

Emirates MENA Top Companies Fund: Country Allocation

Country Strategy – Within the confines of our high conviction bottom up stock picking strategy for Emirates MENA Top Companies Fund, we have significantly changed our country positioning over the last few months. In line with our country and stock specific views (taking into account earnings growth, valuation and potential catalysts), we significantly cut our Saudi allocation and increased allocation to UAE and Egypt while leaving Kuwaiti allocation broadly unchanged.

- **UAE (Overweight, 29.7% portfolio weight vs. 15.3% benchmark weight)** - We have a positive view on UAE primarily due to cheap valuation in some of the names which is probably not justified by fundamental earnings/cash flow prospects and attractive dividend yields in the light of potentially lower sovereign rates. At the sector level, while demand supply balance remains unfavourable in real estate, some names are mispriced and we continue to like them due to positive risk reward tradeoff. Similarly, while the GCC banks' story has become less compelling in the light of potential rate cuts, we like UAE banks with stock specific catalysts (consolidation and potential foreign ownership limit increase plays which should help unlock value) high dividend yields and reasonable valuation.
- **Egypt (Overweight, 17.5% portfolio weight vs. 2.6% benchmark weight)** – Low liquidity and high volatility are inherent features of the Egyptian market. Consequently when we invest in Egypt we look for strong management, balance sheet, growth, promising sector and most importantly attractive valuations based on our medium to long term investment horizon to reduce the risk profile. While all our Egyptian names fulfill most of these criterion, in our view, Egypt is currently in a sweet spot. Inflation has been trending lower (from a recent high of c.14% to a c.9% now) and market participants expect c.400-500bps rate cut by end of 2020. In our view, this could significantly unlock latent demand and act as a significant catalyst for the next 12-18 months.
- **Kuwait (Slight underweight, 9.1% portfolio weight vs. 10.6% benchmark weight)** – The key investment theme for Kuwait in the next 6-12 months primarily centres around MSCI EM Inclusion in 2020 after Kuwait was provisionally upgraded in July 2019. While fundamental factors remain fair, market performance seems to suggest technical factors continue to remain predominant. This is evident from strong performance and consequent stretched valuation in the MSCI EM inclusion names such large cap banks and telecom. Our modest underweight position in Kuwait reflects lack of adequate investment opportunities that successfully screens through our valuation filter.
- **Saudi Arabia (Underweight, 38.2% portfolio weight vs. 45.0% benchmark weight)** - We have a mixed view on Saudi Arabia for 2H19 primarily due to potential pressure on banks (rate cuts, higher cost of risk and muted credit growth) and petrochemicals (weak product prices and muted spreads from weak oil and trade wars) which account for c.60-65% of the index. Contrary to 1H19 which was primarily a flow story, 2H19 should see divergent stock performances between flow and non-flow names. We see more opportunity in fundamentally strong non-flow names with specific catalysts and reasonable valuation versus the flow names, some of which are at close to historical peak prices with stretched valuation and are also likely to see downward earnings revision.
- **Qatar (Underweight, 0% portfolio weight vs. 18.3% benchmark weight)** - We have a negative view on Qatar due to stretched valuation and government driven capex cycle seems behind us. From time to time, while there could be specific opportunities in turnaround stories, foreign ownership limit increases, dividend increases etc., overall, we believe fundamental and technical factors are both behind us.

Emirates MENA Top Companies Fund outperforming its benchmark with lower volatility

| | YTD | 12 Months | P/E 2020 | Active Share | Volatility |
|----------------------------------|--------|-----------|----------|--------------|------------|
| Emirates MENA Top Companies Fund | 11.21% | 5.64% | 10.8 | 78.4 | 13.22% |
| Benchmark | 5.22% | 3.12% | 12.2 | n/a | 13.71% |

Source: ENBDAM as at 31st August 2019. *Benchmark: 45% MSCI Saudi Arabia Domestic Index, 55% MSCI Arabian Markets Index ex Saudi Arabia.

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