

Sub-fund of Jersey domiciled open-ended investment company

Fund owner: Emirates NBD

Fund manager: Emirates NBD

Named portfolio manager(s):

Philip Rose (since January 2009)

Peer group: Specialist Equity in USD

Location: Dubai

Launch date: May 2004

Fund size (May 2010): US\$25m

Contact group: +97145093014 or

www.emiratesnbd.com/assetmanagement

Further information on S&P's fund coverage can be found at www.FundsInsights.com



Report date July 2010

Sources of alpha

	Low Emphasis	Medium Emphasis	High Emphasis
Sector positioning	██████████		
Stock selection		██████████	
Currency overlay	██████████		
Quantitative strategies			
Derivative strategies			
Asset/geographic allocation			██████████

Performance statistics (annualised)

	%
Fund annualised return	0.4
LIBOR annualised return	3.5
Fund standard deviation	7.8
LIBOR standard deviation	0.6
Fund maximum drawdown	-26.3
LIBOR maximum drawdown	0.0

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Standard & Poor's opinion (June 2010)

Emirates NBD Asset Management represents the fusion of Emirates International Bank and the National Bank of Dubai's asset management divisions, formed after the two institutions merged in late 2007. Now an independent entity (owned by Emirates NBD Group), it has grown steadily over the last few years to one of the largest asset managers in the region and is responsible for about \$2bn in assets under management.

This fund is run by the group's global multi-asset team of three managers, supported by a fund administrator. Team head Sean Daykin has over 20 years' broad investment experience, including eight years managing US equities, but has only been involved in multi-asset portfolios for the last six years. Lead manager on this fund, Philip Rose, and Helen Holmes also have good levels of experience. The team is relatively young - Holmes is the longest-standing member (June 2007), with Daykin joining in March 2008 and Rose shortly after - but is generally stable. Rose and Daykin work very closely and tend to implement most of the fund and asset allocation changes simultaneously across the mandates for which each is responsible.

The team typically considers a wider range of asset classes in the fund's portfolio than other asset allocation funds. The team's strategic asset allocation is reviewed on an annual basis and acts as the neutral positioning. The team aims to add value through tactical asset allocation drawing on a variety of in-house and external resources to set over/underweight preferred asset classes over the short to medium term. Fund selection is also key, and sees the team combine quantitative and qualitative research to select those funds that best fit its views.

The addition of a risk analyst in 2008 brought a good level of structure and integrity to risk management, including the introduction of Factset. Detailed see-through portfolio analysis is yet to be incorporated, however. This does not seem to have inhibited the fund manager's ability to add value - there is sufficient scope for flair, and Rose seems willing to use it, so far with some success, seeing the fund outperform its composite benchmark since he took over.

Overall, this is a young, but solid team whose size is sufficient given the approach. The process is sound and although the track record is relatively short, it is encouraging. The fund therefore achieves an S&P A rating.

Fund manager & team

Sean Daykin heads up the global multi asset team, which includes fund managers Philip Rose and Helen Holmes, as well as a fund administrator. Holmes provides support to Daykin and Rose in their management of the multi asset class funds, as well as new Fixed Income fund manager Usman Ahmed (joined in May 2010). All investment teams work closely with performance and risk analyst Scott Samuel.

Philip Rose - BA geography (Southampton University), began his career in 1999 at SWIP (previously Hill Samuel Asset Management) managing UK equities. He covered multi-asset portfolios from 2005 until he left to join Emirates NBD in 2009.

Sean Daykin - MBA (Warwick University), started his career at BARRA and later did consultancy work at Hewitt Bacon & Woodrow, and eight years managing US equities at Morley (Boston) and ADIA (UAE). He spent three years overseeing hedge fund and international equity investments at Gulf Investment Corp before joining Emirates NBD in March 2008.

Helen Holmes - BSc statistics & mathematical finance (Rhodes University/University of Pretoria), advised and managed pension funds and private accounts in Zimbabwe for three years before joining Emirates NBD in 2007.

