

Managers Commentary

The SICO Fixed Income Fund remained largely flat in July as US Treasuries rallied amidst concerns of the Delta variant and its potential adverse effects on the global recovery, causing 10-year yields to collapse by another ~20 bps to 1.25%.

GCC credit markets continued to trade without much conviction, amidst a meaningful pickup in cross-market volatility, marked by large swings in global equities and a further plunge in treasury yields, briefly dropping to below 1.2% during the month (it was at 1.45% at the end of June). This has undoubtedly provided some buffer for GCC fixed income returns, especially for lower-yielding IG assets which already seemed expensive moving into July but also balanced against a rise in spreads on the back of the higher risk premia associated with the rise in market volatility. The average spreads of GCC bonds rose by 15bps to ~160bps during the month but the regional benchmark still managed to close 0.4% higher in July, mainly led by high duration IG papers such as Qatar (up 0.8%) and Saudi (up 0.6%). Bahraini bonds on the other hand were down by 0.4%. There is no doubt that investors were looking for protection amid spikes in the Delta variant and opting for regional securities that were highly correlated with US treasuries. New daily COVID-19 cases in emerging countries have been the highest in over a month while the situation is even worse in developed countries as new cases there are at the highest level since May, raising further concerns about the sustainability of the global growth recovery, fueling the demand for safe assets and fixed income in general. In fact, EM bond funds recorded small inflows in July which also helped to protect some of the returns this month, despite a more difficult market environment for risk assets, at least temporarily until the authorities manage to control other new variants and inflation flattens out after hitting a record 5.4% in July, sparking fears of a potential aggressive hiking cycle.

The Fixed Income Fund has therefore fared fairly well amidst the difficult circumstances, especially with its overweight to Bahrain but on the other hand also benefitted from the strong performance in US Treasuries as well as its exposure to Omani and Egyptian fixed income securities. Overall, our security selection has performed well in July however the only part where the portfolio lacked this month was its underweight duration (4.2 vs 8.2 years) as long term papers fared much better with the movements in US rates. However, this has been the general trend amongst many fixed income managers, exacerbated by overweight positions in HY and possibly shorter-than-benchmark duration positions which has led to a negative alpha in June and July. Nevertheless, we have already taken proactive measures during the month to increase duration as a tactical trade by taking on 30-year exposure in Saudi and Oman which has already benefitted the portfolio this month, and we remain overweight hydrocarbon exporters. At the same time, we also added to UAE and Kuwaiti corporates which we feel would benefit from strong earnings as well as higher interest rates. Going forward the Fund needs to balance the prospects of Fed tapering, yields drifting higher, transitional inflation, a lower than expected terminal fed fund rate and slowing growth after peaking mid-year 2021. Such market themes will however only play out gradually (no immediate catalysts) although against such a backdrop, we prefer our current positioning with expectations of yields grinding higher but to then gradually rotate into a balanced benchmark centric approach with alpha to be generated from relative value trades, supply technical and market timing.

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

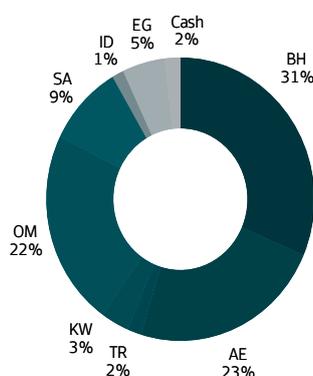
Low Volatility

Excellent Vehicle for medium to long term investing

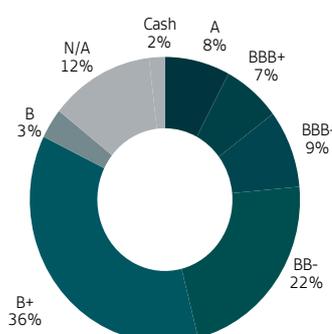
Returns (%)	Fund	Index*
July 2021	0.0	0.5
YTD (July 2021)	0.7	0.6
2020	3.8	8.6
2019	10.3	15.0
2018	1.6	0.3
2017	3.4	4.7
2016	5.7	4.8
2015	1.6	1.7
2014	8.4	6.8
2013 (April till December 2013)	-1.0	-0.4
Last 3 months	-1.6	2.6
Last 6 months	-0.5	1.1
Last 1 year	6.2	2.6
Last 3 years	16.9	26.8
Annualized (last 3 years)	5.3	8.2
Since Inception (April 13 — July 21)	39.3	49.7

