

ITQAN
CAPITAL



**ITQAN MURABAHAT AND SUKUK FUND
ANNUAL REPORT
2015**

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Fund Manager

Itqan Capital (ITQAN) is a Saudi Arabia based investment company headquartered in Jeddah and licensed by the Capital Market Authority under license number 07058-37 since 09 April 2007.

Itqan Capital is a Shariah-compliant company focusing on four main lines of business: Asset Management, Principal Investment, Investment Banking and Custodial Services.

Managed by Itqan Capital, Itqan Murabahat & Sukuk Fund is a Saudi Riyal public open-ended and Shariah-compliant investment fund established as a contractual arrangement between the Fund Manager and the Investors pursuant to Investment Funds Regulations issued by the Capital Market Authority of Saudi Arabia.

Investment Objective

Itqan Murabahat & Sukuk Fund (SAR) is a public diversified fund that aims to realize Shariah-compliant superior returns while preserving capital participation, and provide investors with the facility of redemption upon need and the best method of risk management.

Investment Strategy

In order to achieve its investment objectives, the Fund will primarily invest in the Saudi market in a diversified portfolio of Shariah-compliant high-quality short-term investment instruments including:

- Commodity Murabaha-based transactions
- Various kinds of Sukuk
- Units of similar investment funds that invest mainly in Murabaha transactions and/or Sukuk

Fund Salient Features

Geographic Focus	GCC
Base Currency	Saudi Riyal
Investment Objective	Capital Preservation
AUM	63 Million
Fund Class	Diversified Public Fund
Level of Risk	Low – Medium
Fund Type	Open-ended
Liquidity	Twice a week
Benchmark	Three months SAIBID
Inception Date	August 2008

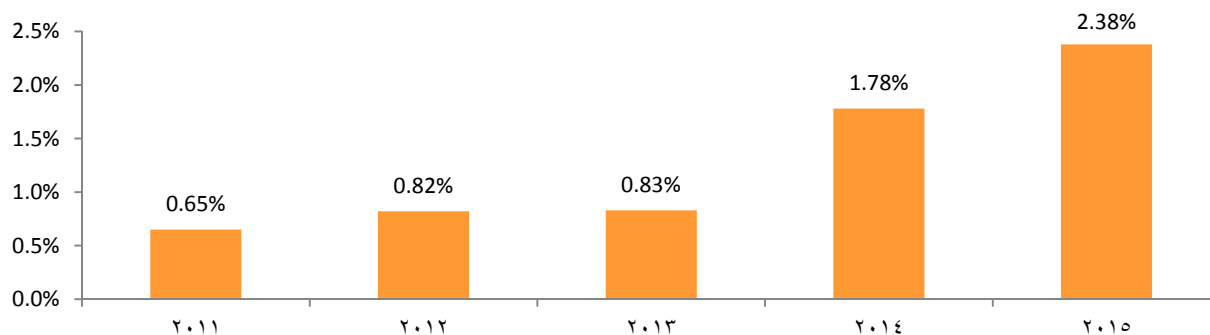
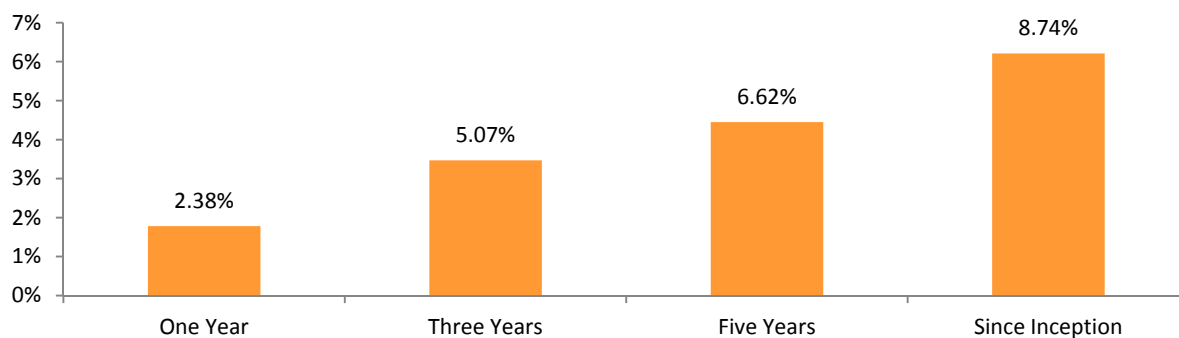
Fund Parties

