

**Manager's Commentary**

Regional markets rallied during the month with the S&P GCC index increasing by 5.3%. The gains were mainly driven by Saudi Arabia (+5.7%) and Qatar (+8.0%). The increase in the Saudi market was largely due to investors building exposure in anticipation of the inclusion of Saudi Arabia in the MSCI and FTSE indices over the next two years. The rally in Qatari market we believe were in part due to investors expecting Qatari companies to increase the dividends paid for the financial year 2017.

During the month your fund increased by 6.5% while the benchmark was up by 5.3%. The fund managed to outperform despite not having any exposure to Qatari market mainly due to Emaar development and Zain Kuwait. The two stocks are core holdings in our portfolio; they fell ca.17% and 15% respectively in last quarter of 2017, but rebounded ca.14% and 12% in January. In addition, our investments in the petrochemical sector also contributed to the outperformance of the fund.

We expect the market exuberance experienced in January to taper in the following months. Despite the rebound in the price of oil, regional economies continue to face a number of challengers. We believe that markets are underestimating the impact the significant reduction in expatriate labor would have on the aggregate demand and hence corporate revenues. A number of consumer-oriented companies are likely to suffer disproportionately lower earnings compared to the drop in revenue, given their relatively high fixed costs. However, markets in Saudi Arabia and Kuwait are likely to be supported by inflows from foreign active managers in anticipation of the two markets being upgraded to the FTSE and MSCI emerging market indices. In the year to date, the Saudi market has experienced approximately USD 1bn of foreign inflows, and the majority of the money flowed in to Al Rajhi Bank.

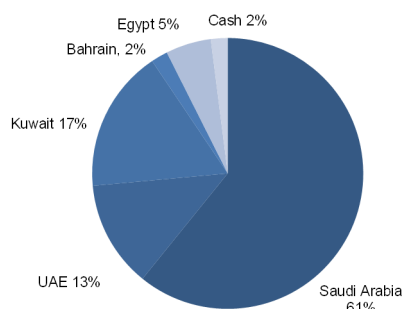
**Investment Objective**

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

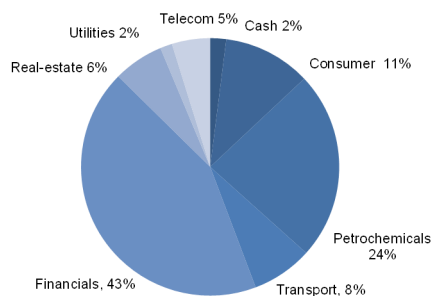
Returns (%)	Fund	Index*
Jan 2018	6.1	5.3
2017	7.6	3.3
2016	5.8	8.5
2015	-6.2	-14.6
2014	4.7	0.6
Last 3 Months	6.2	7.3
Last 6 Months	9.1	5.0
Last 1 Year	12.6	7.1
Last 3 Years	11.4	-2.0
Last 5 Years	43.2	26.3
Last 10 Years	30.2	-7.2
Since Inception (March 04 to Dec 2017)	229.8	134.4

\* S&P GCC Total Return Index

**Country Allocation**



**Sector Allocation**



**Fund Information**

Launch Date	March 2004
Management Fee	1.5%
Performance Fee	10% over 10%
Subscription & Redemption	Weekly
Dealing Day	Thursday
Subscription & Redemption Deadline	Two Business days before dealing day
Minimum Subscription	USD 100,000
Bloomberg Code	KHALEQY BI Equity
Fund ISIN Code	BH000A1CZ8W7
Custodian / Administrator	HSBC Bahrain

**Key Statistics**

	Fund	Index
Price to Earnings Multiple TTM (x)	14.1	16.1
Price to Book Multiple Latest (x)	1.6	1.5
Return on Equity TTM (%)	12.2	9.6
Dividend Yield—2016 (%)	3.1	3.7
Number of Holdings	30	300
Annualized Return (%) - Last 5 years	7.4	4.8
Annualized Standard Deviation (%) - Last 5 years	14.2	15.3
Largest Monthly Gain (%) - Last 5 years	12.0 (April 15)	11.2 (April 15)
Largest Monthly Loss (%) - Last 5 years	-12.9 (Aug 15)	-13.0 (Aug 15)
% Positive Months (%)	59	56
Success Ratio (%)	49	NA
Latest Drawdown-Peak to Trough (%)	-29.2	-40.2
Duration of Drawdown (months)	17mths (Aug 14 to Jan 16)	17mths (Aug 14 to Jan 16)
Recovery from Latest Drawdown (%)	33.1 (Feb 16 to Jan 18)	32.1 (Feb 16 to Jan 18)

**Top Holdings**

Name	Country	(%)
Al Rajhi Bank	KSA	8.1
SAMBA	KSA	5.8
NCB	KSA	5.6

**Risk Statistics (last 5 years)**

Standard Deviation (%)	14.2
Sharpe Ratio	0.3
Tracking Error (%)	4.6
Information Ratio	0.6
Alpha (%)	3.0
Beta	0.9

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Securities & Investment Company BSC (c)  
P.O. Box 1331, Manama, Kingdom of Bahrain  
Tel: +973 1751 5000 Fax: +973 1751 4000  
CR No: 33469  
[www.sicobahrain.com](http://www.sicobahrain.com)

شركة الأوراق المالية والاستثمار ش.م.ب (م)  
ص.ب: 1331، المنامة، مملكة البحرين  
هاتف: +973 1751 5000 فاكس: +973 1751 4000  
سجل تجاري رقم 33469

بنك استثماري sico  
Investment Bank

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