EMIRATES NBD CONSERVATIVE MANAGED FUND

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Management style

The team starts by setting the fund's long-term strategic asset allocation, which essentially acts as a benchmark. This is reviewed annually, but changed only when correlations have deviated significantly from their historic norms or liquidity does not meet requirements (weightings to property and alternatives were reduced in the benchmark as the fund switched to daily trading from weekly trading in October 2009). Currently it stands at 40% Barclays Global Aggregate, 20% MSCI World, 20% HFRI Fund-of-Funds Composite, 10% IMA Property & AREF Composite USD and 10% US 3-Month LIBOR.

Drawing on a variety of sources (including economic growth, sentiment and technical indicators, valuation models, broker notes, and the group's economist), the team then sets tactical asset allocation (focusing on the short to medium term) on a monthly basis. The managers have discretion over active weightings between asset classes, although extreme positions require consultation with the group's investment committee. The targeted risk budget is c.5%.

The aim is for asset allocation to be the main driver of returns, but fund selection is also important. The team uses quantitative screens to help reduce the universe of investable funds (including performance volatility, a minimum track record and a minimum fund size of about \$250m for equities). Key criteria include manager ability, stability, process integrity, and risk management, and notably whether the funds are consistent with their macro views. All of the team is involved in interviewing managers, in person when possible.

The team takes a core/satellite approach to selecting funds, for example selecting global equity funds as core and accompanying these with "satellite" country or sector funds, in line with its macro views.

Since October 2009, investments in alternative strategy funds have been focused on Ucits III-compliant vehicles.

Portfolio & performance analysis (June 2010)

The fund moved from weekly to daily trading in October 2009, triggering a change in its strategic asset allocation. The neutral weighting to fixed income funds was increased 10% to 40% at the cost of real estate (reduced to 10%), reflecting the increased need for liquidity.

The underweight to sovereign debt and overweight to equities hurt returns in Q4 2008 (when the fund was managed by Daykin), but with the team adding to risky assets (including high yield bonds) as they underperformed, the fund was well placed to benefit from the market rally in 2009. This included an increase in property to overweight towards the end of 2008 through REITs, although the team switched out of REITs in mid-2009 after outperformance and into direct property funds (such as SWIP Property Trust). Within equities, the allocation to emerging markets helped in Q2 and Q3, as did the overweight to corporate debt.

Alternative investments included Mellon's Evolution fund, Emirates Alternative Strategies and Marshall Wace Developed Europe TOPS fund, all contributing to an overweight position in the asset class. Of the 41% invested in fixed income funds, 30% was invested in active managers, with the remainder held in the iShares Treasury ETF for access to sovereign debt. Cash was also overweight. The lower risk profile of this portfolio kept Rose from buying into Dubai sovereign debt. Equities exposure was underweight at the time of review, having been reduced after strength through 2009. Investments were more cautious than the group's Active and Balanced funds and included Aviva's Global Convertibles funds, Robeco's Premium Equity, GLG's Japan CoreAlpha and Allianz' Islamic Global fund.

The fund has lagged its composite benchmark in 2010, with underperformance largely coming from the fixed income side, where Rose was largely out of government bonds.

However, the fund had a strong 2009, returning 12.7% against the composite benchmark's 6.7%, leaving the fund ahead under Rose's management to the end of May 2010. Although the fund was marginally behind the median fund within the global asset allocation defensive sector (not a perfect fit, but the closest peer comparison) in 2009, strong outperformance to the end of May 2010 sees the fund ahead of the sector cumulatively.

Discrete performance (calendar years)

	2006	2007	2008	2009	YTD 31/05/2010
	%	%	%	%	%
Fund	9.6	2.5	-20.5	12.1	-1.3
LIBOR	5.2	5.5	3.5	0.9	0.1

STANDARD & POOR'S



Portfolio characteristics

No. of holdings	25
Turnover ratio (%)	36
% in top 10	54

Key holdings (1 May 2010)

	%
PIMCO Total Return Bond	7.3
BNY Mellon Evolution Currency	6.7
SWIP Property Trust	6.0
AXA Short Duration High Yield Bond	5.4
Schroder ISF Strategic Bond	5.0
ING Senior Loans	4.9
Schroder Emerging Market Debt	4.9
Templeton Global Bond	4.9
Marshall Wace Developed Europe TOPS	4.8
Allianz Global Equity	4.5

