

Managers Commentary

The SICO Fixed Income Fund put up another staggering performance and managed to protect most of its gains in March despite the extreme rate volatility as the rest of the GCC debt market succumbed to the pressure of the sudden surge in long term treasury yields with the Barclays GCC Bond Index ending the month lower by 0.7%.

GCC bonds marked their 3rd straight month of losses as high duration bonds fell victim to the extreme jump in treasury yields as 10 year rates rose by another 35 bps in March, ending the month at 1.75%, or 85 basis points higher since the beginning of the year. A series of strong unemployment data, coupled with fears of higher inflation and a very dovish Federal Reserve has sky rocketed long term yields again in March buoyed by continued optimism on containment of the virus as well as higher oil prices. A decision by OPEC+ on 4 March 2021 to hold supply largely unchanged in April helped consolidate oil prices above USD 65/bbl, thereby benefitting the entire GCC bloc. With the exception of Kuwait, fiscal deficits are likely to retreat to single digits for the rest of the Gulf – or actually shift to a surplus as in the cases of Qatar and Abu Dhabi. Saudi Arabia would also make significant progress and almost narrow its deficit to mid-single digits. This has been reflected in the average spread of GCC bonds as these tightened to 158 bps in March, the lowest in over a year and just 10 bps away from pre-pandemic levels while the average yield rose to 2.9% compared to 2.5% since the start of the year.

The Fund performed accordingly well and benefitted from its defensive positioning with an overweight in low duration bonds as well as other high yielding names. In fact, all the securities with a maturity of less than 5 years ended the month in positive territory with corporates leading the way. Real Estate names continued to outperform attracting bids from the region as interest rates remain extremely low and favourable to the sector, buoyed by adequate balance sheets and improving cash positions. The picture was however mixed in Bahrain as long term bonds succumbed to the pressure of higher rates while short term names, particularly the Sukuks outperformed and maintained a carry during the month. This has been the general theme as Sukuks from Oman, the UAE as well as outside the region outperformed and contributed to the positive return of the fund this month. Also some of the financial bonds in the fund benefitted from the current environment, backed by large buyers and a general lack of supply, particularly in the perpetual space.

Nevertheless, we note that the stabilization of treasury yield movements will bring some relief to GCC assets and we believe that the market backdrop is still conducive of risk taking in the region. In particular, the rise in oil and commodity prices should be a supportive factor as there is a clear, positive correlation between GCC fixed income returns and oil prices historically; the losses of GCC fixed income assets over the past few weeks therefore appear unusual, suggesting some room for upside ahead. This should also help to stabilize flows. GCC Bond yields also increased to a yearly high which usually leads to long-end outperformance, spread compression and inflows.

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

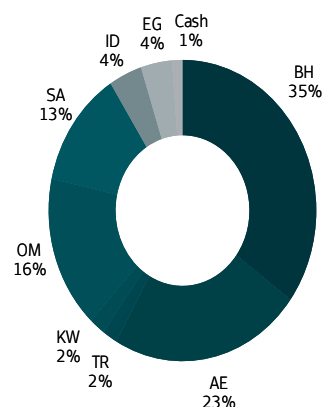
Low Volatility

Excellent Vehicle for medium to long term investing

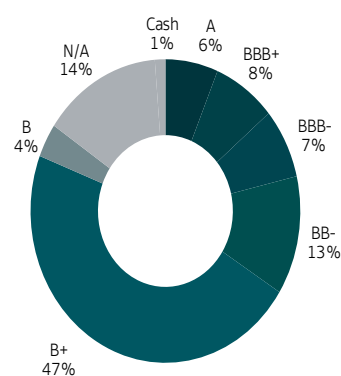
Returns (%)	Fund	Index*
March 2021	-0.1	-0.7
YTD (March 2021)	1.6	-2.9
2020	4.2	8.6
2019	10.6	15.0
2018	1.9	0.3
2017	3.7	4.7
2016	6.0	4.8
2015	1.9	1.7
2014	8.8	6.8
2013 (April till December 2013)	-0.8	-0.4
Last 3 months	1.6	-2.9
Last 6 months	6.1	0.1
Last 1 year	20.2	13.8
Last 3 years	18.5	23.8
Annualized (last 3 years)	5.8	7.4
Since Inception (April 13 — March 21)	40.6	44.4

