SICO Asset Management
Fixed Income Fund

SICO FIXED INCOME FUND
Class A | December 2022
NAV USD **102.27** ↑**0.5%**

Managers Commentary

The SICO Fixed Income Fund closed the year with positive momentum and rose by 0.5% in December as GCC bonds benefitted from the Chinese re-opening theme coupled with slower rates hikes and signs that inflation may have peaked.

GCC fixed income traded very strong in December as ETFs chased high duration and emerging markets in anticipation of rate cuts in 2023, especially with interest rates historically high with 10-year treasuries rising another 25 bps in December to 3.88%. The end of the year has brought a significant improvement in sentiment, driven by the faster-than-anticipated relaxation of COVID measures in China, while inflation fell for the 5th month in a row, encouraging the Fed to reduce its pace of tightening by delivering only a 50-bps rate hike in December compared to four previous 75bps hikes in a row. The improved macro backdrop, and likely squaring of some bearish positions into the relatively end-of year illiquid holiday period, has helped EM to recover some of the ground lost earlier this year. GCC bonds have strongly outperformed despite lower oil prices as spreads have fallen by another 20 bps to 120 bps and are now trading close to the lows of the year supported by a lack of new issuances. At the same time, demand remains high as buying pressure across risk markets has increased due to the earlier-than-anticipated reopening in China with investors believing in a continued progress towards a soft landing in the US. It was the lower rated credits from Bahrain and Oman that outperformed, also riding on the positive momentum of rating upgrades last month while all other GCC debt markets also performed positively and ended the month in the green with high duration outperforming.

The fund followed through on the momentum and delivered positively across all categories with high risk and high duration outperforming. As a result, it was the longer-term names from Oman and Bahrain that contributed the most to performance in December, buoyed also by other off-benchmark high yielders such as Turkey and Indonesia. Oil related securities and exporters also benefitted on the back of higher oil prices as these recovered from an intra-month low of $76 to close at $85, supported by the opening of China after reopening its economies after nearly 3-years of covid lockdowns. Corporates also rode the positive wave with many of the fund's airline and trading related names benefitting from the supportive macro-backdrop. Real estate bonds continued to flourish with strong tourism initiatives in Saudi and the UAE although the fund's duration to this sector remains very low and can be considered as money market at best. However, as spreads have already rallied materially, we have become more cautious on taking excess duration especially as the China trade has already brought forward positive returns into the December closing as opposed to the 2nd quarter of 2023. Combined with some of the near-term risks from inflation and labour data, we expect the rally to slow especially as January issuance comes into focus.

Fixed income nevertheless is one of the preferred asset classes for 2023 as yields are still lingering at multi-year highs, especially as slowing economic growth emerges as another tailwind for sovereign debt and hence will see decent demand, particularly on high-quality securities but also on the high carry in the sub-investment grade space, at least in the short term. It however remains a very fine balancing act between growth and inflation as both feed into each other. The US has remained resilient until now with the latest Fed Nowcast tracking 4Q 2022 GDP of 3.9% while inflation is gradually coming down, although continued spouts of stronger than expected data may prone the Fed to hike more or in the very least maintain higher rates for longer than market anticipates. Overall fixed income is the preferred asset class, GCC spreads are tight, regional governments are flushed with cash, spending will be very high and there is a potential recession looming in the background. Hence, GCC spreads are expected to increase especially as oil prices would most likely dip as growth slows down and may therefore offset any positive returns attributed to a drop in interest rates. We therefore would like to approach the year with a barbell strategy by taking advantage of historic high interest rates in the short term mixed with high duration HQLA papers as growth is expected to slow down, although any possible recession would most likely happen in the 2nd half of the year as the labour market still remains extremely healthy given how much the Fed has increased rates.

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*
December 2022	0.5	0.8
YTD December 2022	-4.2	-10.7
2021	1.2	1.2
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	2.7	3.8
Last 6 months	1.5	0.3
Last 1 year	-4.2	-10.7
Last 3 years	0.6	-1.8
Last 5 years	12.7	13.3
Since Inception (April 13 - December 22)	34.1	34.5

*Bloomberg GCC Bond Index

Top Holdings

Name	Yield	Coupon	Maturity	(%)
BAHRAIN 2024	5.9	5.6	2/12/24	12.9
BOSUH 2024	6.8	4.0	9/18/24	6.8
OMGRID 2031	6.5	5.8	2/3/31	5.5

