

ITQAN
CAPITAL



**ITQAN MURABAHAT AND SUKUK FUND
ANNUAL REPORT
2014**

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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	36 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

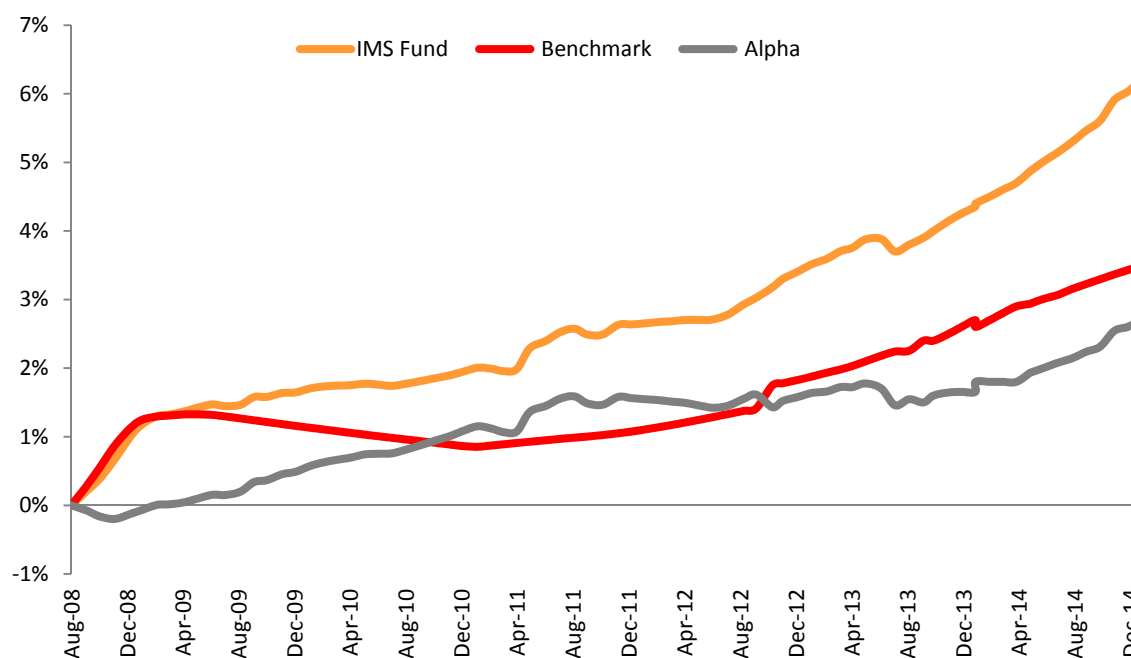
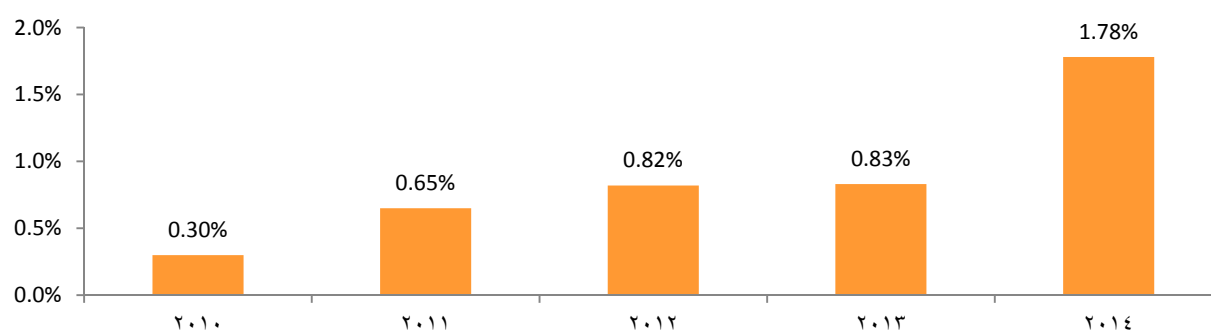
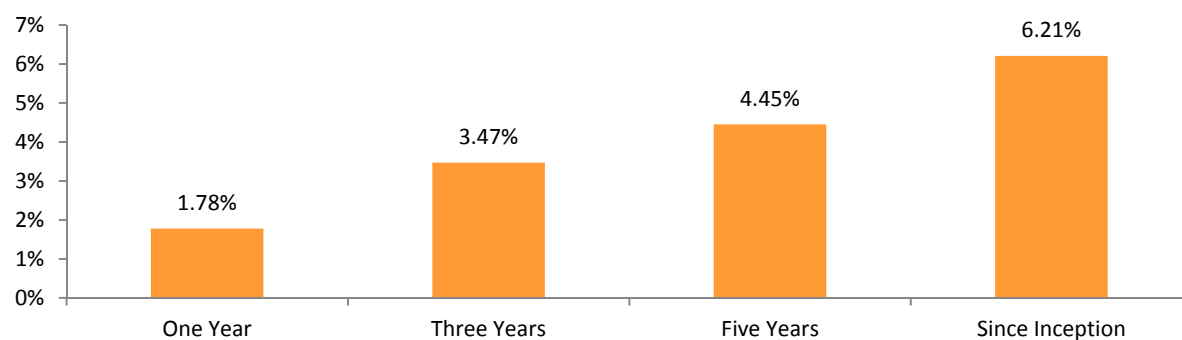
Fund Parties