* In key holdings a year ago

Asset allocation breakdown

(1 May 2010)

	%
Equity	15.5
North America	42.7
United Kingdom	N/A
Europe (incl UK)	21.1
Japan	N/A
Asia (incl Japan)	30.2
Australia	3.5
Others	2.5
Fixed interest	38.7
Govts/supranational	18.0
Corporate	43.5
Loans	12.7
Others & cash	5.1
Emerging markets	20.7
Property	10.5
Alternatives/others	25.3
Cash	10.0

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Symbols and definitions

Long-only fund ratings

AAA The fund demonstrates the highest standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

AA The fund demonstrates very high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

A The fund demonstrates high standards of quality in its sector based on its investment process and management's consistency of performance as compared to funds with similar objectives.

Fund-of-hedge-funds ratings

AAA The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

AA The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

A The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

Absolute return fund ratings

AAA The fund demonstrates the highest standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

AA The fund demonstrates very high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

A The fund demonstrates high standards of quality based on its investment process, risk awareness and consistency of performance relative to its own objectives.

Specialist fund ratings

AAA The fund demonstrates the highest standards of quality based on its investment process and management's consistency of performance relative to its own objectives.

AA The fund demonstrates very high standards of quality based on its investment process and management's consistency of performance relative to its own objectives.

A The fund demonstrates high standards of quality based on its investment process and management's consistency of performance relative to its own objectives.

All fund ratings

Not Rated (NR) Funds designated as Not Rated currently do not meet the requisite performance standards and/or the minimum qualitative criteria to achieve a fund rating.

Under Review (UR) Ratings are placed Under Review when significant management changes occur at the fund manager or fund management team level and Standard & Poor's Fund Services has not had the opportunity yet to evaluate their impact on the qualitative appraisal.

(New) Signifies where a major event has occurred for which there is no fund-specific track record available. This includes: funds recently launched, the implementation of a new investment process or mandate and may include structural changes within a fund team.

Tenure Review (TR) The fund manager/team involved in the management of the fund does not currently have the minimum 12 months relevant investment management experience required to be eligible to be considered for a rating.

Long-term fund management rating The fund has been rated in the A/AA/AAA fund rating band for five consecutive years or more, and continues to hold a rating.

Bond fund volatility ratings

The bond fund volatility rating is our current opinion of a fund's sensitivity to changing market conditions. Volatility ratings evaluate the fund's sensitivity to interest rate movement, credit risk, investment diversification or concentration, liquidity, leverage and other factors. For V1-V4 categories, risk is considered relative to a portfolio composed of government securities and denominated in the base currency of the fund.

V1 Bond funds that possess low sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within one to three years, and denominated in the base currency of the fund. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising the highest quality fixed income instruments with an average maturity of 12 months or less. Within this category, certain funds are designated with a plus sign (+), indicating extremely low sensitivity to changing market conditions.

V2 Bond funds that possess low to moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within three to seven years, and denominated in the base currency of the fund.

V3 Bond funds that possess moderate sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing within seven to 10 years, and denominated in the base currency of the fund.

V4 Bond funds that possess moderate to high sensitivity to changing market conditions. These funds possess an aggregate level of risk that is less than or equal to that of a portfolio comprising government securities maturing beyond 10 years and denominated in the base currency of the fund.

V5 Bond funds that possess high sensitivity to changing market conditions. These funds may be exposed to a variety of significant risks including high concentration risks, high leverage, and investments in complex structured and/or less liquid securities.

V6 Bond funds that possess the highest sensitivity to changing market conditions. These funds include those with highly speculative investment strategies with multiple forms of significant risks, with little or no diversification benefits.

Absolute return fund N ratings

The N rating is Standard & Poor's indication of a fund's potential capital stability in normal markets. It is a qualitative rating but is based on annualised weekly downside deviation. N1 is the most stable and N9 the least.