*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

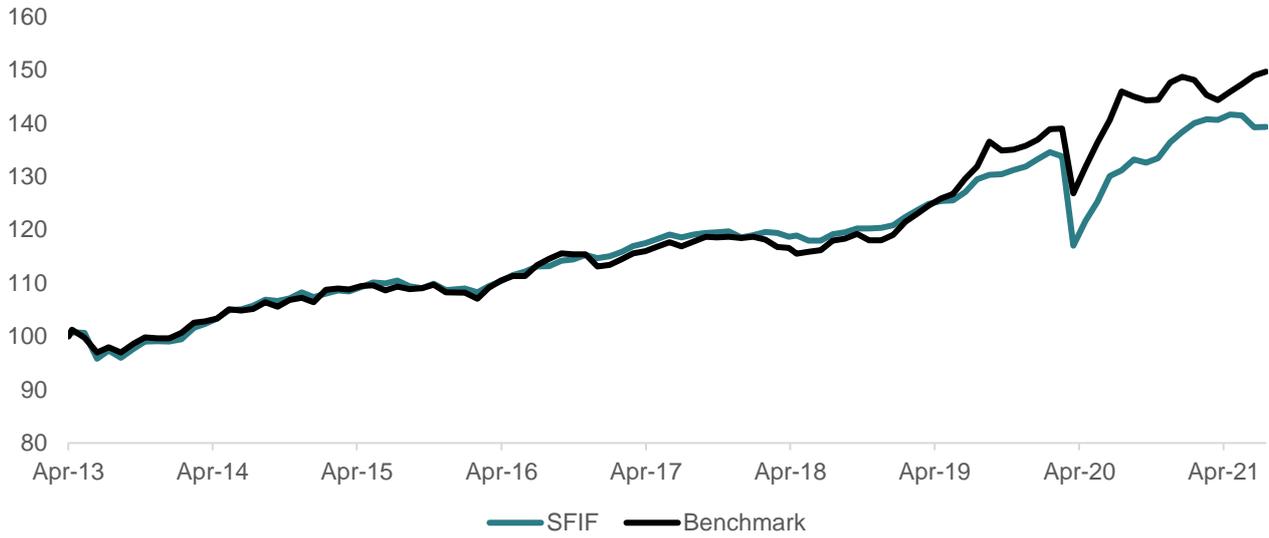
Top Holdings

Name	Yield	Coupon	Maturity	(%)
BAHRAIN 2024	3.2	5.6	2/12/24	13.2
BOSUH 2024	2.9	4.0	9/18/24	7.1
OMGRID 2031	5.0	5.8	2/3/21	5.9
ARNBAB 2030	31	3.3	10/28/30	5.3

Top Risk Statistics

Name	Fund	Index
Yield to Maturity (%)	4.8	2.6
Duration (years)	4.2	8.2
Coupon (%)	5.4	4.0
Spread (bps)	410	161

SFIF performance vs benchmark



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Managers Commentary

The SICO Fixed Income Fund inched higher this month and rose by 0.1% in July as US Treasuries rallied amidst concerns of the Delta variant and its potential adverse effects on the global recovery, causing 10-year yields to collapse by another -20 bps to 1.25%.

