

Managers Commentary

The SICO Fixed Income Fund dropped by 0.6% in February but strongly outperformed the Bloomberg GCC Bond index which fell by 1.7% as treasury yields soared amidst high global growth and waning disinflation.

As February came to a close, it seems set to undo most of the gains that GCC bonds and EM assets enjoyed in January. Total returns of the regional and wider EM indices are now relatively flat as treasury yields rose by around 50 basis points during the month with the 10-year now at 3.9%, compared to an intra-month low of 3.4%. This has come against the backdrop of global growth holding up much better than anticipated while disinflation has been stalling. The February inflation report followed through the strong labor report last week (500k+) and came in slightly above expectations. In fact, the inflation data suggested that disinflationary momentum has stopped, with headline CPI re-accelerating to 0.5% m/m (6.4% y/y) in January and core up 0.4% m/m (5.6% y/y). Much as with the payroll numbers, US consumers came roaring back in January, with headline retail sales jumping 3.0% m/m, more than reversing the 1.1% m/m monthly declines in both November and December while other indicators such as personal spending, jobless claims and mortgage have been much better than expected. Overall, it seems that the global economy appears to be refusing to land, with China's reopening, a resilient labor market in the US and a boost to Europe's prospects and forecasts following the fall in gas prices all playing a part. While resilient global growth should support some GCC and EM assets in general, the shift in terminal rate expectations and the related increase in rates volatility have dented regional fixed income returns. Nevertheless, the GCC spreads remain very tight at around 100 bps and are close to their historic lows despite a flurry of new issuances including \$4.5 billion in Greensaif Pipelines, \$5 billion from Public Investment Fund (PIFs), \$1 billion from Sharjah Government, \$1 billion from Dubai Islamic Bank and \$1.5 billion debut-Sukuk from Egypt. Overall, all six GCC fixed income markets ended the month negatively with Saudi and Qatar the worst, down by around 2% while high yielder Bahrain came on top, down only 0.2%.

The SICO Fixed Income Fund however once again provided stability and protection during periods of high volatility due to its underweight duration strategy and overweight to short term high yielders from Bahrain and Oman. These have been trading extremely well with securities from both countries at an all time tight, supported by a combination of passive ETF, some small fast money covering shorts and local demand. Oil prices have also been relatively high (above \$80) while global growth has been better than expected which has further supported spreads of these countries. Even with the relative underperformance of KSA, the relationship between the two credits is at the all-time tight as Bahrain and Oman have not issued any new securities this year, therefore keeping supply extremely tight. Most of the fund's short-term securities have performed positively despite the sharp upward movements in rates as these are nearing maturity this year. Perpetuals have also added to the outperformance this month, supported by the healthier earnings backdrop as well as high coupons, thereby helping the fund to sustain a positive carry. On the other hand, the long end underperformed with 30-year papers down by approximately 3% although their impact on the fund was relatively low given its small allocation to this sector. Nevertheless, some of the off-benchmark names contributed positively, especially short-term Egypt securities as the confidence for repayment has increased following issuance of a 3-year Sukuk this month and further aid from the GCC and IMF beyond the horizon.

Going forward, better global growth is not a bad thing per se for EM and it should structurally support growth-sensitive, commodity-linked and higher-carry EM assets. However, we believe that markets may have extrapolated the strength in data too far out in the future by reassessing intermediate forward rates higher. The strong January labor report (500k+ new jobs) seems like a fluke in our opinion and inflation should come down significantly in the April report following the spike in March 2022 caused by the Russian invasion of Ukraine which is then when the rebase effects will take place. It will however be a long bumpy ride to bring inflation down to the Fed's 2% target and there will be lag effects until we see data cooling a lot. Until then we remain cautious, but do look to take advantage of volatility by purchasing longer duration names and shifting our focus towards investment grade names especially as rates have sold off strongly in February and are now closely aligned with the Fed. The markets went from pricing in 2 rate cuts at the end of the year to pricing in no rate cuts at all which makes us a bit more comfortable to buy longer dated GCC fixed income amidst these tight spreads.

Top Holdings

Name	Yield	Coupon	Maturity	(%)
BAHRAIN 2024	5.7	5.6	2/12/24	12.9
BOSUH 2024	6.7	4.0	9/18/24	6.8
OMGRID 2031	6.2	5.8	2/3/31	5.6

Top Risk Statistics

Name	Fund	Index
Yield to Maturity (%)	6.4	5.4
Duration (years)	3.2	5.8
Coupon (%)	5.4	4.0
Spread (bps)	219	116

