a trade war between the US and China seemed to be diminishing while an uncertain BREXIT has helped keep a lid on rates. The 10 year US treasury for example rose by only 6bps to 2.72% as the probability for another rate hike this year remains very low despite healthy labor market figures and reasonable GDP growth. However, GCC bond prices also rose due to a surge in regional liquidity, aided by higher government oil revenues and passive money flowing into region. Bahrain was again the clear outperformer as supply could not keep up with demand as the Kingdom continued to feel the benefits of the GCC support and foreign direct investments entering the country. Oman also rallied and almost closed the gap to Bahrain after trading nearly 100bps wider following reports that authorities plan to cut the Sultanate’s borrowing in 2019 by as much as 70% and prioritise asset sales to plug the yawning budget deficit.

The Fund did very well accordingly, buoyed by its overweight to Bahrain and selective positioning in the Omani quasi sovereign space. We also took advantage of the new issuances this month as Mumtalakat and Almarai rallied by 50 cents following a massive order book that was oversubscribed by 6 and 10 times. However, even the real estate names made a comeback and boosted the performance this month due to the “risk-on” environment in light of stable rates and the hunt for yield. That trend is likely to carry on as spreads have compressed massively with investors forced to take more risk to meet their return expectations. The optimism also spilled over into the perp space with bonds rising by one dollar while continuing to accrue a high coupon for the fund. Going forward, we look to increase our duration within Bahrain whilst rotating out of the GCC and into names from outside the region that have missed out on the recent rally.

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Fund Features

High Liquidity

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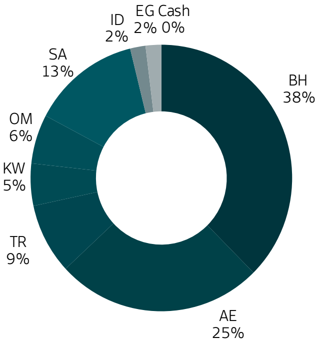
Excellent Vehicle for medium to long term investing

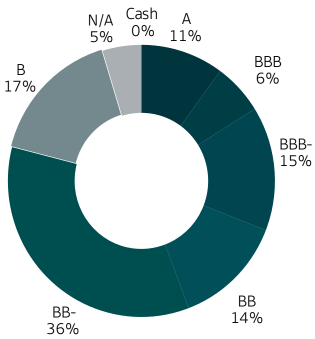
Returns (%)	Fund	Index
February 2019	1.2	1.3
YTD (February 2019)	2.5	3.4
2018	1.9	0.3
2017	3.7	4.7
2016	6.0	4.8
2015	1.9	1.7
2014	8.8	6.8
2013 (April till December 2013)	-0.8	-0.4
Last 3 months	2.9	4.3
Last 6 months	3.7	4.0
Last 1 year	4.0	5.4
Last 3 years	14.3	12.8
Annualized (last 3 years)	4.6	4.1
Since Inception (April 13 — February 19)	26.2	23.1

*Barclays GCC Bond Index

Country Allocation



Rating Allocation



Fund Information

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Subscription & Redemption Deadline	Two business days before dealing day
Minimum Subscription	$ 1,000,000.00
Dividends	Semi Annual
Registrar	HSBC Middle East
Custodian/Administrator	HSBC Middle East

Top Holdings

Name	Yield	Coupon	Maturity	(%)
BAHRAIN 2024	5.2	5.6	2/12/24	14.7
DARALA 19	4.4	6.5	5/28/19	10.0
BAHRAIN 2022	4.8	6.1	7/5/22	6.8
BATELCO 20	4.6	4.3	5/1/20	6.4

Top Risk Statistics

Name	Fund	Index
Yield to Maturity (%)	5.4	4.4
Duration (years)	2.8	6.5
Coupon (%)	6.4	4.4
Spread (bps)	248	172

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