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

Fund Historical Net Asset Value (NAV)

	2011	2012	2013	2014
Fund Total NAV	SAR 21,761,312	SAR 15,355,202	SAR 47,422,692	SAR 35,954,799
Fund NAV Per Unit	SAR 10.2649	SAR 10.3489	SAR 10.4352	SAR 10.6214
Lowest NAV Per Unit	SAR 10.1990	SAR 10.2649	SAR 10.3489	SAR 10.4352
Highest NAV Per Unit	SAR 10.2649	SAR 10.3489	SAR 10.4352	SAR 10.6214
Units Outstanding	2,119,963.24	1,483,752.1828	4,544,479.1825	3,385,133.4342

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 2014 since its launch in Q3 2008. Not only did the Fund significantly outperform its mandated benchmark, SAIBID 3 months, by a hefty 96 basis points, it also realized its highest annual return since inception, of 1.78%. This stellar run enabled the Fund to secure the rank of No. 1 money market fund in the Kingdom of Saudi Arabia as of May 2014, 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 and rigorous risk management policies, as applied by its Asset Management desk.

Globally, fixed income markets continued their march higher in 2014, bucking market expectations at the beginning of the year of higher interest rates in anticipation of the Federal Reserve's (Fed) tapering of its unprecedented Quantitative Easing (QE) program. A cocktail of anemic growth and inflationary trends in Europe and Japan, heightened geopolitical tail risk arising from the ongoing conflicts in Ukraine and the Middle East, and an outright collapse in crude oil prices in H2, maintained a healthy demand for safe haven assets, primarily G-10 government bonds.

Ten-year U.S. Treasury yields rallied aggressively over the year from above 3% in end-2013 to a low of 1.86% in mid-October, before finishing the year at 2.17%. Regionally, MENA and GCC fixed income securities tracked their developed market counterparts higher, with the Dow Jones Sukuk Index posting a stellar total return of over 2.5% for the year.

In expectation of monetary easing by the European Central Bank (ECB) and Bank of Japan (BOJ) as well as a cautious and patient Fed, the Fund Manager steadily increased the Fund's allocation to Sukuk over the year from 8% in end-2013 to 30% in end-2014. Furthermore, by overweighting those issues with a strong credit and liquidity and a high beta to U.S. Treasuries, the Fund Manager captured much of the move lower in yields. This, in combination with securing market-beating Murabaha rates from reputable GCC counterparts, the Fund Manager generated a consistent and growing alpha (excess return) over the year.

For 2015, the Fund Manager maintains a bullish view on 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. In the second half, the Fund Manager expects the Fed to make its first 25 basis point rate hike, though compliment that with strong forward guidance on the data-dependency and cautious nature of further hikes. Consequently, the Fund Manager will continue to overweight Sukuk, particularly in H1, and specifically those issues with a high liquidity and an attractive risk-reward profile.