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

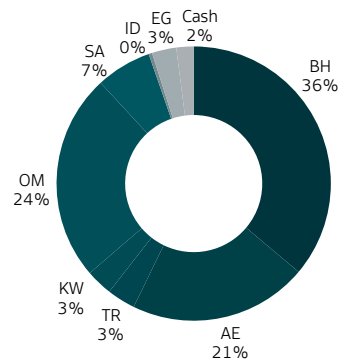
Returns (%)	Fund	Index*
February 2023	-0.6	-1.9
YTD February 2023	1.1	0.3
2022	-4.2	-10.7
2021	1.2	1.2
2020	3.8	8.6
2019	10.3	15.0
2018	1.6	0.3
2017	3.4	4.7
2016	5.7	4.8
2015	1.6	1.7
2014	8.4	6.8
2013 (April till December 2013)	-1.0	-0.4
Last 3 months	1.6	1.1
Last 6 months	1.2	-1.5
Last 1 year	-1.7	-7.0
Last 3 years	1.3	-3.0
Last 5 years	13.5	15.4
Since Inception (April 13 - February 23)	35.5	34.8

*Bloomberg GCC Bond Index

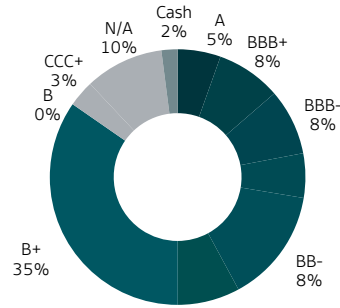
Fund Information

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

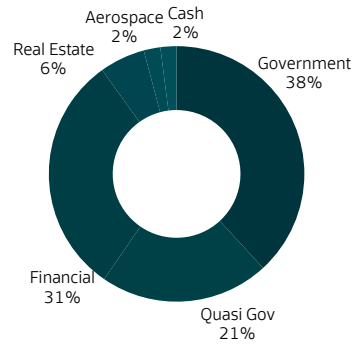
Country Allocation



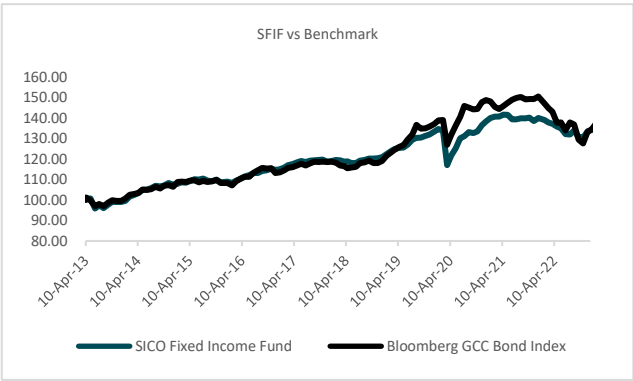
Rating Allocation



Sector Allocation



Cumulative Performance



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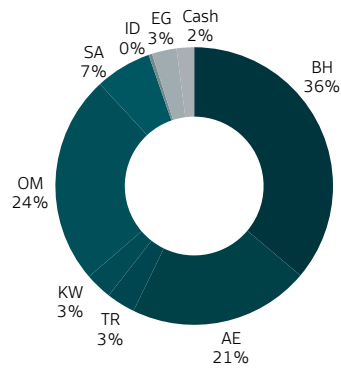
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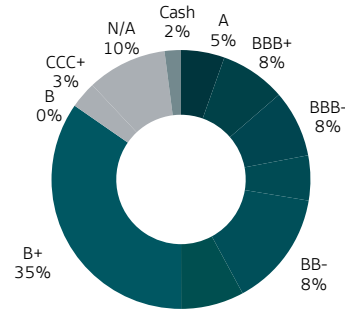
Fund Information

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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

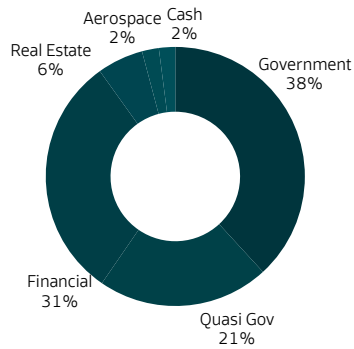
Country Allocation



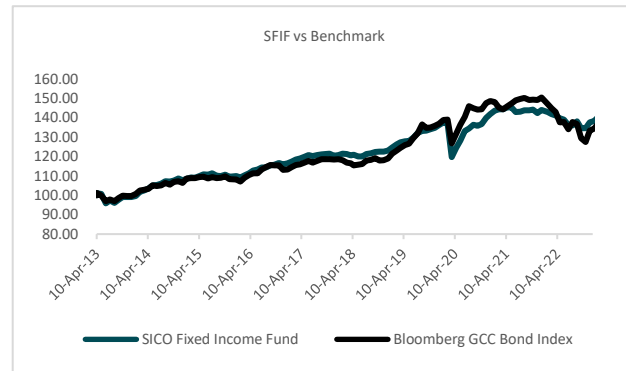
Rating Allocation



Sector Allocation



Cumulative Performance



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