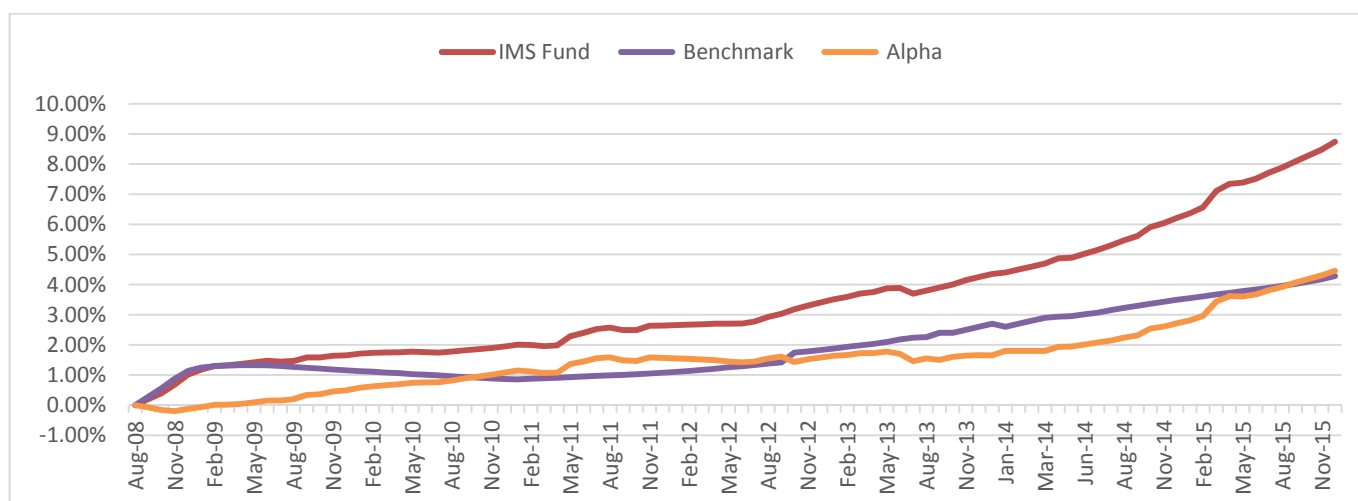
Fund Manager	Itqan Capital
Custodian	Itqan Capital
External Auditor	Ernst & Young
Shariah Advisory	SH. Review Bureau

Fund Historical Net Asset Value (NAV)

	2012	2013	2014	2015
Fund Total NAV	SAR 15,355,202	SAR 47,422,692	SAR 35,954,799	SAR 63,506,045
Fund NAV Per Unit	SAR 10.3489	SAR 10.4352	SAR 10.6214	SAR 10.8740
Lowest NAV Per Unit	SAR 10.2649	SAR 10.3489	SAR 10.4352	SAR 10.6233
Highest NAV Per Unit	SAR 10.3489	SAR 10.4352	SAR 10.6214	SAR 10.8740
Units Outstanding	1,483,752.1828	4,544,479.1825	3,385,133.4342	5,840,158.0964

Fund Historical Returns





Fund Fees and Expenses

Management Fees	0.25%
Custody Fees	0.15%
Other Fees	0.10%
External Auditor Fees	SAR 10,000
Board Member Remuneration	SAR 12,000

*As per Fund prospectus

Fund Manager's Comments

The Itqan Murabahat and Sukuk Fund (IMSF) had its best year in 2015 since its launch in Q3 2008. Not only did the Fund significantly outperform its mandated benchmark, SAIBID 3 months, by a hefty 162 basis points, it also realized its highest annual return since inception, of 2.38%. This stellar run enabled the Fund to secure the rank of No. 1 money market fund in the Kingdom of Saudi Arabia as of December 2015, handily beating its comparable peers in the process.

The Fund's outstanding performance over the year is a tribute to Itqan Capital's time-tested investment process, superior asset selection and rigorous risk management policies, as applied by its Securities Division.

Globally, fixed income markets experienced a very jittery year in 2015. Potential monetary tightening by the US Federal Reserve as well as growth concerns and credit deterioration in the emerging markets dominated the fixed income space. The first half of the year remained fairly well starting with the improved performance of the US economy and no serious concerns developing on the emerging market front. With the beginning of the second half, signs of slowdown in China started to appear resulting in increasing pressure not only in China but other emerging markets as well. The spillover effect was seen in commodity markets as well. The commodities in general and specifically energy commodities started to fall steeply with oil touching several low levels not seen in years.

Sustenance of oil prices at low levels gave rise to massive concerns on the fiscal abilities of GCC governments thereby creating pressure on sovereign and quasi sovereign fixed income issues. As a result, yields rose up sharply in the earlier 4th quarter. This was further exacerbated by a two notch credit rating downgrade of Saudi Arabia to A+ and a rating review to potentially downgrade Bahrain. However Bahrain managed to sustain its ratings giving some respite to the fixed income markets towards the end of the year.

Ten-year U.S. Treasury yields rallied initially in 2nd half in anticipation of a rate hike, but settled lower eventually due to expected low inflation over the long term as a result of depressed commodity prices and low global economic growth. This was despite the fact that the Fed actually raised the rates by 25bps towards the end of the year. The Murabaha rates on the other end kept inching up owing to decreased liquidity in banking system, successive debt issuance by the respective regional governments, deteriorating credit as well rate hike anticipations.

In expectations of accommodative monetary policy being maintained by the European Central Bank (ECB) and Bank of Japan (BOJ) as well as a cautious lift up by the Fed, the Fund Manager believes that the turbulence in the fixed income space would improve as compared to the 2nd half 2015. The fund manager however believes that it would most likely take the 1st quarter for the noise to subside.

For 2016, the Fund Manager maintains a cautious stance on the fixed income markets, especially in the first half of the year. Low global inflation, partially the result of low energy prices, and sub-optimal growth rates in much of the developed world, will continue to underpin a low-yield environment, whereas mild tightening by the Fed will keep the yield graph mildly upward sloping. Consequently, the Fund Manager will continue to be on the hunt for competitive Murabaha rates from reputable GCC counterparts, while making a very selective approach towards high quality sukuk, specifically those issues with a high liquidity and an attractive risk-reward profile in order to continue to generate an alpha over the benchmark.