*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

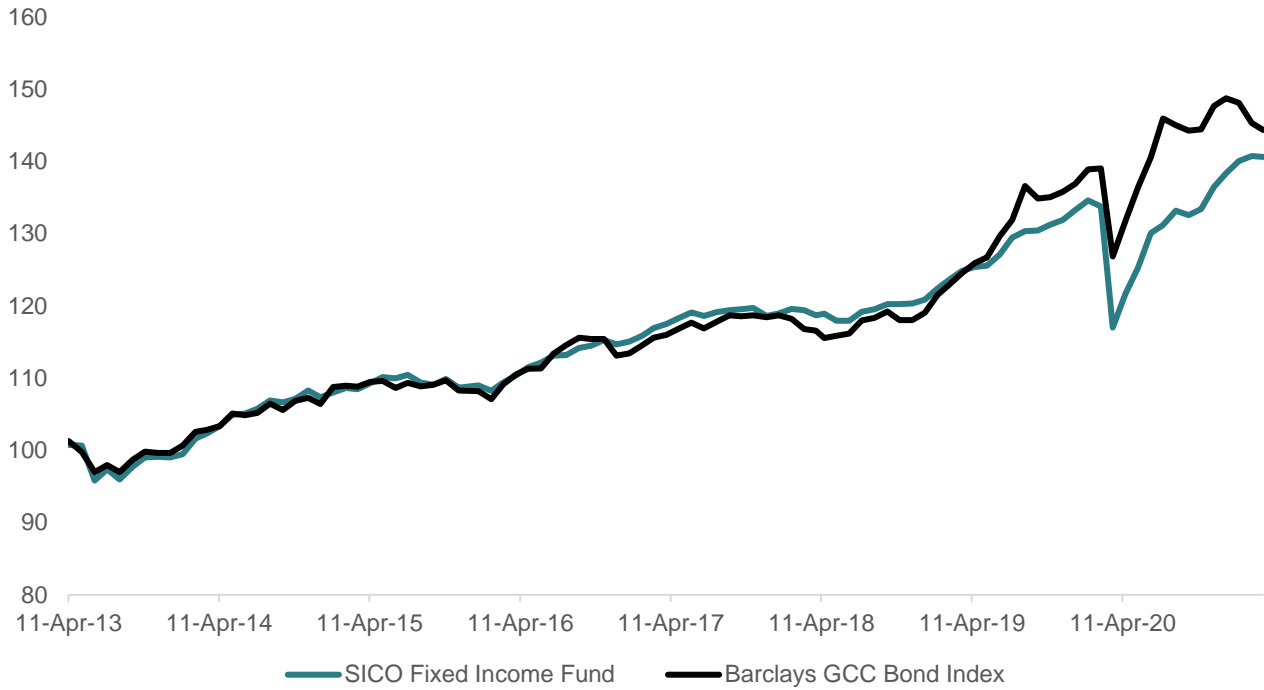
Top Holdings

Name	Yield	Coupon	Maturity	(%)
BAHRAIN 2024	3.0	5.6	2/12/24	14.4
BOSUH 2024	2.7	4.0	9/18/24	7.8
DARALA 2022	3.5	6.9	4/10/22	7.2
OMGRID 2031	5.3	5.8	2/3/21	6.3

Top Risk Statistics

Name	Fund	Index
Yield to Maturity (%)	4.4	2.9
Duration (years)	3.5	7.9
Coupon (%)	5.7	4.2
Spread (bps)	354	158