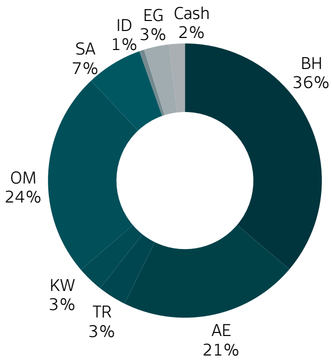
Top Risk Statistics

Name	Fund	Index
Yield to Maturity (%)	6.5	5.3
Duration (years)	3.3	6.8
Coupon (%)	5.3	4.0
Spread (bps)	252	125

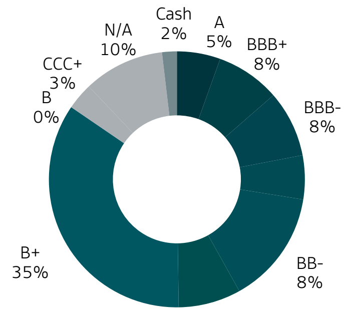
Fund Information

Launch Date	April 2013
Strategy	Capital Preservation & Income
Geography	MENA with focus on GCC
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

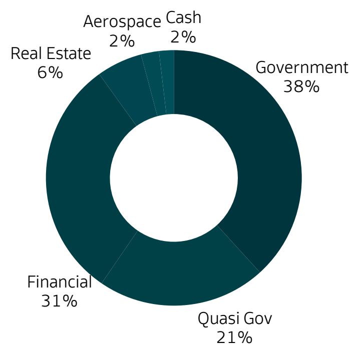
Country Allocation



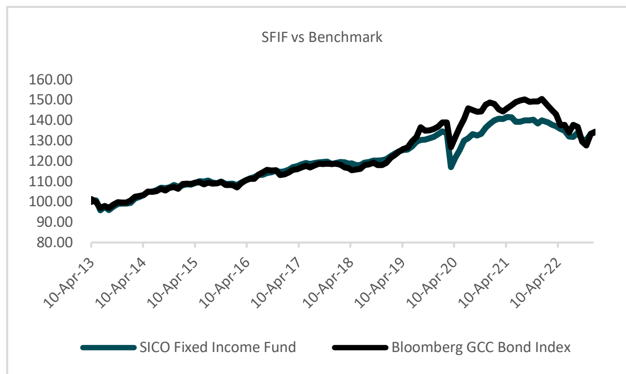
Rating Allocation



Sector Allocation



Cumulative Performance



SICO
Asset Management
Fixed Income Fund

SICO FIXED INCOME FUND
Class B | December 2022
NAV USD **105.72** ↑**0.5%**

Managers Commentary

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Last 1 year	-3.9	-10.7
Last 3 years	1.6	-1.8
Last 5 years	14.5	13.3
Since Inception (April 13 - December 22)	38.4	34.5

*Bloomberg GCC Bond Index

Top Holdings

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Spread (bps)	252	125

Fund Information

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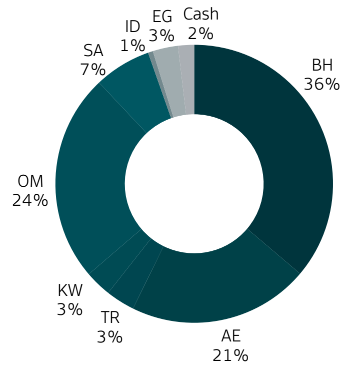
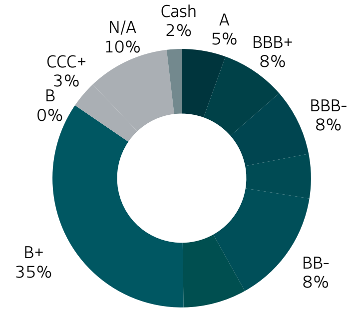
Strategy	Capital Preservation & Income
Geography	MENA with focus on GCC
Management Fee	0.75%
Subscription & Redemption	Weekly
Dealing Day	Wednesday
Subscription & Redemption Deadline	Two business days before dealing day
Minimum Subscription	$ 1,000,000.00
Dividends	Semi Annual
Registrar	HSBC Middle East
Custodian/Administrator	HSBC Middle East

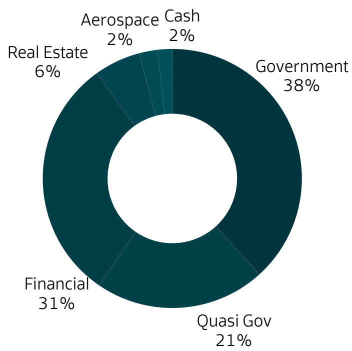
Country Allocation



Rating Allocation



Sector Allocation



Cumulative Performance