GCC credit markets continued to trade without much conviction, amidst a meaningful pickup in cross-market volatility, marked by large swings in global equities and a further plunge in treasury yields, briefly dropping to below 1.2% during the month (it was at 1.45% at the end of June). This has undoubtedly provided some buffer for GCC fixed income returns, especially for lower-yielding IG assets which already seemed expensive moving into July but also balanced against a rise in spreads on the back of the higher risk premia associated with the rise in market volatility. The average spreads of GCC bonds rose by 15bps to -160bps during the month but the regional benchmark still managed to close 0.4% higher in July, mainly led by high duration IG papers such as Qatar (up 0.8%) and Saudi (up 0.6%). Bahraini bonds on the other hand were down by 0.4%. There is no doubt that investors were looking for protection amid spikes in the Delta variant and opting for regional securities that were highly correlated with US treasuries. New daily COVID-19 cases in emerging countries have been the highest in over a month while the situation is even worse in developed countries as new cases there are at the highest level since May, raising further concerns about the sustainability of the global growth recovery, fueling the demand for safe assets and fixed income in general. In fact, EM bond funds recorded small inflows in July which also helped to protect some of the returns this month, despite a more difficult market environment for risk assets, at least temporarily until the authorities manage to control other new variants and inflation flattens out after hitting a record 5.4% in July, sparking fears of a potential aggressive hiking cycle.

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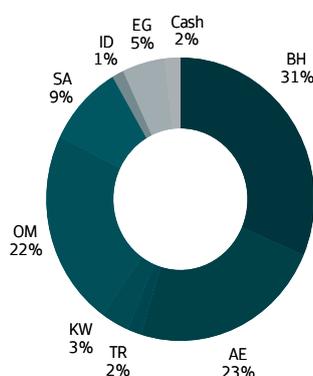
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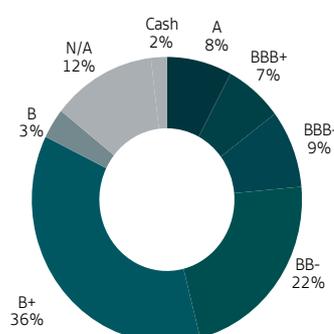
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Last 3 years	18.0	26.8
Annualized (last 3 years)	5.7	8.2
Since Inception (April 13 — July 21)	43.2	49.7

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Country Allocation



Rating Allocation



Fund Information

Launch Date	April 2013
Management Fee	0.75%
Subscription & Redemption	Weekly
Dealing Day	Wednesday
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

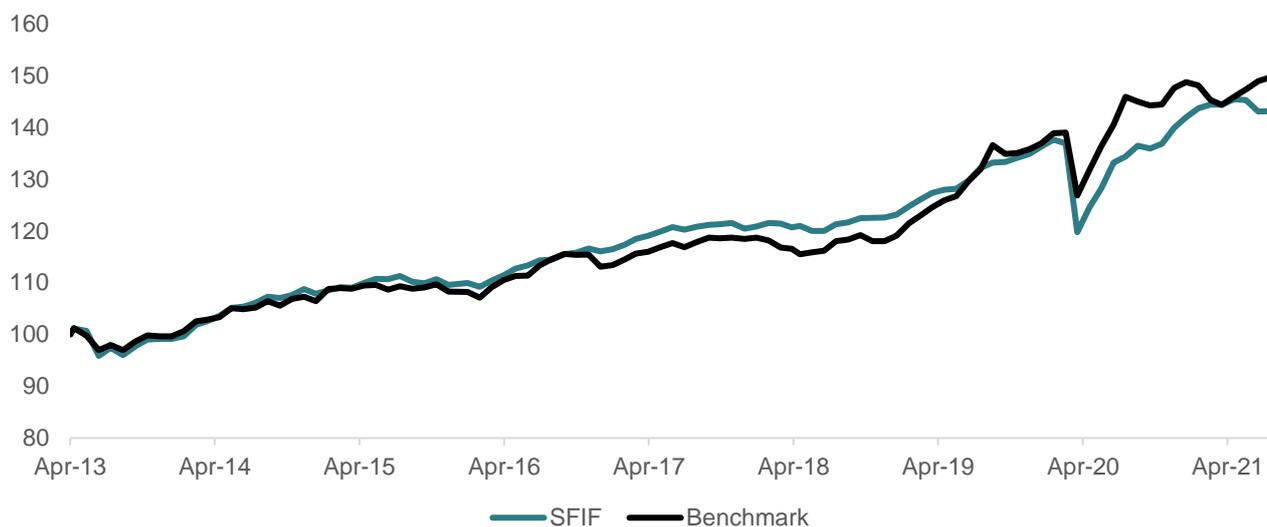
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