Performance



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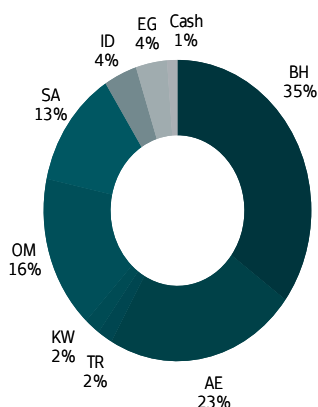
Fund Features

- High Liquidity
- Low Volatility
- Excellent Vehicle for medium to long term investing

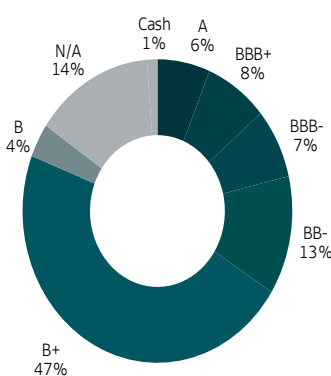
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Country Allocation



Rating Allocation



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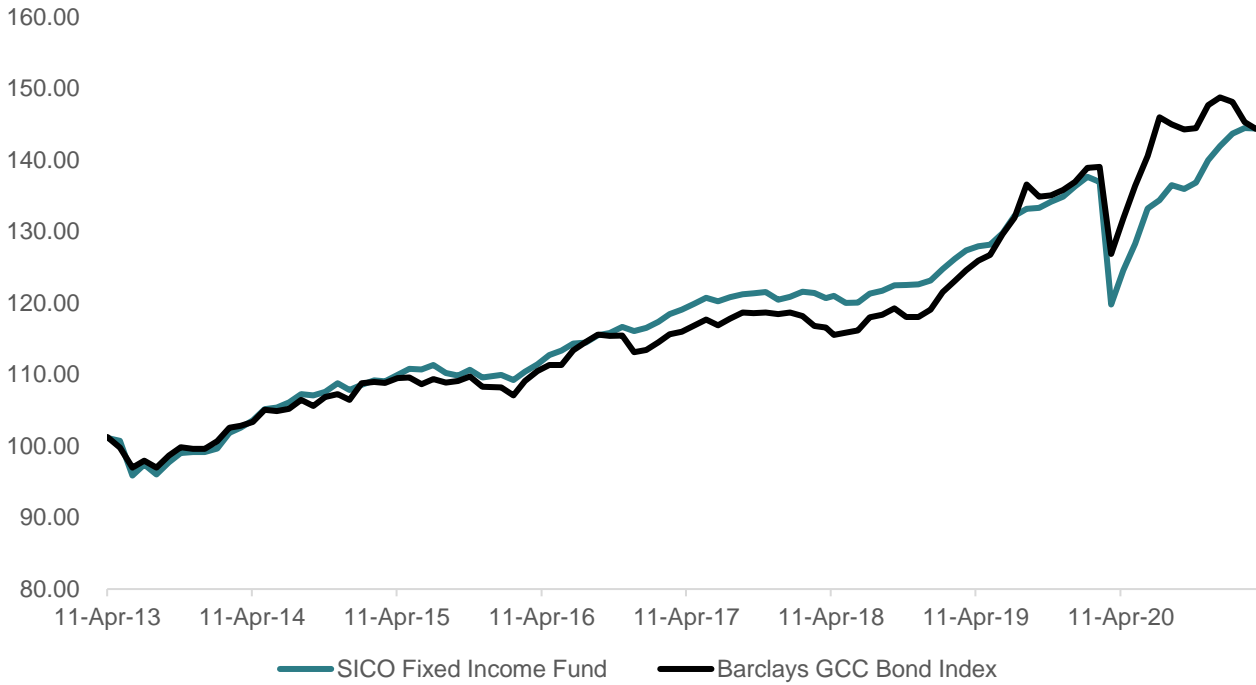
Fund Information

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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